

## **Quality of Loan Portfolio Management and Its Impact to the Financial Performance of Commercial Banks in Sri Lanka**

**Hewaarachchi, H.A.H.M.<sup>1</sup> and Perera, H.A.P.L.<sup>2</sup>**

*<sup>1</sup>hmanthika@gmail.com; <sup>2</sup>prabathperera@kln.ac.lk*

### **Abstract**

In today's world, banking sector has become extremely competitive powerful industry, providing many services to the society. Careful management of banks' loan portfolio is very much essential for their stability as significant amount of banks' revenue is collected from loans and advances given.

This study aims to find out the relationship between quality of loan portfolio management and the financial performance of Commercial Banks in Sri Lanka and the impact of it. Return on Assets (ROA) was used as the dependent variable to measure the financial performance of Sri Lanka, while Loan Portfolio Profitability (LPP) and Loan Loss Provision to Gross Loan Advances (LLP/GLA) were used as independent variables to measure the quality of loan portfolio management. Cost Income Ratio (CIR), Liquid Funds to Total Assets (LF/TA) and Total Assets (TA) were used as control variables. Due to the unavailability of data, only 15 Commercial Banks in Sri Lanka were considered for the period of 2008 to 2017.

The panel data regression was used to test the hypothesis formulated, and data were analysed using the E-Views software. The results reveal that, the overall quality of loan portfolio management has a significant impact on the performance of Commercial Banks in Sri Lanka.

**Keywords:** Loan Portfolio Management, Loan Portfolio Profitability, Loan Loss Provision, Return on Assets