LOCAL COMMERCIAL BANKING OPERATIONS IN NORTH AND EAST REGION IN SRILANKA

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Abstract

Objective: Objectives of the study is to explore the internal influencing factors of the profitability of domestic licensed commercial banks (LCBs), Sri Lanka and the impact of war on the profitability of these banks in north and east region in Sri Lanka.

Statistical tools: For this study, panel data method with Independent Sample test, Correlation analysis has been used over 11 LCBs listed at CSE by using its financial statements covering the period of 2005-2009 & 2013-2017 which reflects both pre-war and post war data.

Findings: The findings revealed that, even though CFI has not significant association with ROA, the income generating from non-interest-bearing sources which are connected to diversified product portfolio and off-balance sheet activities are not positively impact on banks profitability. Therefore, it's an opportunity for banks to focus on non-interest income or CFIs to have a strong profitability. Nowadays the banks are focusing on fee-based income in diversified ways such as bancassurance and other sources.

In the comparison of pre-war and post war scenario of the independent variable CFI reveals that there is no significant improvement in the CFIs during both eras, even though the mean value has improved very marginally.

Keywords: Profitability; ROA; ROE; LCB

Introduction

A safe and secure financial system which is able to withstand in external and internal shock is enormously important in a country to lead the rapid economic development. The financial system in Sri Lanka comprises the financial institutions, the financial markets, and the financial infrastructure. A stable financial system creates a favorable environment for promoting investment and economic growth to the country. A stable financial system helps to encourage financial institutions and financial markets, where depositors and investors can function effectively and efficiently. Hence, Sri Lanka has a vital role to play in banking and financial system, for achievement of continuous economic growth considering financial intermediaries and financial markets, channel funds.

In this aspect banks as custodian to the depositor/ investor and regulatory authority of financial system, are also considered to be an important role in accepting deposits and providing advances / loans for encouraging effective and efficient operation of financial markets. Creating a trust-worthy and enabling environment favorable to depositors and investors, the banking sectors have stiff competition to retain profitable for the last two decades due to the innovations in its cutting-edge technology and the globalization which results competitive environment.

Unlike the banking and finance sector of many other countries in the region, Sri Lankan banking and finance sector is struggling to reach a sound platform over the years even though they are operating in highly competitive environment. And also, banking sector is predominantly captured of 69.8% market share in the financial system of Sri Lanka with the huge asset base of 11.8Bn as at 31.12. 2017.

The Performance of banks with higher profit margin was encounter with negative shocks and these banks could not retain the industry during the financial crisis period. Also, Local Commercial Banks (LCBs) could not   concentrate on the opportunity for expansion of its branches to the war zone areas. After the war end the banks are facing a severe competition to attract their customers, mean time the direct overhead expenses and challenges via fintech solutions too is in increasing trend. However, the banks need to work with in a limited population living within the close vicinity of these branches. Hence these trends may lead to a challenge in operating the bank's branches in a profitable manner. The Government initiative to liberalize the economy policy for foreign direct Investments (FDIs), was another challenged for the LCBs to boost their profitability.

The financial market plays with nearly 21Mn of the population of in the country, each bank has different market share and different in size itself. The researcher also intends to analyze in what extend the banks are making profitability compared to the pre and post war economic activities of the country, where the market share and size of banks are differ compared to pre-war & post war era. In other words, in what extend the market share and size of the banks contributing to strengthen the profitability of the banks.

Since the researcher intends to analyze the profitability of the LCBs due to war and it is crucial to analyze the trend of the profitability since it is playing pivotal role in the stability of country's economy.

In this background commercial banks are the backbone of the financial network in the economy and have induced the researcher to carry out the study over profitability of the commercial banking sector.

Literature Review

Weerasinghe & Perera (2013) elaborate from his research over Sri Lankan commercial banks for the period of 2001-2011 through multiple panel regression techniques that the credit risk does not always express positive impact on the profitability and they have found credit risk having insignificant confidence level while having positive influence over bank's profitability. Overhead expenses evaluated by efficiency ratio as proxy and has resulted a negative & significant relationship with bank's profitability measured by ROA and ROE. And also, empirical results show positive and significant relationship between bank size and the profitability of banks like previous research results.

Badola and Verma (2006) made an attempt to recognize the important determinants of profitability of public banking sector in India. The evaluation based on step-wise multivariate regression design suited for temporal data from 1991-92 to 2003-04. The research has taken out that overhead expenditures (OEs), provisions and contingencies (P&C) and non- interest-bearing income (NII) are resulted highly significant explanatory power, while total advances-to-total deposits ratio and non-performing advances (NPA) ratio are reflected with lower significant explanatory power. Consequently, the factors P&C, NII and OEs possess a significant connection with the bank's performance. On the other hand, P&C and OEs are found negative correlation with profitability.

Sufian et al., (2009) about the performance of 37 Bangladeshi banks for the period of 1997-2004 by using an unbalanced banks level panel data revealed that Total loans/Total assets is positively significant and it reflects higher Total Loans: Total assets will lead to higher profits. Bank size measured by natural logarithm of total assets is significant and shows positive impact on profitability. Moreover, empirical findings suggest that credit risk and overhead expenditure resulted positive and significant relationship with the bank's performance and do not tally with the previous studies. In contrast, non-interest-income of the banks calculated by non-interest income/Total assets exhibits significant and negative impact on the bank's return.

Bukhari & Qudous (2012) found the evidence from the 11 Pakistan's banks via the panel date from 2005 to 2009. The results from analyse find that, loans and advances and credit risk having significant correlation and show positive coefficient with banks profitability like ordinary results. Hence, it reflects while advance portfolio or credit risk increased, bank's profit also will increase. Whereas, strange results were noticed that overhead expenses, non-interest income/fee base income and bank size are no significant confidence levels between the profitability of the banks. Jabbar (2014) examines on his study about 31 Pakistani commercial banks for the period of 2009-2012 by using 140 observations that the bank size reflects positive coefficient correlation with profitability i.e. large size of banks are having vast branch networks and earns considerable profit margin by managing its expenditure since the economies of scale is supporting on same, While deposit growth proved negative significant coefficient with the profitability of banks since the captioned banks are not utilizing the deposit portfolio in an efficient manner.

Javid et al. (2011) examines on his study in Pakistan over ten commercial banks performance which are calculated through ROA for the period of 2004-2008 by using pooled least square (POLS) technique find out that the higher total assets considered as proxy for bank size may not be vital to lead for higher profits due to the diseconomies of scale and shows negative & significant relationship with banks profitability. Moreover, higher loans play a crucial role towards profitability but their effect is insignificant since the bank's profitability is mostly depending on one large advance portfolio and the deposits have positive and significant affect over banks performance i.e., banks are based on deposits for liquidity can attain greater profit by converting as assets (loans & advances).

Riyaz & Mehar (2013) carried out a study to explore the effect of the determinants on 32 Pakistani commercial banks profitability measured by ROA and ROE for the period of 2006-2010 by utilizing regression techniques. The results derive that bank size measured by asset size, total loans-to-total assets and the total deposits-to-total assets are showed positive and significant impact while credit risk and the operating efficiency are showed negative and significant relationship with ROE. Furthermore, the credit risk and operating efficiency are being resulted positive and significant results over ROA.

Sufian & Chong (2008) made an attempt to find out the influencing factors of banks profitability in Philippines by using 280 results for the period of 1990-2005.The study identified that bank size, credit risk and expenditure management are negatively significant to the banks profit. However, non-interest income has positive and significant impact on the performance of banks in Philippines. The influence from the sizing may be negative because of bureaucratic bottlenecks as well as other variables in the firms. When the loan loss provisions increase that the credit risk will also increase and it will lead to higher loan loss provisions. As a result, bad & doubtful loans will be written- off from banks accumulated profit and directly make an impact on banks bottom line. Most cases, the literature argues that decreased expenditures will boost the productivity and enhance the earnings of the lenders simultaneously. Banks are extracted higher yield with their cash flow from non-interest income resources such as commission & fee-based income services for a better degree of profitability.

San & Hang (2013) examined the effect of variables on Malaysian banks performance covering the period of 2003-2009 by employing regression techniques. Whereas, they used ROA, ROE and NIM as proxy measures for the profitability. Cost-to-income ratio depicting Overhead expenditure/efficiency of banks and loans- loss- reserves ratio represents credit risk have an inverse and significant relationship with profitability measured by ROA. Besides that, bank size positively and significantly related to ROA. More too, Ramlall (2009) found on his study that bank's profitability in Taiwan is in line with the availability of the credit portfolio.

Obamuyi (2013) argues from the study made on 20 Nigerian banks for the period of 2006-2016 using fixed effects regression model that as a result of diseconomies of scale, large bank size will impact on profit of the banks negatively and encounter dilemmas such as lagging in managerial works, bureaucratic operational procedures and agency cost. Furthermore, expenses management shows negatively significant impact on banks' profitability as usual expects i.e., efficient cost management by reducing operational costs will lead to higher performance of banks. Aigheyisi & Edore (2014) further strengthened from his study on Nigerian banks.

The findings revealed the above facts that the bank's weak asset management will lead to its size as insignificant relationship with the banks' profitability.

Problem Statement

The statement of problem for the study of profitability of Local Commercial Banks (LCBs) in Sri Lanka could be pointed out as the profitability is measured by ROA is depicting volatile trend during past years.

Further the internal strength of the banks such as Digital strength, Management competency in decision making, extend of vulnerability of banks are part of internal factors of the banks, which eventually will have an impact on the performance of the bank.

Hence, what are the challenges faced by the LCBs due to volatile trend in profitability. The researcher intends to compare how far the trend of internal variables will determine the profitability during the pre & post war era of the LCBs in Sri Lanka.

Research Question

This researcher attempts to examine the impact of war over the determinants/ performance of profitability of Commercial banks in the Sri Lankan context. The research questions are given in below.

  i.   What is the relationship between internal factors and ROA of LCBs in Sri Lanka?
  ii.   Is there any significant impact on profitability of LCBs including other key performance indicators of banks due to civil war?

Objectives of the Study

The major objective of this study is to examine profitability and the internal factors (bank – specific) of the of licensed commercial banks (LCBs) listed at Colombo Stock exchange (CSE), Sri Lanka which is measured by return on assets (ROA) for the pre and post war context in Sri Lanka.

Specific objectives of the study are as follows.

To find out relationship of internal factors and ROA of LCBs in Sri Lanka.

 To explore the impact of war on internal determinants factors and the profitability

of LCBs in Sri Lanka.

Period of the Study

The tenure between 2005 to 2009 considered for pre - war era and tenure between 2013 to 2017 is considered for post war era for the research purpose, since these data would be the nearest figures for end war and present year.

Significance of the Study

Many empirical studies have been done on determinants of Bank profitability and such determinants are well documented in many other countries such as Nigeria, Greece, Malaysia, Philippines, Kuwait, US, Pakistan, Indonesia, Jordan, India, etc. However, comprehensive studies to assess the determinants of profitability of licensed commercial banks (LCBs) considering pre and post war era are still in their infancy and not much is available in the Sri Lankan context, Therefore, this research may fill the knowledge gap with regard to this aspect.

Bank profitability is paramount in order to create confidence to stakeholders, to maintain current activities/operations without any constraints and to gain reasonable returns for its shareholders. The dependencies in internal factors in influencing the profitability of the banks are within the parameters of the bank management.

Therefore, analyzing the internal influencing indicators of banks profitability would be an ideal and crucial in following aspects,

- Firstly, the internal factors are directly manageable and controllable by the bank management and its team within their scope and decision. (Considered as Micro economic factor in terms of environment analysis of any institution.)
- Secondly, the banks can pay more attention on using the resources in an efficient manner for their future decision making and planning.
- Thirdly, it may also put a curb on their financial stability that can be applied against the financial crises / stress condition situations.
- Finally, finding the innovative banking solutions for the convenient of the customers for the future generation. Since the tech savvy clientele base would be in the increasing trend in future.

Therefore, this study aims to deliver clear picture to all stake holders (investors, shareholders, government, management and employees of the banks etc.) in order to make their investment decisions, new policy making, amend the existing policies and implementation of same for the economic growth of the country.

Specially, it will assist the management and employees of LCBs in Sri Lanka to identify the internal factors influencing the profitability of banks and to have better risk management and better internal control strategies for the improvement of overall performance of bank.

Research Methodology

It involves data collection methods and the method of analyzing the data and the information in complying with the objective of the study. As this research mainly intends to compare the pre and post war profitability of selected licensed commercial banks, it tends to explain the process of selection of listed banks from the Colombo stock exchange, the type of data collected from these companies and the statistical technique that will be used to analyze such data.

The determinant factors of profitability of banks are influenced based on internal and external factors or micro economic and macros economic factors of a bank. The internal factors are individual bank characteristics which affect the bank's performance. These factors are basically influenced by the internal decisions of management and board. The external factors are sector wide or country wide and environment factors which are beyond the control of the company and affect the profitability of banks.

These includes capital size, size of deposit liabilities, size and composition of credit portfolio, interest rate policy, state of information technology, risk level, management quality, bank size & ownership.

On this back ground the researcher has developed conceptual framework model for the research propose is adapted from Ongore & Kusa (2013) and Mirzaei, Moore & Liu (2013).

Independent Variable
Independent Variable for the study includes Commission &Fee income (H1), Overhead expenditure(H2), Loans & Advances(H3), Deposits(H4), Asset Quality(H5), Customer Touch points(H6).

Dependent Variable

Dependent Variable for the study is profitability (ROA) of the LCBs.

Hypothesis of the Study
As per the objective of the study, below are the hypotheses developed while researching for dependent variable i.e., Profitability against the independent variables that include internal factors that may affect the profitability. Following hypotheses are drawn:

H01: There is no significant relationship between **Commission and fee base income (CFI)** and profitability of LCBs in Sri Lanka.

Ha1: There is a significant relationship between **Commission and fee base income** (CFI) and profitability of LCBs in Sri Lanka.

H02: There is no significant relationship between **Overhead (OH)** expenses and profitability of LCBs in Sri Lanka.

Ha2: There is a significant relationship between **Overhead (OH)** expenses and profitability of LCBs in Sri Lanka.

H03: There is no significant relationship between **Loans and Advances (LA)** and profitability of LCBs in Sri Lanka.

Ha3: There is a significant relationship between **Loans and Advances (LA)** and profitability of LCBs in Sri Lanka.

H04: There is no significant relationship between **Deposits (DP)** and profitability of LCBs in Sri Lanka.

Ha4: There is a significant relationship between **Deposits (DP)** and profitability of LCBs in Sri Lanka.

H05: There is no significant relationship between Asset quality **(AQ)** and profitability of LCBs in Sri Lanka.

Ha5: There is a significant relationship between Asset quality **(AQ)** and profitability of LCBs in Sri Lanka.

H06: There is no significant relationship between **Customer touch points (CTP)** and profitability of LCBs in Sri Lanka.

Ha6: There is significant relationship between **Customer touch points (CTP)** and profitability of LCBs in Sri Lanka.

Variables
The research has identified seven variables to explore the determinants of the profitability of LCBs for the subject of study. One of them is return on asset **(ROA),** considered as the dependent variable. The ROA is referred as net profit divided by total assets and is depicted in percent.

The remains are explanatory variables which are bank-specific internal factors which influences on the profitability of banks.

$$ROA = \frac{\text{Total Net Income}}{\text{Total Assets}} \; X \; 100$$

Bank-Specific Independent Variables.

Commission and fee base incomes (CFI)/ Non-interest income

CFI is the major income source of non-interest-bearing income of the banks and it is measured by dividing commission &fee base income (net) into total operating income at this research. (Bukhari, S.A.J. & Qudous, R. A. (2012).

The following formula will apply for the computation;

$$CFI = \frac{\text{Commission \& Fee base Income}}{\text{Total Operating Income}} \; X \; 100$$

Overhead Expenditure (OH)/ Efficiency

OH, is defined as a percentage of its profit in the banking scenario and expected to be a negative impact of the profitability (Olson, D. & Taisier, Z.A. (2011).

OH, calculated as follows;

$$OH = \frac{\text{Operating Cost}}{\text{Operating Income}} \; X \; 100$$

Loans and Advances (LA):

LA is derived by dividing total loans by total assets for this study. Loans are containing huge asset base in the bank's balance sheet and leads to a significant contribution in the NIM and entire profit of banks respectively (Javaid, S., Anwar, J., Zaman, K. & Gafoor, A. (2011).

$$LA = \frac{\text{Total Loans}}{\text{Total Assets}} \; X \; 100$$

Deposits (DP):

DP is measured by the ratio between total deposits to total assets on this research and it is arising major lowest cost of funds in the banking sector.

$$DP = \frac{\text{Total Deposits}}{\text{Total Assets}} \; X \; 100$$

Asset Quality (AQ)/Credit Risk:

AQ is considered as proxy for the **credit risk** of the bank and the same is derived as total non-performing loans divided by the total loans (NPL ratio). Moreover, there were negative significant effect has identified on profitability for the credit risk (Poudel, 2012).

$$ROA = \frac{\text{Total Non Performing Loans}}{\text{Total Loans}} \, X \, 100$$

Customer Touch Points (CTP) / Bank Size:

CTP is the number of branches and access points available to the respective banks during the period under consideration. CTB also accounted the branches, ATM points, customer Service Points (CSPs) Super Market Banking Units and Automated banking centres provided by the banks in Sri Lanka. However according to Titko J., Skvarciany V. & Jureviciene D (2015) reveals that the there is no significant impact over the profitability by CTPs, forecast that the CTP has a positive and significant relationship with the profitability at this study and has considered as a decision predictor for the policy makers of the banks for their decisions and policies implementation. CTP is modelled as **proxy of bank size** and the same is used to measure by the natural log of total asset base of the banks in previous studies and larger bank size is always concluded a lot of branch network in all over the country.

Descriptive Statistics – Pre-war period

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	55	.06	3.13	1.2720	.67930
CFI	55	.00	43.57	14.1107	9.89175
OH	55	2.43	72.92	33.8191	16.61320
LA	55	47.19	96.43	62.5018	12.34116
DP	55	8.07	86.19	64.4193	22.06023
AQ	55	1.59	33.61	7.2915	4.90365
CTP	55	11.00	800.00	216.5455	232.00717
Valid N (listwise)	55				

Source: Researcher's compilation from the data extracted from annual reports 11 Licensed Commercial Banks operating in Sri Lanka.

Descriptive Statistics – Post-war period

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	55	.19	3.80	1.4945	.62099
CFI	55	2.77	44.10	13.9413	9.96737
OH	55	2.54	73.14	34.0933	14.33203
LA	55	50.96	78.80	65.2969	6.19736
DP	55	7.00	91.81	67.8824	16.25064
AQ	55	1.80	8.00	3.6325	1.40708
CTP	55	77	1342	459.98	407.319
Valid N (listwise)	55				

Source: Researcher's compilation from the data extracted from annual reports 11 Licensed Commercial Banks operating in Sri Lanka.

The descriptive statistics of mean value (M), of ROA (return on assets) for the banks during the pre -war period are domiciled in the sample is 1.27% whereas during the post war era the ROA is 1.49% i.e. banks in the sample was earned average net profit of 1.27% of the total asset and it varied from 0.06% to 3.13% during pre-war. That implies, most lucrative bank in the sample derives 3.13% net profit by investing a single rupee in the assets of the banks. On the contrary, lower profitable bank among the sample deliver only 0.06% net profit by investing a single rupee in the bank's asset base. At the same time post war trend specifies as per sample that, net profit of 1.49% of the total asset which varies from 0.19% to 3.80%, it also implies that lucrative bank in the post war sample derives 3.80% net profit by investing a hundred rupee deliver only 0.19% net profit by investing a hundred rupee in the bank's asset base. SD for the ROA is reflected as 0.67% & 0.62 for the post war and prewar respectively, which means, captioned banks are less deviation from the mean value during the both eras. In short, the ROA has improved during the post war compared to the pre-war era among LCBs in Sri Lanka.

Considering dependent variables, the first   factor is commission &fee-based income (CFI) in the pre-war time frame has a mean value of 14.11% i.e., banks in the sample gain average non-interest income of 14.11% over its total operating income. Further, CFI is varied from 0% to 43.57% with the SD of 9.89%. Whereas the said variable shows mean value of 13.94%, banks in the sample gain average non-interest income of 13.94% over its total operating income. Further, CFI is varied from 2.77% to 44.10% with the SD of 9.96%. We also can observe that the CFI has reduced during the post war compared to the prewar era. This result depicts that the LCBs in the both samples experiencing a higher variation with the diversification of the income sources for the study period

The second variable is overhead expenditure (OH), the mean value picked up 33.81% i.e., average cost attribute by the pre-war sampled period of commercial banks is 33.81 % of the total operating revenue prescribed in the sample period. Whereas the post war OH mean value is recorded 34.93% Moreover, the minimum and maximum value were 2.43%, 72.92% and 2.54% ,73.14% for prewar and post war respectively, and with the SD of 16.61% & 14.33% i.e., the higher variation was occurred among the LCBs in the sample for their operating expenditure. In contrast, the OH has increased during the post war period compared to pre-war era, it may due to the reason that the expansion of branches have severely occurred during the post war time and the establishment cost would have been hiked, also we could observe that, even though the variations depicted in SD are high, the SD has come down during the post war, which may cause due to the automation process of the banks and they have started to enjoy the economies of scale in the long run.

The third variable is Loans & Advances (LA), pre-war & post war mean values picked up 62.50% and 65.29%. i.e., average loans contribution for the ROA by the sampled commercial banks is 62.50% of the total asset prescribed in the prewar sample period, whereas average loans contribution for the ROA by the sampled commercial banks is 65.29% of the total asset prescribed in the post war sample period. Moreover, the minimum and maximum value range were 47.19% to 96.43% and 50.96% to 78.80% respectively with the SD of 12.34% & 6.19% i.e., the lesser variation was occurred among the LCBs during the post war era in the sample for their loan books.

Forth internal variable is Deposits (DP) mean value picked up 64.41% i.e., average deposits contribution for the ROA by the sampled commercial banks is 64.41 during pre- war, whereas the figure shows 67.88 % during postwar era. of the total asset prescribed in the sample period. Moreover, the minimum and maximum value for pre-war and post war were ranging from 8.0% to 86.19% and 7% to 91.81% respectively with the SD of 22.06% and 16.25% i.e., the higher variation was occurred among the LCBs in the sample for their deposits. This implies that the LCBs in the sample for the sample period   having higher variation with their Deposits. And the average deposits have gone up during the post war compared to pre-war.

Fifth is Asset quality (AQ)which is measured by NPA (non-performing advances) ratio as proxy shows a mean value of 7.29% & 3.63% for pre-war and post war respectively. The same is fluctuating from 1.59% to 33.61% and 1.80% to 8.00%.

These findings reveal that the average (AQ) ratio in the sampled commercial banks for the study pre-war period recorded marginally higher (AQ) compared with the industry norms and the same has come down below the industry norms of 5%. Even though the economy has come across several macro-economic shocks such as recession, world oil price fluctuation etc. SD resulted 4.90% & 1.40% and it means that the LCBs in the sample is having higher variation in their (AQ) ratio during prewar and which has improved during the post war period. This also comments that the quality of lending and management decision to control the NPA / Asset Qualities were improved during the post war. Also new mechanism were introduced like outsourcing the recovery process and expedite the initiation of legal action against the delinquent borrowers were resulted in improving the (AQ) ratio further.

Final variable is Customer Touch Points (CTP) mean value has resulted 216 during the pre-war and 459 during post war. And also, CTP recorded a minimum and the maximum value as 11 to 800 for pre-war and 77 to 1342 during post war respectively. Apart from that, SD of CTP shows 232 and 407 respectively for the research period. This means that the commercial banks in the sample during the study period have been recorded a considerable or higher variation in their branch network, since the banks were focusing on branch rapid expansion in their branch network.

		CFI	OH	LA	DP	AQ	CTP	ROA
CFI	Pe. Corr	1	.631**	-.002	-.076	-.080	-.254**	-.012
	Sig. (2-tai)		.000	.980	.432	.407	.008	.900
	N	110	110	110	110	110	110	110
OH	Pe. Corre	.631**	1	-.046	.312**	.050	-.134	-.324**
	Sig. (2-tai)	.000		.630	.001	.606	.163	.001
	N	110	110	110	110	110	110	110
LA	Pe. Corre	-.002	-.046	1	.114	-.117	-.008	.104
	Sig. (2-tai)	.980	.630		.235	.222	.931	.281
	N	110	110	110	110	110	110	110
DP	Pe.Corre	-.076	.312**	.114	1	.169	.359**	-.530**
	Sig. (2-tai)	.432	.001	.235		.077	.000	.000
	N	110	110	110	110	110	110	110
AQ	Pe.Corre	-.080	.050	-.117	.169	1	-.210*	-.290**
	Sig. (2-tai)	.407	.606	.222	.077		.027	.002
	N	110	110	110	110	110	110	110
CTP	Pe.Corre	-.254**	-.134	-.008	.359**	-.210*	1	.139
	Sig. (2-tai)	.008	.163	.931	.000	.027		.148
	N	110	110	110	110	110	110	110
ROA	Pe.Corre	-.012	-.324**	.104	-.530**	-.290**	.139	1
	Sig. (2-tai)	.900	.001	.281	.000	.002	.148	
	N	110	110	110	110	110	110	110

**Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

As per the Table 4.2.1 that   LA and CTP show positive correlation coefficient(r) of 0.104 and 0.139 respectively at 5% significant level and p -value is higher than the significant level of 0.05(p=0.281 <0.05) & 0.05(p=0.148 <0.05) respectively. These implies that when   LA and CTP increase by 1% point on average, the ROA of the commercial banks will be increased by 0.104 and 0.139 respectively while other variables are constant and also CFI and LA are **positively significantly** associated with ROA.

Further, OH and AQ reveal negative strong correlation coefficient of -0.324 and -0.290 respectively at 1% significant level with the p- value of 0.001<0.01) and p- value of 0.002 < 0.01) These implies that when   OH and AQ increase by 1% point on average, the ROA of the commercial banks will be decrease by 0.324 and 0.290 respectively while other variables are constant. Hence, the OH and AQ are depicting **negative and significant** strong association with ROA.

It is also reflecting that there are **negative association** indicated for CFI and DP with ROA having correlation coefficient of 0.012 and 0.530 respectively. But CFI is **insignificant** at the 5% significant level since the p- values of 0.900. 0.05(p=0.900 >0.05) however DP is **significant** at 1% significant level with the p- value 0.01(p=0.000 < 0.01). Therefore, it can be concluded all the independent variables having serious multicollinearity with ROA.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.014a	.000	-.009	.66035

a. Predictors: (Constant), Commission & fee Based Income

According to the value of R square=0.000 mentioned in the above model summary explains that the CFI of LCBs in Sri Lanka does not impact on its profitability i.e., 0% changes will be occurred on ROA of banks by the changes caused in Commission and Fee based Income of banks.

Independent Samples Test

	Levene's Test for Equality of Variances		t-test for Equality of Means							
	F	Sig.	t	df	Sig. (2-tai)	Mean Differen	Std. Error Dif	95% Confidence Interval of the Di		
								Lower	Upper	
OE Eq.vari. assu	.042	<mark>.839</mark>	-.093	108	.926	-.27418	2.95851	-6.138	5.5901	
Eq.vari. not ass			-.093	105.72	.926	-.27418	2.95851	-6.139	5.5915	

Loans & Advances
Group Statistics

	war period	N	Mean	Std. Deviation	Std. Error Mean
Loans &; Advances	Pre-War	55	62.501818	12.3411619	1.6640819
	Post War	55	65.296909	6.1973605	.8356519

Independent Samples Test

	Levene's Test for Equality of Variances		t-test for Equality of Means							
	F	Sig.	t	df	Sig. (2-tai)	Mean Differe	Std. Error Differ	95% Confidence Interval of the Dif		
								Lower	Upper	
L & Ad Eq.vari.ass	6.040	<mark>.016</mark>	-1.50	108	.136	-2.7950	1.86211	-6.4861	.895949	
Eq vari.not assu			-1.50	79.6	.137	-2.7950	1.86211	-6.5011	.91091	

According to the analysis the mean value is increased in post war compared to the prewar. The p-value is lesser than the significance value of 0.05 (, t=-1.501 & p-value=0.016<0.05). Hence, we conclude that there is difference in LA before and after war, where after war the LA has increased significantly.

Deposits

Group Statistics

	war period	N	Mean	Std. Deviation	Std. Error Mean
Deposits	Pre-War	55	64.419273	22.0623179	2.9748823
	Post War	55	67.882364	16.2506351	2.1912352

According to the analysis the mean value has increased in Post war compared to pre war

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means							
		F	Sig.	t	df	Sig. (2-tai)	Mean Differen	Std. Error Differe	95% Confidence Interval of the Differ		
									Lower	Upper	
Deposits	Eq.vari. assu	6.038	.016	-.93	108	.351	-3.46309	3.69478	-10.78679	3.86061	
	Eq.vari.not ass			-.93	99.27	.351	-3.4630	3.69478	-10.79407	3.86791	

The p-value is lesser than the significance value of 0.05 (, t=-0.937 & p-value=0.016<0.05). Hence, we conclude that there is difference in DP before and after war, where after war the DP has increased significantly.

Asset quality

Group Statistics

	war period	N	Mean	Std. Deviation	Std. Error Mean
AQ	Pre-War	55	7.291455	4.9036469	.6612076
	Post war	55	3.632545	1.4070750	.1897300

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tail)	Mean Differ	Std. Error Dif	95% Confidence Interval of the Diffe	

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means							
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference		
									Lower	Upper	
CTP	Eq. vari.ass	17.119	.000	-3.851	108	.000	-243.43	63.208	-368.72	-118.14	
	Eq. vari not assumed			-3.851	85.70	.000	-243.43	63.208	-369.095	-117.77	

According to the analysis the mean value has declined in Post war compared to prewar.

The p-value is lesser than the significance value of 0.05 (, t=-5.319 & p-value=0.001<0.05). Hence, we conclude that there is difference in AQ before and after war, where after war the AQ has declined significantly. Which shows that a string improvement in NPA position of the LCBs compared to the prewar scenario.

Customer Touch points

Group Statistics

	war period	N	Mean	Std. Deviation	Std. Error Mean
CTP	Prewar	55	216.55	232.007	31.284
	Post war	55	459.98	407.319	54.923

According to the analysis the mean value has improved during post war compared to prewar.

The p-value is lesser than the significance value of 0.05 (, t=--3.851 & p-value=0.000<0.05). Hence, we conclude that there is difference in CTP before and after war, where after war the CTP has improved significantly. Which shows that a strong improvement in branch network position of the LCBs compared to the prewar scenario.

Conclusion

This paper is explored the internal influencing factors of the profitability of domestic licensed commercial banks (LCBs), Sri Lanka and the impact of war on the profitability of these banks as objectives of the study. For this study, panel data method with Independent Sample test, Correlation analysis has been used over 11 LCBs listed at CSE by using its financial statements covering the period of 2005-2009 & 2013-2017 which reflects both pre-war and post war data. The findings revealed that, even though CFI has not significant association with ROA. This implies, income generating from non-interest-bearing sources which are connected to diversified product portfolio and off-balance sheet activities are not positively impact on banks profitability. In the comparison of pre-war and post war scenario of the independent variable CFI reveals that there is no significant improvement in the CFIs during both eras, even though the mean value has improved very marginally. Therefore, it's an opportunity for banks to focus on non-interest income or CFIs to have a strong profitability. Nowadays the banks are focusing on fee-based income in diversified ways such as bancassurance and other sources.

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