

## **Impact of Bank-Specific Determinants on Financial Performance: With Special Reference to Commercial Banks in Sri Lanka**

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### **Abstract**

**Introduction:** Banks play an important role in a country's financial system, especially during economic downturns. Banks are therefore essential for the functioning of economies since they act as financial intermediaries. An effective banking system supports effective payments, boosts savings and investments, and consequently supports rapid economic growth. The purpose of this study is to generate new knowledge by analyzing the impact of internal factors of a bank on the financial performance of commercial banks in Sri Lanka, using share market performance as a proxy.

**Methodology:** The banking system plays a major part in providing better financial services to the people in a country. This study aims to examine what extent bank internal factors impact the profitability of commercial banks in Sri Lanka. Capital adequacy, Operating cost efficiency, credit risk, and Liquidity, are considered as bank internal factors while return on assets is considered as the profitability measure of this study. Panel data has been collected from published financial statements of thirteen commercial banks listed on the central bank for the period of ten years from 2013 to 2022. The study employs panel regression analysis through STATA software as the primary method for data analysis to investigate the impact and relationship of bank-specific factors on the financial performance of commercial banks, addressing the main research questions.

**Conclusion:** Commercial banks' financial performance is significantly influenced by the efficiency level of operating cost, and credit risk, with 1% and 5 % significant levels respectively. Capital adequacy has a positive and insignificant impact on profitability while liquidity risk has an insignificant impact on the profitability of commercial banks in Sri Lanka. The finding of this study provides information to present and future investors for making the best decision on which internal factors should be well analyzed when they make investments in the banking sector in Sri Lanka.

**Keywords:** Financial Performance and Profitability; Commercial Banks; Bank specific determinants; Sri Lanka