

## **Non - Interest Income and Performance of Commercial Banks in Sri Lanka**

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### **Abstract**

Non interest income of banks improve the total income, since banks can expand the source of income by diversifying their income while reducing business risks. Accordingly, non-interest income is an extra source of income for commercial banks which is essential to enhance their profitability. ATM technology, personal lending and loan quality are among the main microeconomic factors driving the performance in non-interest income in the commercial banking sector. This study investigated impact of non-interest income on bank performance in case of licensed commercial banks in Sri Lanka for the period of 2007 to 2017. 26 licensed commercial banks were selected as sample of the study. The study conducted based on secondary data which was collected from audited annual reports and published database of the Colombo Stock Exchange and data analyzed by using E-Views statistic software.

The results reveal that relying on non-interest income activities may adversely affect bank performance. Findings suggest that only a small proportion of banks present an increase in efficiency level with inclusion of non-interest income, while no significant changes are seen on most banks' efficiency levels. Also, further finds that the relationship between the share of non-interest income to the net operating revenue and the bank efficiency score is not significant.

**Keywords:** Non-interest income, Commercial banks, Performance