The Impact of Credit Portfolio Concentration on the Performance of Banks: An Empirical Study of Private Traditional Banks Listed on the Damascus Securities Exchange

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Abstract

The balance between concentration and diversification of the credit portfolio is very important for banks, but the diversification of the credit portfolio requires expertise in many different areas, which may not be available at all banks in most cases.

In addition, the costs of diversification may negatively affect the returns of credit facilities that are granted, especially because these returns are the most important source of profit for banks. These returns can make the banks tend towards a concentration in the credit portfolio, in order to achieve greater profits and consequently, better performance.

The aim of this study is to investigate the impact of credit portfolio concentration at the level of the economic sector and at business lines level on portfolio performance.

The research sample included six traditional private banks listed on the Damascus Securities Exchange. The study of data was conducted during the period from the beginning of the first quarter of 2010 to the end of the second quarter in 2014. The study relied on the HHI to measure credit portfolio concentration, and Tobin's q ratio to measure the performance of banks.

The results showed that the credit portfolio concentration at the level of the economic sector and at the business lines level significantly affects the performance of banks. Also, there is a correlation between concentration and performance. Moreover, the results showed that the impact of the credit portfolio concentration at the level of the economic sector on the bank's performance does not significantly differ from the impact of the credit portfolio concentration at the business lines level on the bank's performance

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