project Report

Title: Bank SL 12
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INTRODUCTION

The Colombo Stock Exchange (CSE) is the primary stock market in Sri Lanka, enabling the trading of equity securities. Market indices are essential for monitoring the stock market's overall performance and understanding market trends. This initiative focuses on creating a market index for the CSE, inspired by the Bank Nifty index on the National Stock Exchange of India, utilizing data from the twelve companies with the highest market capitalization.

Scope of Work

Company identification

- The project aims to create an economic indicator for the Colombo Stock Exchange by selecting 12 banks based on market capitalization. Analysis of financial data will provide insights into the banking sector's performance for informed decision-making.

Development

- Following the selection of the 12 banks from the Colombo Stock Exchange (CSE), the project progresses to the development stage where an economic indicator will be constructed. This involves gathering relevant datasets in accordance with the selected equation from the National Stock Exchange India. By aligning with established methodologies, the indicator will provide a reliable measure of financial sector performance within the Sri Lankan economy

Methodology

- **Data Collection**: Relevant financial data for the selected banks will be gathered from credible sources such as annual reports, financial statements, and the Colombo Stock Exchange database. This includes metrics such as asset quality, liquidity, profitability, and efficiency.

- **Company Selection**: The initial step involves selecting 12 banks from the Colombo Stock Exchange (CSE) based on market capitalization. This ensures representation of significant players in the Sri Lankan financial sector. Criteria such as market capitalization, financial stability, and sector influence will guide the selection process.

COMMERCIAL BANK OF CEYLON PLC	COMB.N0000	1.378750e+11
SAMPATH BANK PLC	SAMP.N0000	9.498876e+10
HATTON NATIONAL BANK PLC	HNB.N0000	9.089364e+10
DFCC BANK PLC	DFCC.N0000	3.591061e+10
NATIONS TRUST BANK PLC	NTB.N0000	3.277987e+10
NATIONAL DEVELOPMENT BANK PLC	NDB.N0000	3.123811e+10
SEYLAN BANK PLC	SEYB.N0000	1.605236e+10
AMANA BANK PLC	ABL.N0000	1.322702e+10
UNION BANK OF COLOMBO PLC	UBC.N0000	1.105230e+10
PAN ASIA BANKING CORPORATION PLC	PABC.N0000	1.062148e+10
CARGILLS BANK PLC	CBNK.N0000	7.754271e+09
SANASA DEVELOPMENT BANK PLC	SDB.N0000	5.544110e+09

- **Equation Selection**: The equation chosen from the National Stock Exchange India will serve as the foundation for the indicator. This equation will be adapted to suit the context of the Sri Lankan banking sector, ensuring its applicability and relevance.

  NIFTY BANK INDEX=sum of(Market Capitalization of stock*free float factor*price)/(Base

Market Capitalization)

- **Variable Calculation**: Variables within the selected equation will be calculated using the collected financial data. This may involve standardizing data and adjusting for any variations in reporting practices among the banks.
- **Weighting Scheme**: A weighting scheme will be developed to assign importance to each variable within the equation. This scheme will be based on factors such as financial significance and sector-specific considerations.
- **Indicator Construction**: The economic indicator will be constructed using the adapted equation and calculated variables. This process will involve aggregating the weighted variables to generate a composite measure of banking sector performance.
- **Validation and Sensitivity Analysis**: The constructed indicator will undergo validation and sensitivity analysis to ensure its robustness and reliability. This may include testing for statistical significance, assessing the indicator's responsiveness to changes in input variables, and comparing its performance against existing benchmarks or indices.
- **Documentation and Reporting**: The methodology, including data sources, equation selection rationale, variable calculations, weighting scheme, and validation procedures, will be thoroughly documented. The findings and insights derived from the constructed indicator will be reported comprehensively in the project report.
- **Handling Missing Historical Data:**

  Due to the unavailability of historical market capitalization data for the selected banks, the most recent market capitalization figures were utilized for the indicator development process. While this approach provides a snapshot of the current market landscape, it may introduce limitations in capturing the dynamic nature of market valuations over time. To mitigate this constraint, the analysis acknowledges the reliance on recent data and emphasizes the need for caution when interpreting trends and making long-term projections based on the indicator.
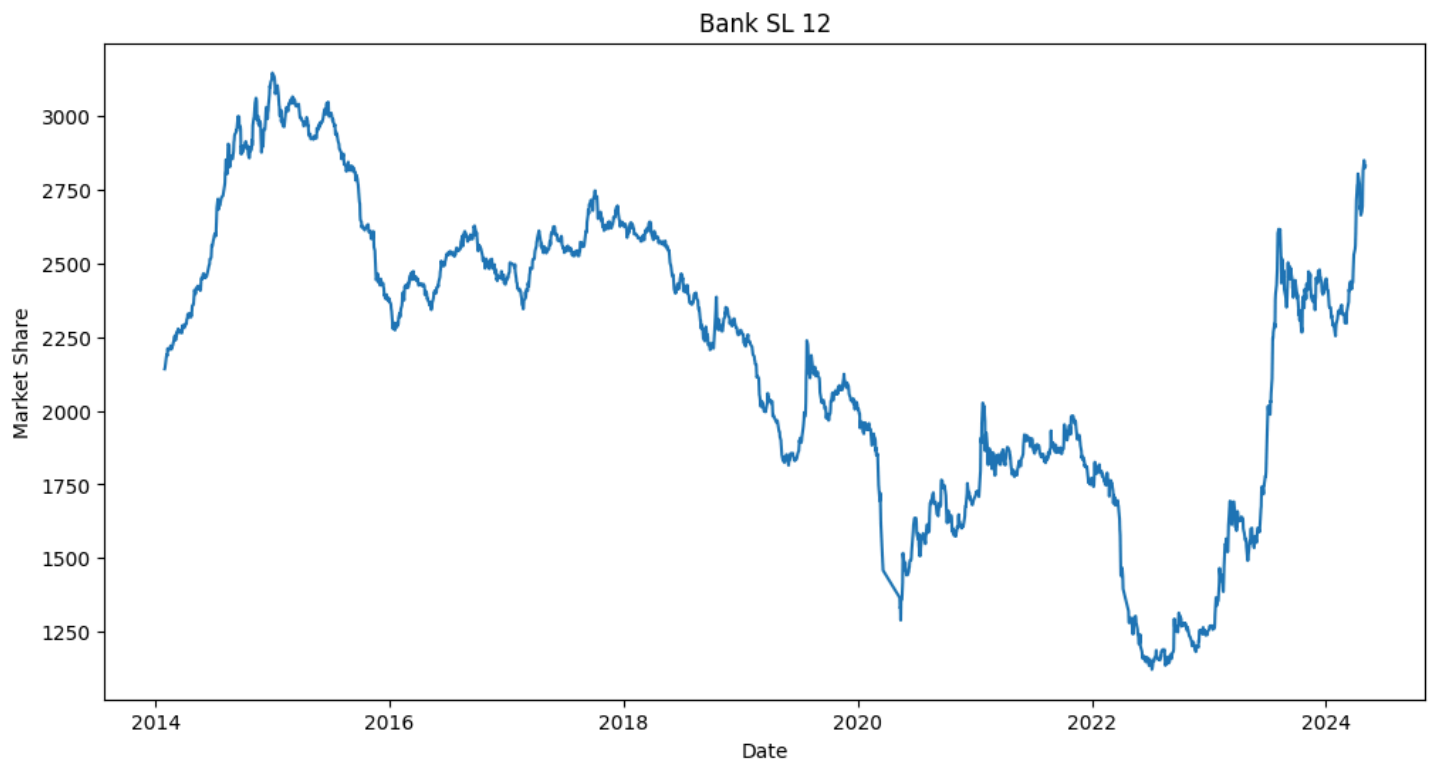
- **Error Considerations:**

  It is essential to recognize that using the most recent market capitalization data introduces potential errors and biases into the indicator construction process. The reliance on single-point data may not fully capture fluctuations and trends that occurred in previous years. Consequently, there is a risk of underestimating or overestimating the true market dynamics and sector performance. Sensitivity analyses and validation procedures will be conducted to assess the robustness of the indicator and quantify the impact of using the most recent data on its accuracy and reliability.

Results

- The developed market index offers a thorough evaluation of the CSE's performance, representing the combined progress of the 12 leading companies. This index acts as a

standard for investors and market experts to evaluate the general status and trends of the Sri Lankan stock market.

Bank SL 12

conclusion

- To sum up, creating a market index for the Colombo Stock Exchange improves market transparency and efficiency by offering stakeholders a dependable measure to assess market performance. This index can be a useful asset for making investment decisions and implementing risk management strategies.

References

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Colombo Stock Exchange

Colombo Stock

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- Market Scanner :

- Wall Street Journal:

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