Impact of Non-Interest Income on the Financial Performances of Banks in Sri Lanka

L.A.A. Sandamali[1] and P.W.G. Madhushani[2]
Department of Finance, University of Kelaniya, Sri Lanka[1,2]
anuradhasandamali987@gmail.com[1], gangam@kln.ac.lk[2]

ABSTRACT

Introduction: The focus of this study is to evaluate the impact of non-interest income on the financial performances of banks.

Design /Methodology/Approach: This is a quantitative study. Data were gathered among 11 Sri Lankan banks from 2010 to 2020 to analyze the impact of non- interest income on the financial performance. The dependent variable of the study, financial performance was measured by using Return on assets ratio. In order to calculate non-interest income, net commission and fee income has taken as a ratio of operating income. Firm size and the Capital adequacy ratio have been selected as controllable variables of the study.

Findings: Results depicted that there is a negative impact of non-interest income on the financial performances of a bank. Total loans and capital adequacy ratio have shown a statistically significant positive impact.

Conclusion: In the Sri Lankan context, it is seemed to be that there is a negative influence of non- interest income on the financial performances of banks. Hence, it is suggested to introduce some programmes those can diversify the financial markets by relevant authorities such as Central Bank of Sri Lanka.

Keywords: *Non-interest income, capital adequacy ratio, overhead cost ratio, firm size, Total loans*