

# **The Impact of Portfolio Management on Banks' Profitability: With Special Reference to Commercial Banks in Sri Lanka**

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## **ABSTRACT**

**Introduction:** The impact of portfolio management and profitability of Commercial Banks in Sri Lanka has not adequately addressed in the previous literature. There are a few studies which have provided specific information about the impact of portfolio management and corporate performance on commercial banks in Sri Lanka. However, the investigation of the investment in long-term financial investment, loans and liquidity assets on bank's profitability is an unexplored area. Therefore, this study attempts to address this research gap by examine the relationship between portfolio management and profitability of Commercial Bank in Sri Lanka.

**Design/Methodology/Approach:** The study used data from 8 banks of the listed commercial banks covering a period of 8 years from 2013 to 2020. A simple random sampling technique is used for this study. This research used secondary data. The study used return on the investments in liquidity assets, invest in loans and invest in long-term financial instrument as the measurement of the independent variables (portfolio management) and Return on assets and Return on investment are used as the proxies for the dependent variable. Panel regression employed to investigate the issue.

**Findings:** Result appears that the long-term investment has significant impact on ROA and return on loan has significant impact on ROE. The results indicate the long-term investment and loan portfolios of the banks contributing significantly for the banks' overall profitability.

**Conclusion:** This study facilitates banks in making decisions with regards to their portfolio management. Fundamentally, these research findings are important for bank managers, academic researchers and industry player to identify the impact of a portfolio management on bank performance of a Sri Lankan Commercial Banks.

**Keywords:** *Financial Performance, Portfolio Management, Return on assets, Return on equity, Loan portfolio, Long-term investment, Liquidly assets*