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## **Revenue Diversification and Financial Performance of Commercial Banks, Kenya**

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# Revenue Diversification and Financial Performance of Commercial Banks, Kenya

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## Abstract

Financial intermediaries, providers of funds and primary depositors of savings are important to an economy. In Kenya, the banking sector has been facing challenges such as declining profitability since 2015, with a brief uptick in 2019 that was halted by the COVID-19 pandemic. Banks in Kenya proactively set aside funds to cover potentially risky loans in 2020, reevaluating their asset quality due to the unprecedented uncertainty caused by the pandemic, which put the international financial reporting standard (IFRS) 9 for projected credit loss provisioning to the test. The Kenyan banking sector must overcome various challenges, including economic downturns, illiquid stock markets, and other macroeconomic and bank-specific issues, despite demonstrating resilience and stability with robust capital and liquidity ratios in 2022. Thus this research investigated the effect of income diversification on financial performance of commercial banks in Kenya. Specifically, this research assessed the effect of fees and commissions, dividend income, foreign currency trading and transaction fee revenue on the financial performance of commercial banks in Kenya. The research was based on agency theory, portfolio theory and financial intermediation theory. The sample included 38 commercial banks selected from the years 2019 to 2023, and the research used a census sampling method to gather data from the whole population of these banks in Kenya. The study employed an explanatory research design, utilizing descriptive statistics such as mean and standard deviation, as well as inferential statistical tools like panel multiple regression analysis and Pearson correlation analysis, while various diagnostic tests, including multicollinearity, normalcy, linearity, homoscedasticity, Hausman test, and autocorrelation tests, were conducted to validate the model's predictions. The study found that fees and commission income had a positive and statistically significant relationship with the return on assets (ROA) of commercial banks in Kenya ( $\beta=3.085506$ ,  $p=0.000$ ), and dividend income also showed a strong and statistically significant correlation with ROA ( $\beta=1.939443$ ,  $p=0.000$ ). The p-value for foreign exchange trading income was 0.0050, indicating that it significantly affects the financial performance of commercial banks in Kenya. Furthermore, the p-value for transaction fee income was 0.0240, suggesting that commercial banks in Kenya heavily rely on cash from transaction fees to fund their operations. In conclusion, the research determined that there is a significant positive relationship between fees and commissions, dividend income, foreign exchange trading income, and transaction fee income on the financial performance of commercial banks in Kenya. The study recommended that commercial banks need to review transaction rates from time to time to ensure that they derive maximum income from loans. Further, banks need to participate in the securities market by trading in shares and other investment vehicles to expand their revenue base. Banks can diversify their investment options and focus on foreign exchange trading income since it improves their performance.

**Keywords:** *Commission fees, Dividend income, foreign exchange income, transaction fees income, financial performance, Commercial Banks, Kenya*

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## 1.0 Background of the Study

When making decisions about the company's future in regard to competitors, internal operations, and expansion, managers look to financial performance as a key indicator. Profitability, return on assets (ROA), returns on equity and investments, and the CAMEL model (Li, Feng, Zhao & Carter, 2021). Many people are curious about the two-sided character of commercial banks' bottom lines. When banks have exceptionally prosperous fiscal years, they are unable to cooperate or exercise significant market force, leading to low deposit returns and high lending interest rates. But because of their low profitability, investors and depositors stay away from banks that aren't doing well. This is due to the widespread belief that these institutions cannot meet the needs for liquidity while still offering enough profits. Because of this, banks have a hard time obtaining sufficient capital to operate their operations, which might lead to their demise (Abbass, 2018).

Regulations in Kenya's banking industry are often changed, and competition is high from non-bank financial organizations and microfinance institutions (Tsuma & Gichinga, 2018). The Banking Amendment Act, which Kenya enacted in August 2016, notably limited interest rates. The unique features of the banking sector make it difficult for regional banks to optimize their profitability (Central Bank of Kenya, 2019). The distinctive features of the banking industry make it challenging for local banks to maximize economic gains CBK, (2021). Poor performance results may lead to run out of money, which worries its depositors and, worse, might lead to the bank's collapse. This emphasizes how crucial it is for banks to be profitable. Research by Njuguna, Kwasira, and Orwa (2018) shows that the effects of a single bank collapse may be widespread, affecting many different types of enterprises and, in the long run, causing the economy to slow down. Financial institutions play a crucial role in developing countries like Kenya by providing loans, acting as middlemen, and holding customers' savings (Alengo, Okello, & Malenya, 2019).

During the COVID-19 pandemic, Ochenge (2022) examined how income diversification affected the viability and profitability of banks in Kenya. It established that financially stable and lucrative institutions have a wider variety of revenue streams. Dependence on non-interest income sources offers a substantial fiscal buffer when interest rates are low, as they are at the moment owing to the COVID-19 pandemic, according to the study. Li (2021) looked examined how the COVID-19 pandemic affected banks' profitability and risk as it pertained to the use of noninterest rates of income. The pandemic's effects on the economy led to stricter lending standards and a decline in the demand for many different kinds of loans. The study found a negative correlation between risk and noninterest revenue sources and a positive correlation between performance and interest income. These findings provided further evidence that banks' attempts to diversify their income streams throughout the epidemic were successful.

Prior research by Schreiber (2021) did a study on typical sales diversification strategies were examined in this research to find out how they affected return on capital (ROC) and danger-adjusted ROC. Relative to one another and over the course of an economic cycle, agencies of different sizes showed vastly different effects of sales diversification strategies on profitability, equity capital, and credit risk. From 2007 to 2017, Hoang et al. (2020) examined the effects of income diversification on the financial performance and liquidity generating capacity of commercial banks in Vietnam. Thirteen different commercial banks in Vietnam were involved in the collection of this data.

Panel OLS with fixed effects and GMM estimations were used to analyze the data. According to these findings, commercial banks in Vietnam would be wise to stick to their strengths instead of trying to branch out into industries that are less profitable or have lower liquidity.

Research carried out by Moudud-Ul-Huq et al. (2018) investigated the effects of bank diversification on performance and risk-taking in emerging ASEAN nations. The research used a dynamic panel records model with device generalized techniques of moments to analyze an unbalanced panel data collection. The set included 318 observations from financial institutions' years 2007–2016, broken down by 32 different banks. The examination's findings demonstrated a robust and high-quality correlation between asset diversification and bank profitability, demonstrating the significance of both variables. These findings provide credence to the theory that banks may increase their bottom line by spreading their revenue and asset bases thinner. Nisar et al. (2018) performed empirical research that looked at how financial institutions' stability and profitability were affected by sales diversification, with a focus on South Asian nations. This study found that industrial banks in that area are more stable and profitable when their income streams are more diverse and less based on hobbies. Furthermore, different non-interest profit-generating sports have distinct effects on bank stability and performance, according to the research.

### 1.1 Statement of the Problem

In Kenya, bank profitability has been trending downwards since 2015. Still, 2019 seems to have seen a rise in profitability; however, the pandemic appears to have halted this upward trend. In 2020, Kenyan banks seemed to have proactively set aside funds to cover potentially risky loans. Banks reevaluated the quality of their assets, which is understandable given the unprecedented uncertainty of the COVID-19 issue. Surprisingly, the international financial reporting standard (IFRS) 9 for projected credit loss provisioning was put to the test to the fullest extent by the pandemic. There are a lot of challenges that Kenya's banking sector must overcome, including economic downturns, illiquid stock markets, and other macroeconomic and bank-specific issues. The robust capital and liquidity ratios shown by Kenya's banking sector during 2022 attest to its resilience and stability. In December 2022, the total capital adequacy ratio was 19.0%, which was higher than the minimum adequacy ratio of 14.50%, and the liquidity ratio remained higher than the minimal statutory stage of 20%, with a median liquidity ratio of 50.8% throughout the same period. However, in comparison to December 2021, when it was indicated at 56.2%, the liquidity ratio in December 2022 was reported at 50.8%. The ratio of non-performing loans to gross loans fell from 14.1% in December 2022 to 13.9% in January 2023. As the economy continues to recover from the COVID-19 pandemic, this little drop is often attributable to improved business activity. Banks are anticipated to maintain their client-centric operations, use technology and innovation to bolster their business models, and contribute to the ongoing expansion of the banking sector.

Mathuva (2019) investigated the relationship between savings and credit co-ops in Kenya and their financial performance after they diversified their income streams. A larger dependence on non-interest income is connected with better returns. However, it was established that there is a lack of context since the research just looks at the financial performance of SACCOs. The impact of income diversification on the financial performance of Kenyan commercial banks was studied by Maina (2018).

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Bank operations are significantly improved by having sufficient capital and liquidity, according to the research. There is a conceptual gap, nevertheless, since the research makes use of so many variables. Githaiga (2022) investigated whether or not MFIs might maintain their financial stability by diversifying their income streams. Sales diversification has a significant and positive effect on MFIs' capacity to sustain their economic stability, according to the study's results. Notably, the study had a contextual gap that prevents it from focusing on microfinance institutions. Commercial banks in Nairobi City County, Kenya, are the focus of this research, which intends to analyze how income diversification affects their financial performance.

## 1.2 Research Objectives

- i. To evaluate the effect of fees and commissions on financial performance of commercial banks in Kenya
- ii. To determine the effect of dividend income on financial performance of commercial banks in Kenya
- iii. To establish effect foreign exchange trading on financial performance of commercial banks in Kenya
- iv. To assess the effect of transaction fees income on financial performance of commercial banks in Kenya

## 2.0 Literature review

The literature review was presented in sections.

### 2.1 Theoretical Literature Review

#### 2.1.1 Financial intermediation theory

This theory originated from Diamond in 1984. This nation is fundamental to the functioning of banks and other types of financial intermediaries. The knowledge gap between savers and borrowers is narrowed as a result of their ongoing interaction, which helps lenders tell borrowers about their creditworthiness (Scholtens & Wensveen, 2003). The function of banking institutions as go-betweens for savers and lenders is substantial and important to the economy. A nation's currency may rise or fall depending on the health of its banking sector, which is the driving force behind the financial-economic accelerator. To grow credit and build stable financial markets, the banking sector must be in good shape (Menicucci & Paolucci, 2016). Financial intermediaries are attacked since it is costly to investigate firms, markets, and management before investing (Levine, 2005). Individual savers may also find it difficult to collect, evaluate, or even generate investment opportunity ideas. Financial institutions, say Scholtens and Van Wensveen (2000), ignore credit risk management in favor of focusing on participation costs. More study into financial intermediation theory may help shed light on the challenges encountered by the financial sector, they said. The idea is pertinent to the study as lowering the knowledge gap between customers and banks might improve financial institutions' profits. Commercial banks are structured in three tiers, each with its own set of capabilities and pricing points. Each tier provides a different suite of financial services, including investment options.

### **2.1.2 Modern Portfolio Theory**

A balanced portfolio, according to Markowitz's 1952 Modern Portfolio theory, should include both high-value and low-risk assets. Staying away from underperforming or low-return assets is one strategy to achieve profitability. Diversity allows individuals more discretion in deciding how to best use their skills, knowledge, and experience to accomplish a task (Brealey & Myers, 2003). Commercial banks have realized that offering a broader variety of goods and services is critical to their survival and success in the highly competitive financial services business. Because of globalization, deregulation, and market liberalization, it is becoming more and more expensive for banks to maintain a profit. According to Jongeneel (2011), interest margins on loans made by commercial banks have been declining since the 1980s. The proliferation of online shopping and shifts in consumer sentiment are two potential explanations for the decline. The idea proposes that banks and other financial organizations may diversify their holdings among assets with high expected returns to lower their overall investment risk. The banking industry stands to gain an edge if its members adopt diversity as a means to boost performance. In addition, the concept and its benefits may be used to create new strategies.

### **2.1.3 Efficiency Structure Theory**

The Efficiency Structure, introduced by Demsetz in 1973, posits that a company's success and the structure of the market are influenced by its efficiency. Companies that employ innovative manufacturing technologies and have top-level management can reduce production costs and enhance profits, thereby increasing their market share. This increase in market concentration favors businesses capable of expanding their industry share. Larger companies can leverage economies of scale to lower their production costs per unit, which boosts their sales and profits. Consequently, profitable enterprises can capture a more substantial portion of the market (Athanasoglou et al., 2006). In the current economic climate, the Efficiency Structure theory is highly relevant to the study of corporate finance. Company managers face increasing pressure to maximize profits and satisfy shareholders due to tight financial markets (Bashir, 2006). One effective strategy is the efficient use of internally generated funds, especially as borrowing costs rise and investor confidence in publicly listed companies wanes. Liquidity management has become a focal point globally amid economic and financial instability, prompting business leaders to devise strategies for greater workplace efficiency to enhance shareholder returns. Effective working capital management is crucial for modern businesses, ensuring they meet stakeholder expectations and operate efficiently on a day-to-day basis (Eljelly, 2004; Don, 2009)

## **2.2 Empirical Literature Review**

Owino (2019) conducted a study covering the period 2010 to 2014, analyzing data from Kenya. The researcher obtained secondary data from Supervision Reports available on the Central Bank of Kenya's official website. Using regression analysis and descriptive statistics, the study explored the relationships among various variables. However, the study was limited in context due to its focus on financial performance over the specified period. Gichungu and Oloko (2020) examined the impact of bank fees and commissions using a descriptive survey approach, with questionnaires as the primary data collection tool. The sample population included two publicly owned commercial banks, eight privately-held banks, and ten listed banks, with the survey targeting senior

management. The study found that bank fees and commissions significantly impacted revenue, profitability, return on assets, and client deposits in Kenyan commercial banks, though it noted a methodological error.

Ozili and Outa (2019) focused on the use of commission and fee income in managing bank profits, aiming to identify how banks might manipulate these incomes to appear more profitable. The study revealed that fee and commission income helped banks balance their revenues, even in protected economic zones or during recessions, suggesting banks benefit from diversification while inflating reported profitability through non-interest income. However, this study only examined financial performance from 2015 to 2018. Moloi, Nharo, and Hlobo (2021) investigated the relationship between board composition and dividend distribution policies among the 40 largest corporations on the Johannesburg Stock Exchange (JSE) from 2010 to 2015. Using panel data and a fixed effect model, the study found an inverse relationship between dividend payout ratio, profitability, and liquidity, while growth, net profit margins, leverage, and company size had a positive correlation with dividend payments. The study identified a contextual gap due to its focus on the top 40 JSE-listed companies.

Luvembe, Njangiru, and Mungami (2020) examined how dividend payments affected the stock prices of Kenyan banks, using a descriptive research strategy and including all ten listed banks as of December 2010. The study employed both primary data from interviews with senior financial professionals and secondary data from the Nairobi Securities Exchange. It used descriptive and inferential statistics to analyze the data. Mwanza (2021) studied the factors influencing dividend payouts in Kenyan commercial banks listed on public exchanges, using a correlational research design and purposive sampling. Analyzing secondary data from financial statements from 2012 to 2016, the study found that profitability and past dividend per share positively correlated with dividend payouts, while liquidity and firm size showed a negative correlation. The study noted a methodological gap due to the purposive sampling strategy.

Singh (2019) analyzed the relationship between foreign currency trading and the financial performance of Kenyan industrial banks, focusing on all 42 commercial banks. The study used secondary data from the Central Bank of Kenya's foreign exchange statistics and the annual financial reports of commercial banks. Employing multiple linear regression, Pearson correlation, and descriptive statistics, the study found a positive correlation between financial performance and spot currency rates, and a negative correlation between currency swaps, futures rates, and return on assets. The use of a survey research approach was identified as a methodological gap. Mbaka (2021) investigated the relationship between foreign exchange trading and the profitability of commercial banks listed on the Nairobi Securities Exchange, focusing on eleven banks. Using both primary and secondary data, the study found a strong correlation between foreign exchange trading and financial outcomes. The research was limited to the listed commercial banks, highlighting a contextual gap.

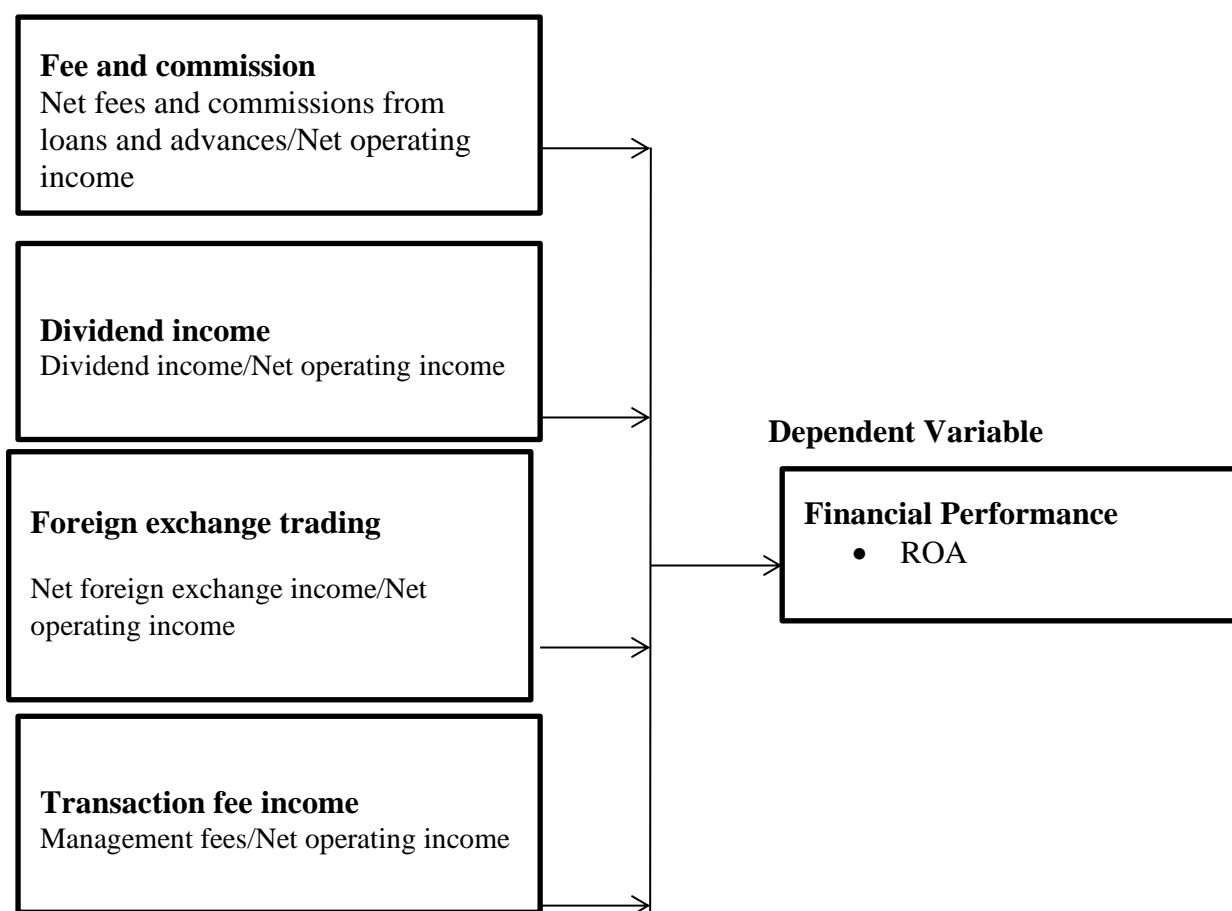
Eshetu (2018) examined how the Ethiopian birr exchange rate affected the profitability of private commercial banks using quantitative methods and an explanatory research strategy with purposive sampling. The study included six private commercial banks and analyzed secondary data from 2000 to 2018 from sources such as the Ethiopian Ministry of Exchange and the National Bank of Ethiopia. The study found that larger non-public business banks had a stronger correlation between size and financial performance. Ajigo and Wu'adongo (2021) studied the impact of transaction fees on the profitability

of Kenyan commercial banks, focusing on the role of virtual banking in mitigating these effects. Using a mix of primary and secondary data, the study found that transaction fees significantly impacted bank profits. Kaberia (2019) also explored how transaction fee income affected the profitability of Kenyan banks, using a descriptive framework and secondary data from 2015 to 2018. The study employed descriptive and inferential statistics, finding a strong correlation between transaction fees and financial performance. Kamau (2020) examined the impact of financial trading income and cashless transactions on commercial banks' non-funded earnings using a descriptive approach and multiple linear regression analysis, highlighting the influence of various factors such as inflation, interest rates, and bank size.

### 2.3 Conceptual Framework

Figure 1 outlines the variables adopted for this study, which is derived from both theoretical and empirical reviews carried out. The framework covers financial performance as the dependent variable and revenue diversification as the independent variables. The outcome is shown in figure 1.

#### Independent Variables



**Figure 1: Conceptual Framework**

Source (Author, 2024)



### 3.0 Research methodology

The research methodology employed in this investigation was an explanatory design, which is frequently utilized in preliminary and exploratory investigations. This design allows researchers to gather data, condense findings, display data, and analyze it to shed light on the situation (Creswell, 2003). The study targeted all 38 commercial banks operating in Kenya as of August 2023 (CBK, 2023). Employing a census methodology, all constituents of the population were taken into account. Therefore, all 38 banks formed the sample of this research. Secondary data was used, sourced from the banks' audited financial statements and Kenya Bankers Association reports. The research utilized descriptive statistics, which included measurements like means and standard deviations. Using panel multiple regression analysis, the researcher explored inferential statistics. Additionally, Pearson's correlation analysis was used to examine the direction, magnitude, and correlation of the variables.

### 4.0 Research Findings and Discussion

The research findings and discussion are presented in sections.

#### 4.1 Descriptive statistics Analysis

The data set and trend analysis summary is provided in this section. Tabulated in Table 1 is an explanation of the data set.

**Table 1: Descriptive statistics**

Variable	Observation	Mean	Std. Deviation	Minimum	Maximum
ROA	380	8.6357% (0.085429)	5.4448% (0.053768)	1.0620% (0.012320)	15.8846% (0.155646)
Fees and Commission income	380	.0798	.0456	.0233	.1546
Dividend income	380	.0076	.0021	.0145	.0247
Foreign exchange income	380	.2225	.0314	.0621	.3222
Transaction income	380	.2045	.0584	.0466	.2880

**Source: Study data (2024)**

From the results above, a S.D of 5.4448% and an average return on assets of 8.6357%, the 38 commercial banks were included in the study. As a percentage of total assets, Return on Assets (ROA) ranged from 1.0620% in 2019 to 15.8846% in 2023. Commercial banks' return on assets (ROA) has ranged from 0.010520 to 0.158846. With a maximum Return on Assets (ROA) of 0.158946 (15.8946%), the good findings show that the banks were rather consistent in their performance. There was a standard variation of 0.0456 in the average fees and commission income on loans from the 40 commercial banks, which came to 0.0798. The income from fees and commissions varied between 0.0233 and 0.1546. Divide the net operating income by the net fees and commissions gained from loans and advances, and that's how the fees and commission revenue was calculated in the study. From 2019 through 2023, the results showed that 7.87% (0.0787) of commercial banks' net operating income came from fees and commissions. The standard deviation of 0.0398 shows, however, that this percentage varied between banks. The percentage of net operating income that came from fees and

commissions ranged from 2% (0.0200) to 14% (0.1400). Hence, commercial banks' operations have been greatly influenced by fees and commission earnings.

The 38 commercial banks had a S.D of .0021 and a mean dividend income of 0.0076. In terms of dividend income, the lowest amount was 0.0145 and the highest amount was 0.0247. One way to calculate dividend income is to divide dividends paid out by net operating income. It was shown that between 2019 and 2023, commercial banks had a dividend income to net operating income ratio of 0.81% (0.0076). A standard deviation of 0.0021, however, shows that there was diversity throughout the several banks. Dividend income as a percentage of net operating income ranged from a low of 0.06% (0.0145) to a high of 1.69% (0.0247). Investors are encouraged to reinvest their earnings in additional assets when the dividend payout ratio is higher. If a corporation pays out a large chunk of its income in dividends, it must be doing something well. According to Karani (2015), a positive association exists between dividend income and performance.

Additionally, a S.D of .0314, the average foreign exchange income for the forty commercial banks was 0.2255. In terms of foreign currency revenue, the lowest amount was 0.0510 and the greatest amount was 0.3222. A division of foreign exchange revenue by net operating income yielded the foreign exchange income. From 2019 through 2023, the results showed that commercial banks' net operating income was 11.15% (0.1115) of foreign exchange revenue. Nonetheless, a S.D of .0314 indicated that there was variance within the various banks. From a low of 5.10% (0.0621) to a high of 20% (0.3222), the ratio of foreign currency revenue to net operating income ranged widely. Conclusions on FII are in line with those of Murithi (2013), who found a positive association between FII participation and returns. The performance of the banking business is heavily affected by the nation's currency exchange rates, according to Otieno (2017).

According to the data presented, commercial banks had a mean score of 0.2945 for transaction income between 2012 and 2019, with a standard deviation of 0.0584. A range of 0.0466 to 0.2880 was found for the transaction revenue. When management fees were divided by net operating income, a rough estimate of transaction revenue was obtained. According to the results, commercial banks should expect a transaction revenue to net operating income ratio of 10.54% (0.1054) between 2019 and 2023. However, as the standard deviation of 0.0584 shows, the amount to which this fluctuation varies varies between various banks. From a low of 3% (0.0300) to a high of 19.90% (0.1990), transaction revenue as a percentage of net operating income ranged widely.

## **4.2 Inferential Statistics**

### **4.2.1 Pearson Correlation Analysis**

According to Bonett and Wright (2000) and Hemphill (2003), a weak connection is indicated by values below 0.3, a moderate link by values below 0.5, and a significant relationship by values between 0.5 and 1. Table 2 displays the results of the Pearson correlation analysis.

**Table 2: Pearson correlation analysis**

		ROA	Fees and commissions	Dividend income	Foreign exchange trading income	Transaction fees income
ROA	Pearson Correlation	1.0000				
	Sig. (2-tailed)					
Fees and commissions	Pearson Correlation	.6417	1.0000			
	Sig. (2-tailed)	.0000				
Dividend income	Pearson Correlation	.6447	0.6301	1.0000		
	Sig. (2-tailed)	.0000	.0000			
Foreign exchange trading income	Pearson Correlation	.5489	.5743	.6255	1.0000	
	Sig. (2-tailed)	.0000	.0000	.0000		
Transaction fees income	Pearson Correlation	.5464	.5963	.5985	.4978	1.0000
	Sig. (2-tailed)	.0000	.0000	.0000	.0000	

**Source: Study data (2024)**

The findings indicated ( $r=0.6417$ ,  $p=.0000$ ), according to the study's correlation analysis findings (Table 2). Additionally, dividend income and ROA are positively and significantly associated with one another ( $r=0.6447$ ,  $p=.0000$ ). The correlation between ROA and revenue from foreign currency trading is positive and statistically significant ( $r=0.5489$ ,  $p=.0000$ ). The return on investment (ROI) is also positively and substantially correlated with transaction fee revenue ( $r=0.5464$ ,  $p=.0000$ ).

#### 4.2.2 Hypotheses Testing

The section presents hypothesis testing as they were presented in chapter one. The hypotheses **H<sub>01</sub>**, **H<sub>02</sub>**, **H<sub>03</sub>** and **H<sub>04</sub>** were analyzed using results from the panel multiple regression as shown in Table 3.

**Table 3: Effect of revenue diversification on financial performance**

ROA	Coef.	Std. Err.	T	P>t
Fees and commissions on loans income	3.085506	0.66747	4.622	0.0000
Dividend income	1.939443	0.346459	5.60	0.0000
Foreign exchange trading income	2.355731	0.550124	4.28	0.0050
Transaction fees income	0.90981	0.402392	2.26	0.0240
constant	0.202824	0.04847	4.18	0.0000

**R squared= 0.5133**

**Adjusted R squared =0.461**

**Source: Study data (2024)**

Results;  $Y = 0.202824 + 3.085506X_1 + 1.939443X_2 + 2.355731X_3 + 0.90981X_4$

Revenue from fees and commissions, dividends, foreign exchange, and transactions

accounts for 46.10 percent of the variance in financial performance (not including the constant value), according to Table 3's statistics.

**H<sub>01</sub>: Fees and commissions on loan income**

Table 3 shows the p-value that was used to establish the first hypothesis. The p-value was 0.000, as indicated in Table 3. According to the regression study, commercial banks in Kenya have a positive and statistically significant link between their return on assets (ROA) and fees and commission income ( $\beta=3.085506$ ,  $p=0.000$ ). Assuming all other factors stay the same, this means that the ROA value will grow by 3.085506 as fees and commission income rise. Hence, we may say that the null hypothesis is false. So, fees and commissions have a major effect on how well commercial banks in Kenya make money. Owino (2019) found that fee income has a substantial and positive effect on the overall performance of Kenyan banks, and our data show that this is true. Gichungu and Oloko (2020) also found that fees and commissions had a positive effect on banks' performance.

**H<sub>02</sub>: Dividend income on financial performance**

The p-value was 0.000, as indicated in Table 3. The research in Kenya found a robust and statistically significant correlation between dividend income and the ROA of commercial banks ( $\beta = 1.939443$ ,  $p=0.000$ ). Assuming all other factors stay the same, an increase in dividend income will lead to a 1.939443 improvement in financial performance. The result contradicts the null hypothesis. Consequently, dividend income significantly affects the financial performance of Kenyan commercial banks. The findings are in line with those of Oniang'o (2015), who found that Kenyan banks' return on equity (ROE) increased as a consequence of more non-interest income. Furthermore, small banks are less vulnerable when a greater proportion of their income comes from dividends from trading activities (Lepetit et al., 2007).

**H<sub>03</sub>: Foreign exchange trading income on financial performance**

The p-value was 0.0050, which is less than the significance limit of 0.05, as shown in Table 3. As a result, commercial banks in Kenya are significantly affected by the income they get from trading foreign currencies. These findings are in line with those of Abugri, Osah, and Andoh (2016), who found that income from foreign currency trading was inversely related to the likelihood of bankruptcy. According to Murithi (2013), returns are positively affected by participating in foreign currency operations. Not only that, but Njenga (2014) found that banks' performance improves when they trade foreign currencies.

**H<sub>04</sub>: Transaction fee income on the financial performance**

The results are shown in Table 3, which indicates a p-value of 0.0240. Hence, we may say that the null hypothesis is false. Consequently, commercial banks in Kenya rely heavily on cash from transaction fees to fund their operations. This confirms what Gichure (2015) found: that banks that diversify their revenue streams outside loans, including dividends, see an increase in their return on equity (ROE). Participation in transaction fee income also improved returns, as shown by Murithi (2013). Revenue from transaction fees may also help Indian banks reduce their income volatility, according to research by Ramasastry, Achama, and Ganagadarans (2004).

### 4.3 Summary of Findings

In summary, examining how commercial banks in Kenya fared financially after diversifying their revenue streams was the driving force for the study. Secondary data used in the research came from the yearly financial statements of 38 commercial banks, covering the period from 2019 to 2023. The findings established that commercial banks

in Kenya benefit from revenue diversity in terms of their financial performance. The independent variables significantly affected the variations in the financial performance of Kenyan commercial banks, as shown by the study's R-squared value. The main aim of the study included determining the effect of fees and commissions. The outcomes showed that indicators for changes in fees and commissions were the expenses of account management, charges for ATM withdrawals and transfers, and charges for both. According to the data, fees and commissions severely impact commercial banks in Kenya. The second specific aim was to find out how dividend income affects the bottom lines of commercial banks. Retained profit net changes were used to evaluate the variable. There was a positive and statistically significant effect on banks from the changes in net income. Additionally, finding out how foreign currency trading affects the financial performance of Kenyan banks was a primary goal of the research. The value of the variable was assessed by comparing it to the current exchange rate between the USD and the KSH. According to the results, banks' bottom lines benefit greatly from engaging in foreign currency trading.

## **5.0 Conclusions**

In conclusion, the research found that fees and commissions significantly affect financial performance in a positive way. A higher return on assets (ROA) is directly proportional to a higher level of fees and commissions. This income is sourced from fees earned from disbursing loans. Banks charge various fees for different services, such as processing loans and mortgages. To a large extent, banks' bottom lines are supported by the fees and commissions they collect on loans and advances. The second objective of the study shows that dividend income improves banks' financial performance. The data demonstrates that dividend revenue contributes to the improved financial standing of Kenyan commercial banks. When commercial banks invest in other firms' shares, they earn dividend income. To diversify their revenue, banks participate in the securities market by trading shares and derivatives. A higher proportion of trading income from assets like equities enhances commercial banks' long-term sustainability and financial performance.

Return on assets (ROA) is positively and significantly correlated with income from foreign currency trading, according to the study's third objective. This data points to a favorable relationship between the revenue generated from forex trading and overall financial success. Commercial banks' profitability and overall performance are enhanced by the increased discretionary income from higher revenue gained from foreign currency trading. As expected from a business catering to commercial banks, the average income from foreign currency trading was higher than any other source. This kind of income diversification, sourced from participation in the foreign currency market rather than from granting loans or providing conventional services, strongly supports financial performance. The research also found that revenue from transaction fees is strongly and statistically significantly correlated with return on assets (ROA). By increasing their capital reserve, commercial banks are better able to weather financial storms thanks to transaction fees.

## **6.0 Recommendations**

The study recommends that income diversification substantially improves the financial performance of Kenyan banks. The findings support the idea that financial institutions should launch programs to diversify and augment their revenue streams. The study also

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recommends that commercial banks regularly evaluate their commission and charge rates to maximize their profits. The regression study confirmed the existence of a positive correlation between the expansion of fee and commission income and the improvement of return on assets (ROA). In addition, the study recommends that banks diversify their investment portfolios by increasing their shareholdings in other enterprises. Evidence suggests that dividend income significantly contributes to better financial outcomes. According to the model, dividend income has a positive correlation with ROA. By trading shares and other investment instruments, banks may increase their engagement in the securities market and diversify their revenue sources.

Further, the study recommends that commercial banks find ways to increase their profits from foreign exchange trading and remittance fees. The purpose of this study was to examine the dynamics of currency trading. Return on assets (ROA) increases in tandem with rises in foreign currency trading income, according to the study. To reduce the risk of insolvency, financial institutions should diversify their investment opportunities and put more focus on making money via currency trading. To increase their profits from currency translation, speculation, and remittances, commercial banks need to develop strategies. This necessitates abandoning the traditional means of procuring revenue. The study also recommends that commercial banks consistently evaluate their transaction fee rates. A higher return on assets (ROA) value is positively correlated with an increase in transaction fee income, according to the regression results. Exhibiting a favorable rate, for instance, will lead to more transactions, which in turn increases revenue and, in the long run, improves their financial outcomes.

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