# Influence of Income Diversification on Financial Performance of Commercial Banks in Kenya

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## Abstract

*Kenya's banking sector is vital to the nation's economic development since it acts as a vital intermediary between savers and borrowers. In an attempt to boost their financial performance, Kenyan commercial banks have been diversifying their sources of income, including non-interest and traditional interest income. Supervisory reports from the Central Bank of Kenya show that, despite these efforts, the sector's financial performance steadily worsened between 2013 and 2020, as seen by a declining return on assets. The objective of this study was to determine the effect of income diversification on the financial performance of commercial banks in Kenya. This research was based on the Resource-Based View theory. The study used a longitudinal descriptive research design and embraced a positivist philosophical perspective. Using a census approach, it examined secondary data from each of the 38 commercial banks that were operational in Kenya from 2013 to 2022. The study used the return on assets ratio to gauge financial success and the Hirschman-Herfindahl Index to gauge income diversification. Relationships between variables were examined using panel ordinary least square regression models.The results confirmed a significant positive relationship between bothinterest (β=0.224,p=0.00) andnon-interest(β =0.609,p=0.00)income diversification and financial performance. The study concluded that income diversification enhances financial performance. The study recommends that policymakers implement measures that promote income diversification in the banking industry.*

***Key Words:*** *Income Diversification, Return on Assets, Resource-Based View*

## 1.0 Introduction

Through a variety of financial services, commercial banks serve as intermediates between savers and borrowers, playing a crucial role in the global financial system (Thota et al., 2022). The banking industry has experienced tremendous change in recent years as a result of globalization, technological breakthroughs, and changing regulatory environments. Income diversification, which entails extending revenue sources outside conventional interest-bearing banking operations, is one of the most important strategic choices made by commercial banks. The increasing percentage of non-interest income in banks' overall revenue indicates the tendency of banks all over the world to diversify their income streams in an effort to boost profitability and stabilize earnings (Smith & Brown, 2024). Commercial banks' financial performance (FP) differs by nation; some are seeing improvements, while others are having

difficulties (Johnson & White, 2024). It is suggested that income diversification could increase FP in a number of ways. According to proponents, banks can attain economies of scope by diversifying their revenue sources beyond traditional interest income, which maximizes infrastructure efficiency and resource use (Olarewaju, 2018). On the other hand, critics contend that because non-core banking operations are unpredictable, income variety may increase corporation risk. Given poorer client-lender interactions, Ngoc (2019) contends that non-core banking revenue is typically more erratic than core banking revenue. Furthermore, diversification into non-interest-related industries may result in higher fixed costs associated with human and technological capital investments, which could raise operating costs and profit volatility (Sharma & Anand, 2018). These elements show the conflicting viewpoints on income diversification in banking, emphasizing both the dangers involved in branching out from core banking operations and the possible advantages it may have in boosting FP (Robinson & Patel, 2023).

**Financial Performance**

Financial performance (FP) is a measure of an organization's general well-being and efficiency in using its resources to produce revenue over a given time frame (Teimet, 2021). It includes a company's capacity to reach its goals through profitable operations, demonstrating effective resource management and strategic decision-making in the face of shifting economic conditions. Buyuran & Ekşi, 2020; Kiptum et al., (2021). Ozili (2017) asserts that FP is essential to maintaining operating procedures and guaranteeing the viability of continuous investments. In general, FP refers to an organization's capacity, as shown by a range of financial measurements and ratios, to produce profits, promote growth, and increase shareholder value through operational operations.

FP is fundamentally important when evaluating an organization's capacity to use its resources efficiently in order to produce income and meet its strategic objectives within a given time (frame Mohamed & Bett, 2018). Strong FP plays a key role in making asset acquisition easier and allowing businesses to use their own resources to fund strategic initiatives and diversification (Brahmana et al., 2018). Robust financial planning (FP) ensures adequate liquidity to fund both strategic investments and day-to-day operations, hence upholding financial stability. Long-term success depends on a company's ability to successfully manage risks and invest in growth prospects, both of which are enhanced by a strong financial performance (FP) (Lee & Patel, 2024; Smith & Brown, 2024). In the face of shifting market conditions, banks' current FP trends show a dynamic change toward increased profitability and efficiency. In order to increase operational efficiency and cost-to-income ratios, banks are

putting more and more emphasis on digital transformation to streamline processes and cut expenses (Adai, 2022). Due to increased competition brought about by fintech and digital banking, banks are already using cutting-edge technologies to provide more individualized financial products and better client service (Kiptum, 2022). To improve returns and preserve sound financial health, there is also a noticeable focus on capital allocation and asset management strategy optimization. Notwithstanding these developments, banks still have to contend with issues including low interest rates and regulatory demands, which have an effect on their profit margins (Talari & Khoshroo, 2023).

**Income Diversification**

In the context of commercial banking, income diversification refers to the deliberate effort made by banks to increase the sources of income they receive outside of the conventional interest income from their core banking services, which includes interest on deposits, government securities, and loans (Ngware et al., 2019). Using this technique, you will be able to participate in fee-based and commission-based services including wealth management, consulting services, investment banking, asset management, insurance, and securities and foreign currency trading, among other financial services. The primary goal of income diversification is to reduce dependence on interest rate fluctuations and economic cycles, thereby enhancing overall financial stability and resilience (Teimet, 2021; Brei et al., 2020). By diversifying their income streams, banks can mitigate risks associated with volatility in interest income and economic downturns, ensuring a more balanced revenue mix that supports sustained profitability and growth.

The idea of diversification is that banks can increase their market presence and product offerings by entering new business sectors through acquisitions or internal expansion activities. Income diversification is investing financial resources in markets and product lines outside of the primary banking operations, according to Githaiga (2020). Jouida (2018) similarly highlights that income diversification aims to increase the proportion of non-interest income components such as fees, trading revenues, and other ancillary income in the overall revenue structure of banks. In this study, income diversification is viewed as the strategic practice of generating revenue from various sources beyond traditional interest income, encompassing diverse fee-based services and non-interest income avenues like commissions and dividends.

Income diversification is widely theorized to improve FP. Teimet (2021) contends that by distributing income across multiple sources, businesses can reduce the risk of sector-specific crises, interest rate swings, and economic downturns. According to Ngware et al. (2019), this

approach enables banks to balance losses in one area with gains in another, resulting in a more stable overall FP.

**Commercial Banks in Kenya**

In Kenya, commercial banks are classified into three tiers based on a composite index that incorporates several factors: customer deposits, number of deposit accounts, net assets, capital and reserves, and number of loan accounts. There exists a state of monopolistic competition in the Kenyan commercial banking sector, where a few large banks dominate the industry landscape, as noted by Kiemo et al. (2022). As of December 31, 2022, there were 9 large banks commanding a substantial market share of 75.14% collectively. These include Kenya Commercial Bank Kenya Ltd (14.20%), Equity Bank Kenya Ltd (12.67%), Co-operative Bank of Kenya Ltd (10.01%), National Commercial Bank of Africa Bank Kenya PLC (9.24%), Absa Bank Kenya Plc (6.69%), Standard Chartered Bank (K) Ltd (5.74%), Diamond Trust Bank Kenya Limited (5.81%), Stanbic Bank Kenya Ltd (5.63%), and Investments & Mortgages Bank Limited (5.15%). Additionally, there were 8 medium-sized banks holding a combined market share of 16.13%, and 22 small banks with a collective market share of 8.58%.

During the study period, the Kenyan banking sector underwent significant regulatory changes, notably the introduction of the interest rate capping law in 2016, which restricted lending rates to a maximum of 4.0% above the central bank base lending rate. This policy aimed to make credit more affordable but resulted in reduced interest income for commercial banks. Subsequently, the law was repealed in 2019, and the central bank introduced a risk-based lending model, allowing banks to price loans according to the perceived risk of each borrower. This regulatory shift allowed banks to set their own interest rates, which impacted their income streams once again. Another significant regulatory change occurred in March 2020 when charges for transactions between mobile wallets and bank accounts were waived as an emergency response to promote the use of mobile money and reduce the handling of physical cash during the Covid-19 pandemic. This led to the widespread adoption of mobile banking and a notable decrease in direct transactions within banks. Furthermore, the Covid-19 pandemic resulted in a rise in non-performing loans, which adversely affected the interest income streams of banks.

From 2013 to 2020, there was also a proliferation of unregulated digital lenders operating via mobile phones. Besides capturing market share from commercial banks, these lenders inadvertently harmed the creditworthiness of borrowers listed with Credit Reference Bureaus (CRBs) due to defaults on mobile loans. Consequently, these borrowers were unable to access credit from commercial banks, exacerbating the market share challenges for traditional banks.

Additionally, the number of Microfinance Banks (MFBs) grew significantly from 9 in 2013 to 14 by 2022.

Over the period from 2013 to 2022, income diversification in the Kenyan banking sector has exhibited noticeable fluctuations, reflecting changes in regulatory policies and market dynamics. According to the CBK annual supervisory reports, there has been a discernible shift in the composition of bank income streams. Notably, interest income, which constituted a significant majority at 78.6% in 2016, gradually declined to 73.7% by 2019. This decline coincided with the implementation of interest rate capping in September 2016, aimed at controlling lending rates to protect consumers. The regulatory intervention led to reduced interest income as banks adjusted to the capped rates. Conversely, non-interest income showed an increasing trend, rising from 21.4% in 2016 to 26.7% by 2019, highlighting banks' efforts to diversify revenue sources beyond traditional interest-based activities. The repeal of the interest rate caps in 2019 marked a shift in this trend, allowing banks more flexibility in pricing loans, which could potentially influence income diversification trends in subsequent years. These fluctuations underscore the dynamic interlink between regulatory frameworks, market conditions, and banks' strategic responses in shaping income diversification within the Kenyan banking industry.

**Statement of the Problem**

Between 2013 and 2020, Kenya's banking industry had a significant decline in FP, as seen by declining ROA, in contrast to the favorable trends shown in banks in Tanzania, Nigeria, Ghana, the United States, and several European Union countries (Central Bank of Kenya, 2022). Kenyan banks' return on assets (ROA) fell from 4.7% in 2013 to 2.1% in 2020 over this time, although it rose to 3.7% in 2022. While some banks, such as Equity Bank, Cooperative Bank, and Kenya Commercial Bank, showed strong financial performance, others encountered serious difficulties; some even went into receivership. The Kenyan banking industry's income diversification varied notably between 2013 and 2022. Interest income decreased from 78.6% in 2016 to 73.7% in 2019, but non-interest income rose from 21.4% to 26.7% in the same time frame, per statistics from the Central Bank of Kenya's annual supervisory reports (Central Bank of Kenya, 2022). Major Kenyan banks have been aggressively diversifying their revenue streams in recent years by launching cutting-edge goods and services meant to stand out from the competition (Central Bank of Kenya, 2023). What impact, then, does income diversification have on the financial performance of commercial banks?

Income diversification and FP have a well-established theoretical relationship, but empirical results are still conflicting and unclear. Other studies indicate a positive correlation (Ndung’u

& Muturi, 2019; Githaiga et al., 2019; Teimet, 2021), while others indicate a negative or non-significant link (Sharma & Anand, 2018; Stiroh & Rumble, 2006; Nguyen, 2019). These discrepancies can be attributed to a variety of theoretical frameworks, methodological techniques, measurement metrics, and contextual elements such as political environments, economic situations, technological developments, regulatory frameworks, and cultural influences (Hafidiyah & Trinugroho, 2016; Abobaker, 2018). This study aims to fill conceptual and contextual research gaps by examining the relationship between income diversification and Kenyan commercial banks' financial performance. The general objective of this study was to investigate the relationship between income diversification and the financial performance of commercial banks in Kenya. The study hypothesized based on the decomposed revenue components; interest income diversification and non-interest income diversification. That is, the two null hypotheses stated that:

**$H_0$:** There is no statistically significant relationship between interest and non-interest income diversification and the financial performance of commercial banks in Kenya.

## 2.0 Literature Review

### Resource Based View

The Resource-Based View (RBV), first proposed by Penrose in 1959, was further refined by scholars such as Wernerfelt (1984) and Barney (1991), who emphasized the vital role that internal resources and capabilities play in achieving better performance and long-term competitive advantage. Income diversification is a strategic undertaking that involves expanding revenue sources beyond traditional interest-based income to include non-interest income streams such as fees, commissions, and other financial services. The degree to which revenue diversification enhances FP from an RBV perspective depends on the characteristics and strategic importance of these various resources. For instance, banks may be able to create new revenue streams that are less susceptible to fluctuations in interest rates if they successfully develop and implement innovative financial services and products (like wealth management and insurance). This would boost profitability and overall financial performance. Barney (1991).

### Empirical Literature Review

The link between income diversification and financial performance in various economies has been the subject of numerous research. With research showing contradictory results, there is, however, no agreement on whether income diversification has a favorable effect on FP. From the first quarter of 2018 to the fourth quarter of 2021. Ho et al. (2023) carried out a

comprehensive international investigation encompassing 1,231 banks in 90 countries for their empirical review. Their study sought to determine whether bank performance before and after the COVID-19 epidemic is influenced by revenue diversification. The results of the study showed that FP and income diversification were positively correlated. Phan et al. (2022) used the GMM regression model on a dataset of 29 Vietnamese commercial banks from 2010 to 2020 in order to examine the impact of income diversification on commercial bank performance. The study discovered that performance and income diversification were positively correlated. In order to demonstrate how income diversification affects bank performance and whether there are differences in the effects of different foreign banks, Addai et al. (2022) carried out a study from 2011 to 2018 in 46 sub-Saharan African nations. Improved income diversification, especially through non-interest income, has a beneficial effect on bank performance, according to this study. Kiptum (2022) used a panel data analysis on a sample of 31 Kenyan commercial banks from 2008 to 2019 in an effort to look into the relationship between income diversification, investment structure, and FP within the COMESA region. The study findings indicated that income diversification had a positive and significant impact on FP. In their investigation into the impact of revenue diversification on bank profitability, Ashyari and Rokhim (2020) utilized longitudinal data from 18 banks in Indonesia spanning 2007-2016. The findings revealed a positive relationship between income diversification and bank performance. Contrary to the foregoing studies, while employing the GMM modeling technique on longitudinal data from 26 Vietnamese commercial banks spanning 2010-2018, Revenue diversification and performance were found to be negatively correlated in Ngoc's (2019) investigation of the link between risk, revenue diversification, and bank performance. Similarly, Maina (2018) carried out an empirical study that looked at the effect of income diversification on FP across all 43 commercial banks in Kenya using regression analysis. Additionally, this study confirmed that revenue diversification and FP had a negative and substantial association. FP Abobaker (2018) used longitudinal data from 2012 to 2016 to examine the effects of revenue diversification on ten commercial banks listed on the Nairobi Securities Exchange (NSE). The results of the study also showed that FP and income diversification were negatively correlated. Hafidiyah and Trinugroho et al. (2018) examined data from 101 Indonesian commercial banks between 2010 and 2014 using a panel least squares technique. The purpose of their study was to look into how revenue diversification affected bank performance and risk. The results of this study showed a strong and negative correlation between bank performance and revenue diversification, indicating that lower performance is associated with greater diversification. Based on the divergence of the empirical findings on

the influence of income diversification on bank performance, this study proposed to investigate the relationship between income diversification on bank performance in Kenya, a developing economy. The study based on a resource-based view perspective expects a positive relationship between income diversification and bank performance

**Figure 1:**
*Conceptual Model*


**Note.** Source: Author (2024)

## 3.0 Methodology

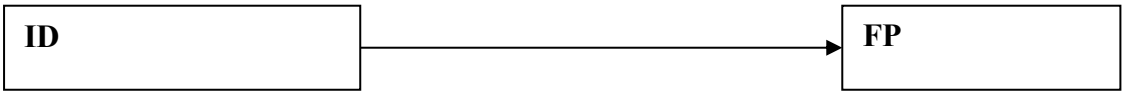
This study adopted a positivist research philosophy and employed a longitudinal descriptive research design to investigate the relationships between income diversification FP over a ten-year period. Given the relatively small number of commercial banks in Kenya, this study employed a census method, where data from all 38 banks in operation up to the end of the study period (2022) was comprehensively collected and analyzed. A total effect model was utilized to explore how income diversification influences FP,

To examine the relationship between income diversification (ID) and FP(hypothesis $H_0$), a general linear regression model is specified as follows:

$$\mathbf{FP_{it} = \beta_0 + \beta_1 II_{it} + \beta_2 NII_{it} + \varepsilon_{it}} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (\mathbf{3.1})$$

Where: FP = financial performance; II = interest income; NII $=$ non $-$ interest income; $\boldsymbol{\beta_0}$= regression constant; $\boldsymbol{\beta_1}$and$\boldsymbol{\beta_2}$= coefficients; $\boldsymbol{\varepsilon}$ = error term (unobserved factors, random fluctuations, or other variables that influence the dependent variable but are not openly considered in the model); **i**= is the cross-sectional unit where i =1…. N; t is the time period where t =1…. T

**Figure 2:**
*Total Effect of Income Diversification on Financial Performance*




**Source:** Author (2024)

*Where:* ID = Income Diversification, FP = Financial Performance

NB: The relationship is considered significant if the beta coefficient (β) along path c is statistically significant at the 95% confidence level.

## 4.0 Data Analysis and Presentation

### Descriptive Statistics of the Study Variables

Descriptive statistics serve a critical role in summarizing and interpreting complex datasets by condensing them into understandable metrics.

**Table 1:**

*Descriptive Statistics for the Study Variables*

| Variable | M | SD | CV | Min | Max |
|---|---|---|---|---|---|
| **Income Diversification** | | | | | |
| Interest Income | 0.386 | 0.131 | 0.338 | 0.01 | 0.78 |
| Non-Interest Income | 0.589 | 0.184 | 0.312 | 0.01 | 1.31 |
| **Composite Index** | 0.487 | 0.110 | 0.225 | 0.01 | 0.795 |
| **Financial Performance** | 0.011 | 0.048 | 4.272 | -0.37 | 0.08 |

**Note.** Source: Study Data (2024)

The descriptive statistics captured in Table 1 for the banking sector offer a detailed examination of key study variables, including means, standard deviations, coefficients of variation, and minimum and maximum values. Income diversification is crucial for the financial stability of commercial banks. The mean interest income is 0.386 with a standard deviation of 0.131, indicating moderate variability (CV = 0.338). The range of interest income from 0.01 to 0.78 suggests that while some banks rely heavily on a few sources of interest income, others have diversified their income sources more effectively. Non-interest income has a higher mean of 0.589 and greater variability (SD = 0.184, CV = 0.312), with values ranging from 0.01 to 1.31. This broad range indicates significant differences in how banks generate non-interest income, highlighting diverse strategies and potential challenges in revenue generation. The composite index of income diversification, with a mean of 0.487 and a lower standard deviation of 0.110 (CV = 0.225), shows moderate overall diversification. The range from 0.01 to 0.795 reflects that while some banks have achieved high diversification, others remain reliant on a narrower set of income sources.

**Table 2:**

*Correlation Analysis Results*

| Variable | ID | FP |
|---|---|---|

| | | |
|---|---|---|
| **ID** | 1 | |
| **FP** | 0.805* (p = 0.00) | 1 |

**Note.** Source: Research Data (2024)

* Implies significance of correlation at 0.05 level in a two-tailed test

ID = Income Diversification; CI = Competitive Intensity; FS = Firm Size; FP = Financial Performance

The results of the correlation analysis, as presented in Table 2, reveal significant relationships among the variables at the 0.05 level in a two-tailed test. Income diversification is positively correlated with FP ($r = 0.805$, $p < 0.05$). The significant correlations indicate robust relationships among the variables, supporting the study's hypotheses about the association of these factors in the commercial banking sector.

**Hypothesis Testing**

The study's findings were interpreted using various statistical measures to assess relationships and effects within the model. While the coefficient of determination ($R^2$) was utilized to gauge the explained variance in the response variable by predictors, the adjusted $R^2$ accounted for model complexity, providing a more reliable assessment. The F-statistic assessed the overall significance of the regression model, indicating its explanatory power beyond chance. Interpretation also centered on Beta coefficients (β), indicating the change in the dependent variable per unit change in the independent variable. Significant beta coefficients denoted meaningful relationships between predictors and the response variable. Hypotheses were tested using p-values, t-values, and confidence intervals at a 95% confidence level, with significance determined by the absence of zero within the confidence interval range. This thorough approach to interpretation ensured robust conclusions regarding the examined relationships and effects in the model.

**Total Effect Model Results**

The first objective of the study was to assess the relationship between income diversification and the financial performance of commercial banks in Kenya. Income diversification was measured through interest income and non-interest income, while FP was represented by ROA. The null hypothesis under examination was outlined as follows:

**$H_{01}$: There is no significant relationship between income diversification and the financial performance of commercial banks in Kenya.**

The model used for estimation was a pooled OLS model, as detailed below.

$$FP_{it} = \beta_0 + \beta_1 II_{it} + \beta_2 NII_{it} + \varepsilon_{it}$$

**Table 3:**

*Estimation Results of Income Diversity and Financial Performance*

| **Overall Model Fit Statistics** | | | | | |
|---|---|---|---|---|---|
| **Source** | **SS** | **df** | **MS** | Number of obs. | = 350 |
| Model | 0.0300 | 3 | 0.015 | F (4, 471) | = 363 |
| Residual | 0.014 | 347 | 0.000 | Prob > F | = 0.000 |
| **Total** | **0.044** | **349** | | $R^2$ | = 0.677 |
| | | | | Adj. $R^2$ | = 0.675 |
| | | | | Root MSE | = 0.006 |

| **Coefficient Estimates Statistics** | | | | | | |
|---|---|---|---|---|---|---|
| **FP** | **β** | **SE** | **t** | **P** | **(95% Confid. Interval)** | |
| **Constant** | 0.007 | 0.003 | 2.33 | 0.021 | 0.001 | 0.013 |
| **II** | 0.224 | 0.015 | 14.93 | 0.000 | 0.194 | 0.253 |
| **NII** | 0.609 | 0.059 | 10.32 | 0.000 | 0.492 | 0.725 |

**Note**. Source: Research Data (2024)

The results presented in Table 3 indicate a robust model fit. The model's F-statistic is {F (4, 471) = 363, p <0.05}, indicating that the model is significant. This suggests that the interest and non-interest income collectively explain a significant portion of the variance in FP. The adjusted $R^2$ value of 0.675 implies that approximately 67.5% of the variance in FP is accounted for by interest and non-interest income whereas the other 32.5% is delineated by other aspects outside the scope of the current model. The Root Mean Square Error (Root MSE) of 0.006 indicates that the average deviation of the observed values from the predicted values is relatively low, signifying good model accuracy.

The constant term was significant {β = 0.007, SE = 0.003, t (347) = 2.33, p < 0.05, 95% CI [0.001, 0.013]}. This indicates that when interest income and non-interest income are held constant, the FP has a baseline value of 0.007. Interest income demonstrates a significant positive influence on FP {β = 0.224, SE = 0.015, t (347) = 14.93, p <0.05, 95% CI [0.194, 0.253]}. The coefficient for non-interest income {β = 0.609, SE = 0.059, t (347) = 10.32, p <0.05, 95% CI [0.492, 0.725]} highlights a strong positive relationship between interest income and FP. These findings led to the rejection of the null hypotheses ($H_0$).

$$\mathbf{FP_{it} = 0.007 + 0.224II_{it} + 0.609NII_{it}} \text{ ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ...} \mathbf{(5.1)}$$

The intercept of 0.007 indicates the expected value of FPit when interest income and non-interest income are zero, suggesting a baseline level of FP. The coefficient 0.224 for interest

income implies that for every unit increase in interest income, FP is expected to increase by 0.224 units, holding non-interest income constant. Similarly, the coefficient 0.609 for non-interest income suggests a stronger positive impact on FP, indicating that each unit increase in non-interest income is associated with a 0.609 unit increase in FP, with interest income held constant.

**Discussion of Empirical Findings**

Determining the relationship between revenue diversification and FP in Kenyan commercial banks was the primary objective. According to the null hypothesis, there is no statistically significant relationship between income diversification and the financial performance of Kenyan commercial banks. The findings indicated a significant positive relationship between revenue diversification and FP for Kenyan commercial banks. Nonetheless, the results of this study both agreed with and differed from previous empirical research. This suggests that even if other studies have produced contradictory findings, it is still unclear how income diversification and FP are related.

The current findings are in agreement with several previous empirical studies locally that identified a significant positive linkage between income diversification and FP. For instance, Ndung'u and Muturi (2019), Kitisya (2017), Addai et al. (2022), Githaiga et al. (2019), and Kiptum et al. (2021). Several international studies also align with the current findings including studies by: Ho et al. (2023, and Phan et al. (2022) which concluded that income diversification positively influences the performance of commercial banks, consistent with the current study's results. However, there are also studies that diverge from the current findings. Abobaker (2018) and Maina (2018) established a negative and significant relationship between revenue diversification and FP of commercial banks in Kenya. This divergence highlights the mixed empirical findings on the income diversification-FP relationship.

Therefore, while there is a substantial body of empirical evidence supporting the positive impact of income diversification on FP, as indicated by the current study, there are also studies that report divergent findings. These mixed results underscore the complexity of the income diversification- FP relationship and the influence of various contextual factors, such as regulatory environments and market conditions, on this relationship.

**Summary of the Key Findings**

Based on the study's findings, the research identified a significant positive relationship between both interest income and non-interest income diversifications and FP. This suggests that diversifying both interest income and non-interest income streams positively impacts the FP of banks, potentially enhancing stability and profitability.

## 5.0 Conclusions

Numerous results drawn from the research are supported by actual data from the investigated hypotheses. Several important findings in the field of corporate finance are highlighted by the positive and strong association between income diversification and FP, especially through interest and non-interest income. First and foremost, FP is greatly strengthened by a variety of revenue sources, including more creative non-interest sources like fees and commissions as well as more conventional interest-based operations. Businesses can reduce the risks associated with changes in any one market sector or economic situation by distributing their revenue sources throughout several business lines.

The study's empirical results offer insightful information for developing policy. Given the strong and positive correlation between income diversification and FP, policies that encourage enterprises to diversify their business practices may help to strengthen economic stability and resilience. To encourage diversification into particular niches, policymakers may want to consider offering tax cuts for profits earned from certain specified sources as a way to encourage businesses to investigate and create new revenue streams.

The results of this study also provide significant management practice insights. Diversifying revenue streams is strategically important for managers, as seen by the positive and strong association between income diversification and FP. Interest-related businesses as well as those that are not can reduce the risks that come with relying solely on one source of income by diversifying their sources. This approach improves financial stability and resilience, allowing businesses to more effectively withstand changes in the economy and obstacles unique to their sector.

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