Influence of Financial Assets Diversification on Financial Performance of Commercial Banks Listed on Nairobi Securities Exchange

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Abstract:

In Kenya, while there had been improvements in financial performance of commercial banks that apply asset diversification approach others recorded loses. In this regard, this study examined influence of financial assets diversification on financial performance of commercial banks listed on Nairobi securities exchange. The study was informed by arbitrage pricing theory. The study employed descriptive survey research design and targets 8 relevant section heads/portfolio managers in each of the listed banks who made a total of 88 respondents, thus a census method was employed to avoid sampling bias. Primary data was collected from the key section senior management. Content validity was used to test instrument validity while Cronbach alpha coefficient was used to test instrument reliability. Descriptive analysis such as frequencies, means, and standard deviation was utilized whereas analyzed data presented in tables and graphs, while inferential statistics assessed nature and the strength of the relationships. SPSS version 24 is the computer-based analysis software that was used to compute statistical data. The results revealed that there is significant influence of financial assets diversification on financial performance of commercial banks listed on Nairobi securities exchange at 5% significance level. Overall, financial assets diversification significantly accounted for 56.6% of variation in financial performance of listed commercial banks. The study therefore concluded that financial assets diversification is a significant predicator of financial performance. The researcher through the study findings recommended that commercial bank managers to reviews existing financial assets diversification plan, specifically on other investments in order to realign what might be causing such trends. This should involve putting across strategies and plans for diversifying and utilizing financial assets in a way that translates to positive performance.

Key Word*: Financial Asset Diversification, Financial Performance, Commercial Banks, Nairobi Securities Exchange, Asset Diversification*

I. Introduction

Today's unpredictable economic situation needs well-organized and effective financial structures for specialism in offering services and production, to win and maintain a friendly relationship with investors' and maintain competitive advantage in the market so as to boost economic transaction (Marcia, Otgontsetseg & Hassan, 2014). Therefore, having a financial system which is efficient and stable is vital. Due to volatile economic environment, commercial banks are focusing on new ways of enhancing their operations. This is aimed at increasing profitability, reducing risk, increasing share of the market, increasing debt ability, more growth and prolonging the life cycle of business. However, Marcia, Otgontsetseg and Hassan (2014) point out that banks' target of obtaining better returns/profits has been highly seen as the main motive contributing towards increased progression of financial innovations, loans base widening and increase in asset prices without economic basis.

As agued by Cernas (2011), financial assets diversification continues to be a key strategy employed by majority of businesses globally in the recent past modern business world. This is inclusive of banks. Perez (2015) argues that commercial banks need to have assets that earn more income especially in this period of increasing adoption and utilization of technology-enabled products and services. This is based on the fact that different assets achieve different performance when subjected to different economic settings, and the performance realized from such assets seems to have no correlated. Therefore, diversified assets can play a role in insuring a firm against market conditions and economic variations. The size of individual class of asset in the portfolio can be varied to obtain maximum returns under the existing economic environment. Perez (2015) acknowledges that financial assets diversification is adopted by asset managers to very great extent aimed at

reducing risk and increasing returns. He concluded that the higher the earning possessions, the better it turns to be for any bank.

Financial assets diversification has been adopted widely a strategy aimed at mitigating the turbulent markets and operational environments for investors. The major benefit associated with this move is lowering the portfolio volatility and losses and is generally very crucial especially when there is increased uncertainty (Dimitriou, 2012). The major advantage of any financial asset diversification is that it diversifies various investments along diverse categories of financial tools, whereby each has its own magnitude of risk-return. This diversification type is done with key objective being lowering the expected risk that may arise from having all resources put in one investment type only (Syriopoulos, 2005).

Through a careful strategy of diversification, commercial banks may prosper, rather than falling victim to the consolidation trend in the industry. Shambe (2003) argues that bank managers responsible for funds accept diversification to a level that is worthwhile and sensible for the served client and customers given its risk preferences and come up with a list of intended holdings consequently. Generally, firms desire investments that provide high returns at little risk. Unfortunately, in the real world, mixed returns and risks are bound. Diversification is appreciated as a one of the powerful and most promising methodology of lowering risks that any one poorly performing class of assets or individual asset would ruin your overall return.

Empirical studies that have been focusing on diversification have used various measures of performance, with majority basing these measurements on accounting, Tobin's q, that is market book value ration and share price. Diversification data are regularly availed in accounts records of various firms. For this study, Specialisation Ratio (SR) method of measuring diversification will be used to measure financial assets diversification. SR, as argued by Perez (2015), is a ratio of annual revenues from a particular asset to total revenues of that particular firm.

According to Perez (2015), the effect of assert diversification on financial performance remains theoretical and differing in conclusions and as a result, it triggers scholarly debate. Perez (2015) infers that those commercial banks which do have higher trading assets percentage normally have with them higher risks. A similar argument is shared by Lins and Servaes (2002) who assert that firms which have more diversified assets tend to have less profits than focus firms. Muñoz and Sanchez (2011), while examining diversification from geographical aspect, assert that there is negative link existing between profitability of a firm and its market expansion to cover large geographical area.

On the other hand, Ishak and Napier (2006) argue that diversification does not result to reduced firm value, but rather, value of a firm tends to increases through increased diversification. Booth and Fama (1992) acknowledge that the incremental revenues as a result of diversification are higher for less-capital stocks than for other assets. This is because small-cap stocks have volatile returns and their risk is easily diversified away, as they have low correlations with other assets. Same views are advanced by Chakrabarti et al. (2007) who argues that diversification contributes to improving performance in developing institutional environments. However, the authors point out that diversification causes a negative effect on the performance in those institutional environments which are highly developed. Matsusaka (2001) argue that businesses are motivated to undertake diversification the achievements from pursing higher organizational fit overshadows the expenses.

This is contrary to Patrick (2012) who acknowledges that there exists no consensus about the positive, negative, neutral influence of asset financial asset diversification on financial performance. Same argument is held by Doaei et al. (2012) who point out that the existence of compelling forces might enhance the probability of discovering a non-significant diversification performance association. As a result of the fact that there isn't perfect indication concerning which financial assets diversification is superior, general diversification by firms is often claimed to offer superior value (Markides & Williamson, 1994). Additionally, research done aimed at revealing the effects of different types and degree of diversification on the value of businesses has led to a curvilinear link between the value of the firms and diversification (Palich, Cardinal & Miller, 2000). Given that the effect of financial assets diversification on financial performance remains contradictory, and under investigated in the banking context, this study focused on establishing the effect of financial assets diversification on commercial banks financial performance. It was expected that a positive relationship exist between financial assets diversification on financial performance of commercial banks.

Statement of the Problem

Even after sweeping reforms of the financial sector in Africa as early as the 1980s and 1990s, commercial banks' performance has remained anemic, inefficient, and ineffective in their overall role of financial intermediation. This is due to rising levels of credit risk resulting from higher incidences of non-performing loans, inadequacy of capitalization, poor asset quality, inefficiencies, and high cost of operation, as well as higher levels of risk as a result of low levels of liquidity. According to the Central Bank of Kenya (CBK) (2020), some Kenyan banks are still posting losses. Commercial banks in Kenya saw anemic earnings per share growth in the 2019 fiscal year, with 8.6 percent in the previous fiscal year, 4.4 percent in the previous fiscal

year, and 2.8 percent in the previous fiscal year, compared to a 5-year average of 13.9 percent. It was observed that the average Return on Assets (ROA) for the overall industry decreased from 3.7 in 2010 to 2.96 in 2015 and 2.70 in 2020. Return on equity was 26.5 percent in 2018, but it has now dropped to 24.4 percent in 2019 and 20.8 percent in 2020. (CBK, 2020). This poor performance was caused by structural issues in the industry, notably in the provisioning of non-performing loans, the contraction of private sector credit growth, as well as deposit and liquidity challenges. Banks in Kenya saw an 8.1 percent increase in gross loans and advances to Kshs 1.9 trillion in fiscal year 2017 from Kshs 1.8 trillion in fiscal year 2016, a slower pace of growth than the 14.6 percent average rise over the previous five years.

Commercial banks are encouraged to diversify their asset portfolios in order to improve their financial performance, with the expectation that the benefits of achieving greater organizational fit will outweigh the costs of diversification (Mutega, 2016). While some commercial banks in Kenya have seen improvements in their financial performance as a result of the asset diversification approach, others have seen losses. To make matters worse, the Central Bank of Kenya (CBK) has placed three commercial banks in Kenya under receivership in less than a year. Dubai Bank Kenya, Imperial Bank Limited, and Chase Bank are among the financial institutions involved (Kato, Otuya, Owunza & Nato, 2014).

The expanded asset diversification, which was undertaken without assurance about the projected financial result, was cited as one of the causes for the documented financial losses, among other things. As a consequence of these losses in the banking industry, depositors' trust in commercial banks has been undermined, resulting in a weakening of their deposit franchises as well as the possibility of employing asset diversification to improve financial performance in commercial banks being reduced (Mwakio, 2015).

Studies on the association between asset diversity and financial success have also produced conflicting findings, which is particularly intriguing. For example, Oyedijo (2018) found that diversification had a negligible and negative impact on financial performance; Kahloul and Hallara (2017) found that the asset diversification-performance relationship was nullified and that financial risk was linearly unrelated to asset diversification; and Cernas (2011) found that increasing a company's financial assets resulted in an increase in the company's net income; among other findings, Oyedijo (2018) found that diversification had a negligible and negative impact. Ojiambo (2017) found a statistically significant relationship between real estate financing and financial performance in Kenya, whereas the Odhiambo (2015) study found that real estate finance had no statistically significant effect on the financial performance of publicly traded commercial banks in the country. In fact, according to the findings of the Patrick (2017) study, there is no consensus on whether asset diversification has a positive, negative, or neutral impact on financial performance, indicating the need for more empirical studies, such as those examining the influence of asset diversification on the financial performance of commercial banks. Therefore, the study sought to answer, how does financial assets diversification influence financial performance of commercial banks listed on Nairobi securities exchange?

II. Literature Review

Theoretical Framework

Arbitrage Pricing Theory (APT) was advanced by Ross (1976). According to APT, the returns likely to be obtained from a financial asset depend highly on its beta. This beta is a measure of the current association between factors that relate to one another in a company and which have an impact on the financial performance as well as the entire market were the company operates. APT asserts that there the expected returns from an asset are positively associated with and their covariance with other random variables. The covariance obtained measures that risk that encountered because of diversification by investors and which is unavoidable. The gradient of the slope implies the linear association existing between the projected earnings while the covariance implies risk premium. The key attribute here is the combination between return rate of a portfolio that is efficient and an individual asset. According to APT, a high correlation between the return rate from a particular portfolio and an asset can imply that worthwhile to claim risk premium that is high of such asset (Sciubba, 2006). Based on an investor's long-term and short-term goals different investment strategies could be planned using APT. Arbitrage Pricing Theory (APT) has been adopted in this study because backs up the link between asset diversification and the performance of firms. Arbitrage Pricing Theory advocates for diversification as an investment strategy to firms which can lead to increased returns. Arbitrage Pricing Theory, however points out that diversification are related to risk hence need to ensure that diversification of assets with critical evaluation.

The arbitrage pricing theory is relevant for the study on the causal link existing between financial asset diversification and financial performance of investment firms. The arbitrage pricing theory segregates variables affecting performance of financial assets including stocks and bonds into a number of variables. The theory conceptualizes the factors affecting returns from stocks, bonds and real estate that in turn affects the financial performance of investment firms that have invested in such assets. The movement in the underlying macroeconomic factors affects the financial performance of the investment firms through their impacts on the returns of the assets classes that the investment firms have invested their resources.

Conceptual Review

The conceptual framework has been developed from existing empirical studies and theoretical underpinning. Independent variable includes; financial assets diversification while the dependent variable in this study is financial performance. Figure 1.0 presents the conceptual framework.
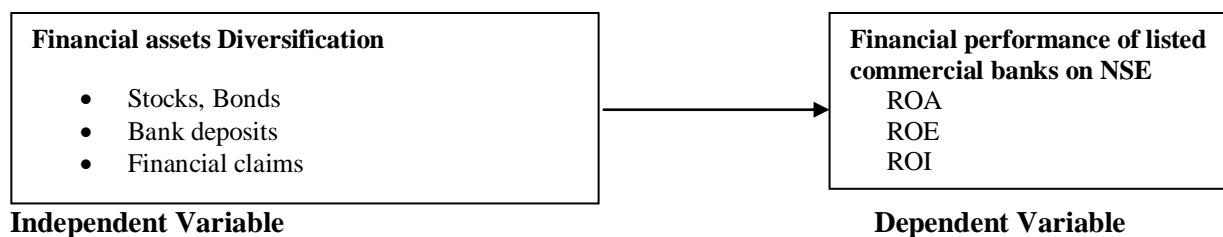
Financial assets Diversification		Financial performance of listed commercial banks on NSE
• Stocks, Bonds • Bank deposits • Financial claims	→	ROA ROE ROI

Independent Variable   **Dependent Variable**

Figure 1.0: Conceptual Framework

Empirical Review

Laurie (2017) studied on how financial assets affected financial performance of banks in the UK. The regression analysis results showed that bonds, stocks and financial claims which originated from contractual dealings significantly influenced bank profitability. However, the researchers warned investors to check on stock volatility as this could negatively affect bank profitability as measured by Return on Investment. Cernas (2011) study on financial assets in Banks in Texas affirmed that increase in company's financial assets, results to increase in its net worth; and that a company with multiple financial assets also gets to depreciate the value of those assets, which is used as a deduction during tax reporting. Douglas (2014) study on use of financial assets to enhance profitability in 13 banks in Oregon argued that lack of diversification in financial assets is as a result of; diversity in anticipations of investors' vis-à-vis risks and revenues and; investors' incapacity to properly sum up individual financial assets risks which significantly affect bank profitability. Foster (2015) reports that financial assets which are more speculative have the capability of resulting to increasing returns in the short-run, and with similarly higher unpredictability as to the value they possess in the long-run. This was supported by Marcia, Otgontsetseg and Hassan (2014) study on US commercial banks which showed that abrupt and unforeseen decline in prices of financial asset can result to a bank's financial calamity.

Asha (2014) study on of effects of unclaimed financial assets on the financial performance of Commercial banks in Kenya showed that unclaimed financial assets positively correlate with financial performance of commercial banks, thus, if not well managed can negatively affect bank profitability. Moraa (2014) analyzed profitability of leading commercial banks in Kenya for the period; 2008-2013. Only six leading banks were considered. The study adopted generalized least squares technique to determine how financial assets and quality of assets affected profitability of banks. ROA was used in measuring profitability. The study established that size of banks, financial assets and quality of assets significantly affected profitability of the banks under study, and recommended further studies to cover more than six banks studied during the period. Kiplagat (2014) investigated the asset allocation influence of pension funds' financial performance, a context of Kenya. The study adopted a descriptive survey and utilized a sample of 40 schemes drawn from a population of 1,232 schemes in Kenya. The findings of the study showed that allocation of asset caused 58% of the variability of fund performance and that 42% was due to other factors such as the manager's selection, timing of investments and securities selection within an asset class and the management style adopted by the fund managers of the fund. The study recommended a further research in asset diversification like use of financial assets, a gap that was filled by this study.

Research gaps

There is inconsistency in existing studies on the effect of diversification on financial performance. To begin with, Oyedijo (2018) researched on how strategy of product-market diversification affected growth and financial performance of selected Nigerian companies. The regression analysis results obtained signified that linked diversification impacted on performance significantly whereas diversification which was not related insignificantly and negatively influenced growth and financial performance. Further, Kahloul and Hallara (2017) carried out an investigation on how diversification risk and performance were related. Sixty nine (69) large firms in France were target for this study and the study period was from 1995 to 2005. The resulting findings nullified the diversification-performance relationship. The finding further revealed that total risk was linearly unrelated with diversification. On financial assets, Cernas (2011) study on financial assets in Banks in Texas affirmed that increase in company's financial assets, results to increase in its net worth; but warned that a company with multiple financial assets also gets to depreciate the value of those assets, which is used as a deduction during tax reporting. In Kenya, to show inconsistency in study results, while Ojiambo (2017) found a significant relationship between real estate financing and financial performance, Odhiambo (2015) study

showed that real estate finance did not have a significant effect on the financial performance of listed commercial banks, thus the need for further empirical enquiries into real estate and financial performance relationship.

III. Material And Methods

The descriptive survey research style was used in this study because it is a good approach for studying associations (Peshkin, 1990). The investigation was conducted on all Kenyan commercial banks that were publicly traded on the Nairobi Stock Exchange (NSE). Specific to each of the mentioned institutions, the survey targets 8 appropriate division heads/portfolio managers, for a total of 88 respondents. The sample frame included Risk Managers, Finance Managers, Portfolio Managers, Credit Managers, Investment Banking Managers, Mortgage Banking Managers, Accounts Managers, and Operations Managers. Because the research population is tiny (less than 100 people), a census approach was used to minimize sampling bias when the study population is small (Mugenda & Mugenda, 2003). Primary and secondary data were used in this investigation. Primary data was gathered via the use of standardized questionnaires that were delivered by the participants themselves. The structured questionnaires were constructed and created in multiple-choice forms, and they were sent to participants. Primary data was gathered from important senior management personnel, while secondary data was gathered from the financial reports of each of the commercial banks listed on the Nairobi Securities Exchange. All acquired data was coded, cleaned, tabulated, and analyzed using descriptive and inferential statistics with the use of the specialized Statistical Package for Social Sciences, version 24. Data was evaluated using descriptive statistics such as frequency distributions, means and standard deviations, with the results being displayed in tables and graphs.

IV. Result and Discussion
Preliminary Findings

The research administered 88 questionnaires as per the sample size out of which 67 dully filled questionnaires were returned. This represents 76.2% response rate. A pilot study was conducted to determine the reliability of the test items used to gather primary data. Cronbach alpha was used to determine reliability for each variable, which had a range of 0.817 to 0.854; hence, for this research, a Cronbach alpha statistic of 0.7 or above was deemed reliable. The test items were retained and used in this study hence considered reliable as shown in the Table 1.

Table 1: Reliability Tests

Variable	No. of items	Cronbach's Alpha	Verdict
Financial Assets Diversification	7	0.854	Reliable
Organizational Performance	6	0.817	Reliable

Analysis of Descriptive Statistics

These are descriptive statistics based on summarized responses on the structured questions about the influence of financial asset diversification on financial performance of commercial banks listed on Nairobi securities exchange. The responses are based on Likert scale with values ranging from 5 to 1; that is; where 5 = Strongly agree, 4 Agree, 3, Uncertain, 2, Disagree and 1 Strongly disagree. The results are presented in the table 2.0 showing frequencies of responses as per each statement and its corresponding percentage score in brackets.

Table 2.0: Descriptive statistics: Financial assets Diversification

Statement	5	4	3	2	1
The bank's investment in stocks impacted positively on its ROA	19.4%	50.7%	11.9%	13.4%	4.5%
Adequate use of bonds positively affect ROA	29.9%	17.9%	34.3%	16.4%	1.5%
A rise in bank deposits translates to an increase in bank profitability	19.4%	26.9%	28.4%	20.9%	4.5%
Use of government securities positively affect ROA	17.9%	25.4%	31.3%	19.4%	6.0%
Financial assets are easily converted into cash when need arises	10.4%	35.8%	28.4%	20.9%	4.5%
The value of a financial asset is only as strong as the underlying entity	1.5%	26.9%	50.7%	16.4%	4.5%
Generally an increase in financial assets positively affect bank's ROA	11.9%	26.9%	43.3%	13.4%	4.5%

Financial assets are crucial for financial performance of commercial banks listed on Nairobi securities exchange. From table 2.0, few of the respondents strongly agreed (19.4%) that their bank's investment in stocks impacted positively on its return on assets and 50.7% of the respondents agreed. On the other hand, 13.4% of the respondents disagreed with a mean of 3.67 implying that respondents agreed that the bank's investment in

stocks impacted positively on its return on assets. Further, 17.9% and 29.9% agreed and strongly agreed respectively that adequate use of bonds positively affect return on assets. However, 34.3% were uncertain that adequate use of bonds positively affects return on assets. A mean of 3.58 indicted that adequate use of bonds positively affect return on assets.

The results also revealed that some of the respondents agreed (26.9%) that a rise in bank deposits translates to an increase in bank profitability while 19.4% strongly agreed on the same. However, 28.4% of the respondents were uncertain with a mean of 3.36 implying that a rise in bank deposits does not necessary translates to an increase in bank profitability. The results further revealed that 25.4% of the respondents agreed that their bank uses government securities since they are considered to be risk-free as they have the backing of the government and 19.4% strongly agreed while 31.3% were uncertain. A mean of 3.30 indicated that the bank moderately uses government securities since they are considered to be risk-free as they have the backing of the government.

The results also revealed that 35.8% of the respondents agreed that financial assets are easily converted into cash when need arises while 10.4% strongly agreed. On other hand, 20.9% disagreed and 28.4% were undecided with a mean of 3.27 implying that financial asset are moderately converted into cash when need arises. More than half of the respondents (50.7%) were uncertain that the value of a financial asset is only as strong as the underlying entity while 1.5% strongly agreed and 26.9% agreed on the same with a mean of 3.04 implying that respondents were not uncertain that the value of a financial asset is only as strong as the underlying entity.

Lastly, few of the respondents agreed that generally an increase in financial assets positively affect bank's return on assets as shown by 26.9% and further 11.9% strongly agreed on the same. A mean of 3.28 indicated that generally an increase in financial assets positively affects bank's return on assets moderately. These findings agree with Laurie further notes that financial assets are easily liquidized compared to other tangible assets including real estate, commodities, and are tradable on financial markets. Laurie (2013) concludes by saying that financial asset increases a company's worth. This is in line with Cernas (2011) who affirm that increase in company's financial assets, results to increase in its net worth. Cernas (2011) adds that a company with multiple assets also gets to depreciate the value of those assets, which is used as a deduction during tax reporting. Foster (1975) reports that financial assets which are more speculative have the capability of resulting to increasing returns in the short-run, and with similarly higher unpredictability as to the value they possess in the long-run. On the other hand, Marcia, Otgontsetseg and Hassan (2014) argue that abrupt and unforeseen decline in prices of financial asset can result to the financial calamity. While focusing on unclaimed financial assets, Asha (2014) asserts that unclaimed financial assets positively correlate with financial performance of commercial banks.

Table 3.0: Descriptive statistics-Financial Performance

Statement	5	4	3	2	1
The bank's asset base has consistently improved in the past 5 years	20.9%	31.3%	29.9%	9.0%	9.0%
The bank has had a consistent improvement in return on assets in the last 5 years	6.0%	17.9%	31.3%	34.3%	10.4%
The financial returns are profitable relative to its assets	10.4%	44.8%	20.9%	17.9%	6.0%
The net earnings generated by the bank have been consistently increasing in the last 5 years	17.9%	49.3%	16.4%	14.9%	1.5%
The company maintains the cost of holding current assets as low as possible	0.0%	26.9%	41.8%	26.9%	4.5%
The bank has better return on assets than the industry	23.9%	26.9%	32.8%	11.9%	4.5%

From table 3.0, slight of the respondents strongly agreed (20.9%) and agreed (31.3%) that the bank's asset base has consistently improved in the past 5 years and further 29.9% were uncertain on the same. A mean of 3.46 postulated that the bank's asset base has moderately improved in the past 5 years. Furthermore, 6.0% and 17.9% of respondents strongly agreed and agreed respectively that the bank has had a consistent improvement in return on assets in the last 5 years while 31.3% were uncertain and 34.3% disagreed. A mean of 2.75 implied that the bank has moderately improved in return on assets in the last 5 years. Moreover, slight majority of the respondents agreed (44.8%) that the financial returns are profitable relative to its assets, 10.4% agreed and additional 20.9% were uncertain on the same. A mean of 3.36 revealed that the financial returns are moderately profitable relative to its assets. More so, 49.3% and 17.9% of the sampled respondents agreed and strongly agree respectively that the net earnings generated by the bank have been consistently increasing in the last 5 years. A mean of 3.67 suggested that the net earnings generated by the bank have been consistently increasing in the last 5 years. The results also revealed that 26.9% of the respondents agreed that the company maintains the cost of holding current assets as low as possible while 41.8% were undecided and 26.9% disagreed with a mean of 2.91. Lastly, 26.9% of the respondents agreed that the bank has better return on assets

than the industry and further supported 23.9% of the respondents who strongly agreed while 32.8% of them were uncertain with a mean of 3.54.

Inferential Statistics

Simple linear regression analysis was conducted to establish direct influence of financial asset diversification on financial performance of commercial banks listed on Nairobi securities exchange. The results are as shown in Table 4.0 In the simple regression analysis, beta (β), this is equivalent to the Karl Pearson correlation coefficient (r) (Sekaran, 2003) was used to measure the relationship.

Table 4.0: Model Summary for Financial Assets and Financial Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
					Model Summary				
					Change Statistics				
1	.752[a]	.566	.559	.5710	.566	84.661	1	65	.000

a. Predictors: (Constant), Financial assets

ANOVAa

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	27.599	1	27.599	84.661	.000[b]
	Residual	21.190	65	.326		
	Total	48.789	66			

a. Dependent Variable: Financial performance
b. Predictors: (Constant), Financial assets

The results revealed that there was a statistically significant positive relationship between financial assets and financial performance of commercial banks listed on Nairobi securities exchange, Kenya. Financial assets accounted for 56.6% (R^2 = 0.566) variations in the financial performance of commercial banks listed on Nairobi securities exchange. ANOVA shows the mean squares and F statistics significant $F(1,66)$= 84.661; significant at $p<.001$), thus confirming the fitness of the model and also implies that the financial assets diversification has significant variations in their contributions to financial performance of commercial banks listed on Nairobi securities exchange. Therefore, financial assets are a significant predicator of financial performance of commercial banks listed on Nairobi securities exchange. These findings compare favorably with Mwaniki and Omagwa (2017) indicated that financial asset structure had a significant statistical effect on the financial performance. This study concluded that the firms should increase the allocation of resources towards long term investments and funds. However, Purba and Bimantara (2020) revealed financial assets do not have a strong impact on profitability in terms of ROE. This result means that if the structure of financial assets is changing then the ROA will not change.

Table 5.0: Regression Coefficients for Financial Assets Diversification

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	T	Sig.
				Coefficients[a]		
1	(Constant)	.798	.279		2.864	.006
	Financial assets	.744	.081	.752	9.201	.000

a. Dependent Variable: Financial performance

Results (Table 5.0) show that financial assets had a positive, linear and significant (p-value is less than 0.05) association with the financial performance of commercial banks listed on Nairobi securities exchange {regression coefficient, B=0.744, ANOVA, F=84.661 and t-test value, t=9.201}. The results are represented in the following model:

$Y = \beta 0 + \beta_2 X_2 + \varepsilon$

Where Y= financial performance of commercial banks listed on Nairobi securities exchange,

β_0= 0.798 (constant)
β_2= 0.744
X_2= Financial assets

Substituting equation above with values, the model becomes: $Y= 0.798 + 0.744X_2$

From the above model, the constant had coefficient of 0.798, p=0.006, this implies that in the absence of financial assets, financial performance of commercial banks listed on Nairobi securities exchange would be positive at 0.798. This financial performance of commercial banks listed on Nairobi securities exchange would be significant (P<0.05). Further, financial assets had beta coefficient of 0.744, P=0.000. This implies when everything is held constant a unit increase in the financial assets would results to a significant increase in

financial performance of commercial banks listed on Nairobi securities exchange by 0.744 units. These results are in agreement with other previous studies. For instance, Yahaya, Kutigi and Usman (2015) found a positive relation between financial assets held for trading and Return on Asset. Oluwaremi and Memba (2016) show that there was significant and positive relationship between financial assets and the financial performance of listed manufacturing companies in Nigeria as substantiated with the p-value of less than 0.05 recorded by each construct of the Independent variable.

V. Conclusion and Recommendation

The research question of the study was how does financial assets influence financial performance of commercial banks listed on Nairobi securities exchange? Financial assets have a significant relationship with financial performance therefore; the study concluded that financial assets are significant determinant of financial performance of commercial banks listed in Nairobi securities exchange. An increase in diversification of financial assets hence results to increased financial performance of listed commercial banks. As a result, this translates to increases a commercial banks worth in addition they have invested in in stocks, government securities and bonds. According to the results of the research, high liquidity produced by client deposits should be invested in a variety of financial assets such as government securities and bonds, which are backed by the government, the study suggested. Thus, surplus liquidity may be invested in a lucrative business that will help the bank grow revenues and profits while also increasing its overall financial performance of listed commercial banks in Kenya. Further, it is recommended to commercial bank managers to reviews existing financial assets diversification plan, specifically on other investments in order to realign what might be causing such trends. This should involve putting across strategies and plans for diversifying and utilizing financial assets in a way that translates to positive performance.

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