

Impact of Bank Income Diversification to Bank Performance: Evidence from Sri Lanka

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Abstract

Conventional perception in banking disputes that diversification tends to minimize bank risk and improve performance. This paper addresses this important strategy by evaluating the empirical relationship between bank income diversification and bank performance. The main objective of the study is to investigate the impact of income diversification on bank performance of Sri Lankan listed commercial banks. The lack of researchers regarding this topic under Sri Lankan banks and need of investigating the strategies to face the high competition within commercial banks in Sri Lankan context motivated the researcher to conduct a study regarding this area. This data set of the study covers Sri Lankan commercial banks during the sample period of 2010-2014. Data utilized in this study were extracted from the statement of comprehensive income and statement of financial position of listed banks in Colombo Stock Exchange (CSE) database. There are some control variables like asset size, equity and asset growth added to the model to ensure that there is no any effect for the relationship between bank income diversification and bank performance. Based on the findings of the research there is a positive relationship between bank income diversification and bank performance despite the fact that degree of diversification being not in the peak within Sri Lankan context. Additionally, asset size and asset growth variables are not significant variables to the both ROA and ROE models due to lack of risk management, information technology, human capital, geographical diversification and lower cost of capital within commercial banks in Sri Lankan context. But equity variable shows a significant negative relationship with bank performance in both models.

Key words: *Bank Income Diversification, Return on Assets, Return on Equity, Sri Lankan Banking Sector, Non-interest income*