

Impact of Income Diversification on Performance: Evidence from Sri Lankan Commercial Banks

Wijethilaka, E. T. S.¹ and Basnayake, W. B. M. D.²

This study addresses an 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. This data set of the study covers Sri Lankan commercial banks during the sample period of 2010-2014. There are some control variables added to the model. 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.

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

¹Department of Finance, Faculty of Commerce and Management Studies, University of Kelaniya, Sri Lanka (thilini.wijethilaka@yahoo.com)

²Department of Finance, Faculty of Commerce and Management Studies, University of Kelaniya, Sri Lanka (dananji@kln.ac.lk)