Capital Structure and Financial Performance: Evidence from a Leading Listed Commercial Bank in Colombo Stock Exchange

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Capital structure decision is a complex issue since it has greater impact for the sustainability of an organization. The commercial banks play a vital role in adopting the best financial management practices in the Sri Lankan economy. This study examines the impact of capital structure on financial performance of the commercial banks based on secondary data collected from the financial statements of a leading commercial bank for the period of six years from 2010 to 2015. Seven indicators were used to measure the firm's performance; Gross Profit Margin, Return on Capital Employed, Return on Assets, Return on Equity, Net Profit Ratio, Earnings Per Share and Net Interest Margin. Debt to Equity Ratio and Debt to Total Fund Ratio were used as proxies for the capital structure. The data was analyzed using the panel data regression method. The results indicate that Debt to Equity Ratio has a significant impact on Net Profit Ratio and Return on Assets as well as Debt to Total Assets Ratio has significant impact on Return on Capital Employed, Gross Profit Margin and Earnings per Share. The findings are helpful to the practitioners in the banking industry to determine the proper mix of debt and equity in order to maintain the optimum financial performance level for the firm's success.

Keywords: Capital Structure; Colombo Stock Exchange; Commercial Banks; Financial Performance