

# The Impact of Asset Liability Management on Financial Performance Before and During the Crisis: Evidence from Licensed Finance Companies in Sri Lanka

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## Abstract

**Introduction:** This study critically assesses the impact of ALM on the financial performance of licensed finance companies in Sri Lanka, focusing on pre-economic crises and during the crisis periods. This research integrates measures of financial performance, which include ROE and ROA, while using capital adequacy ratio, CAR; non-performing loans ratio, NPLR; operational efficiency ratio, OER; earning diversification ratio, EDR; and liquid asset ratio and LAR, as main ALM variables to provide holistic understanding in the role of ALM in navigating through financial instability. Whereas firm size is a control variable, COVID-19 pandemic, economic crisis, and combined crises are dummy variables created to capture the temporal and contextual variations.

**Methodology:** The research conducted on panel data collected from 22 licensed finance companies over the period from 2016 to 2023. Using a quantitative research approach, secondary data was obtained from the annual reports of the selected companies. This study applies panel regression, including random effects and robust error adjustments.

**Findings:** The results have proved that ALM significantly impacts financial performance, with positive effects of CAR on profitability and negative pulls from both NPLR and OER, especially at more heightened levels of economic stress. Earnings diversification and liquidity were found to moderate these effects. The findings also depicted differentiated impacts of crises and the way COVID-19 heightens the challenge of deterioration in asset quality and inefficient operations.

**Conclusion:** The study underlines that ALM is important for treading economic turmoil and for achieving the highest level of financial stability. Effective ALM strategies improve resilience, thus allowing finance companies to maintain stability and stakeholder trust during crises. This paper provides useful insights for both policymakers and practitioners on how strategic improvements in the ALM framework should be undertaken to help attain financial sustainability in volatile markets.

**Keywords:** Asset Liability Management (ALM), Covid-19 Pandemic, Economic crisis, Licensed finance companies in Sri Lanka, financial performance.