THE IMPACT OF CAPITAL ADEQUACY ON PROFITABILITY OF COMMERCIAL BANKS IN SRI LANKA

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REG NO: EU/IS/2014/COM/15

INDEX NO: COM 1785

A Project Report Submitted to the Faculty of Commerce and Management, Eastern University, Sri Lanka, as a partial fulfillment of the requirement of the Degree of Bachelor of Commerce Honors in Accounting and Finance [BComHons (Accounting and Finance)]

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2020

ABSTRACT

The purpose of this study is to examine The Impact of capital adequacy on the profitability of commercial banks in Sri Lanka. The return on assets ratio (ROA) used as profitability measures and measures the capital adequacy by using capital adequacy ratio and risk-weighted assets ratio. This study used panel data consisting of 20 commercial banks in Sri Lanka out of 33 commercial banks as a sample for the period of 2014-2018. This research is conducting based on secondary data. Data will be obtained from the financial reports and websites of sample banks and information from annual reports of the central bank in Sri Lanka and also gathered from the website of CSE from 2014 to 2018. STATA used to analyze data. The random-effect model was chosen to examine the impact of capital adequacy on Profitability.

The findings of the study are the capital adequacy ratio and risk-weighted assets ratio contributes to negative significance to the profitability of commercial banks in Sri Lanka. The results of the study proved that a slightly significant impact of capital adequacy on profitability. It means the capital adequacy ratio and risk-weighted asset ratio are significantly affecting the profitability of the banking sector. Also, it is identified that profitability will not depend on capital adequacy in commercial banks. This indicates that the nature of the capital adequacy affects to determine its direction and impact on the profitability of commercial banks in Sri Lanka. There are no sufficient studies in Sri Lanka to identify the impact of capital adequacy on banking profitability. This research will help to fulfill this research gap. Stakeholders and bank managers will be able to use the results and findings from the results of this study and they can make more reliable and effective decisions.

Keywords: **Capital Adequacy, Capital Adequacy Ratio, Risk-Weighted Assets Ratio, Return on Assets, Profitability**

TABLE OF CONTENTS