

The Impact of Capital Structure on Profitability of Banks in Sri Lanka: With Special Reference to Licensed Commercial Banks

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The concept of capital structure implies the way a firm finances its assets by the use of a mix of debt and equity. Capital structure decision is an essential one, because the profitability of an enterprise is directly affected by such a decision. This study aimed at contributing to the debate on capital structure by examining the impact of capital structure on profitability of licensed commercial banks in Sri Lanka for the period 2006 to 2015. Data was collected from panel data extracted from annual reports of Sri Lankan Commercial Banks and analyzed using Descriptive analysis, Correlation and Regression analysis. This study found that debt to equity ratio has significant negative relationship with Return on Assets, while debt to total funds ratio has significant positive relationship Return on Assets ratio. And debt to equity ratio has significant positive relationship with Return on Equity ratio, while debt to total funds ratio has significant negative relationship Return on Equity ratio. The outcomes of the study may guide banks, lenders and policy planners to establish better policy decisions of capital structure. Further, the study reinforces and refines the body of knowledge concerning to capital structure and profitability in Sri Lankan Banks.

Keywords: Capital structure, Financial performance, Licensed commercial banks, Panel data