

## **Impact of Bank Income Diversification on Bank Performance and Stability: Evidence from Sri Lanka**

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### **Abstract**

Banks are using revenue diversification as a strategy to improve bank performance and reduce volatility. If diversified activities are less risky and improve the return banks will always try to improve the revenue diversification as much as possible. This study investigates the impact of bank income diversification on bank performance and stability of Sri Lankan commercial banks. Banks are facing huge competition in their industry. Most banks are earning equivalent interest income from lending activities. Thus, banks try to identify new ways to generate income. Otherwise, they must keep a very slight margin from the loans to sustain in the highly competitive market. The main objective of the study is to investigate the impact of income diversification on bank performance and stability of Sri Lankan listed commercial banks. Further strategies to face high competition within commercial banks in Sri Lanka will also be examined. Data used in the analysis consists of 11 local licensed commercial banks that were operating in the sample period 2010-2019. The secondary data are collected from annual audited financial statements and annual reports of each company accessed through the CSE web site. The researcher integrated some control variables into model such as asset size, equity to assets ratio, and the asset growth ratio etc... In this study it is attempted to ascertain that there is no excluded independent variable, which could affect the relationship between income diversification and bank performance and stability. The expected findings of the research would be there will be a negative relationship between bank income diversification and bank performance and stability because the degree of diversification is not at the peak within the Sri Lankan context. The findings of the study will provide useful insights into regulatory bodies, investors, researchers, and bankers.

**Keywords:** Performance; Revenue diversification; Stability; Sri Lankan Commercial Banks