

## **The Impact of Capital Structure on Bank Performance: Evidence from Listed Commercial Banks in Sri Lanka**

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Capital structure has attracted intense debate and scholarly attention across industries in the corporate finance literature over the past decades. Nonetheless, in the context of the banking industry, this subject has received a restricted research attention. Capital structure decision is the vital one since the performance of an enterprise is directly affected by such decision. Therefore, proper care and attention required to be given while determining capital structure decision. The study investigated the impact of capital structure on performance of ten listed Sri Lankan banks over the past 11 year period from 2005 to 2015. In order to meet the objectives of this study a quantitative panel data methodology was employed. The panel data least square model was applied for the data analysis through E-Views. Findings of this study, there are a few key points that can be used to conclude this study. The findings revealed that capital structure as measured by total debt to asset had statistically no significant impact, whereas debt to equity had statistically significant positive impact on performance of core business operations of commercial banks in Sri Lanka. Furthermore Growth, spread and asset size also had statistically significant and positive relationship with performance. Moreover, banks also advised to raise equity financing so that to keep costs of financing at minimum level and hence optimize performance and the value of banks. Finally, future researchers also recommended assessing the overall performance of banks and other business sectors in the area of this research. The outcomes of the study may guide banks, loan-creditors/debtors and policy makers to formulate better policy decisions as far as the capital structure is concerned. Moreover, the study reinforces and refines the body of knowledge relating to capital structure and performance of Banks in Sri Lanka.

**Keywords:** Capital structure, performance, Total debt, Banking industry, Sri Lanka