

## **The Impact of Assets Liability Management on the Financial Performance of the Licensed Commercial Banks in Sri Lanka**

Madhushani, W.I.<sup>1</sup> and Perera, K.H.<sup>2</sup>

<sup>1,2</sup>*Department of Accountancy, University of Kelaniya*

*Ishumadhushani1996@gmail.com<sup>1</sup>, hasinip@kln.ac.lk<sup>2</sup>*

### **Abstract**

The Banking sector in Sri Lanka is one of the most dynamic and vibrant sectors of the economy. The commercial banks are influenced by various types of risks and discrepancies which directly impact to the short-term and long-term profitability and the sustainable capacity of earnings. If financial institutions have effective assets liability management process that will closely monitor and equalize both assets and liabilities and focus on the stability of adverse influences of both risks and discrepancies. The study was conducted to examine the impact of assets liability management on the financial performance of the licensed commercial banks in Sri Lanka.

Capital adequacy ratio (CAR), Non-performing loan ratio (NPR), Income diversification ratio (IDR), Liquidity ratio (LR) and Operational efficiency ratio (OER) were used as assets liability indicators while return on assets (ROA) and Return on equity (ROE) used as the financial performance indicators. This study uses secondary sources to collect data such as published annual report of licensed commercial banks and central bank web site from financial year 2011 to 2020. All 24 licensed commercial banks in Sri Lanka were used for the study.

It was found that there is a significant impact from the operational efficiency, income diversification and liquidity ratios on the financial performances and also significant negative impact from the NPL ratio and CAR ratio on the financial performances of the licensed commercial banks in Sri Lanka. The findings will be useful for shareholders, creditors, depositors, managers and further investors to choose the best opportunity for their investment and regulators to make and govern the policy and regulations.

**Key words:** *Assets liability management, financial performance, licensed commercial bank.*