The Impact of Asset Diversification on Financial Performance of Commercial Banks in Tanzania: The case of the CRDB Bank Plc

Mutahyoba D. Baisi

Abstract:

The commercial banks' main target is to efficiently use all available assets to generate profit through investments. These assets can be of different nature. Some can be productive while others can be non-productive in generating income directly. Therefore, investors need to group assets depending on their income productivity nature as well as categorizing assets based on impact on financial performance. To ensure generation of income while striving to minimize associated risk, commercial banks, among other strategies, resort to asset diversification.

This study intended to determine the impact of financial assets, cash and cash equivalents, loans and other assets on the profitability of commercial banks in Tanzania using the return on asset as the financial ratio of interest and the CRDB Bank Plc as a case study. Secondary data was collected from the bank's annual reports from the year 2005 up to 2023 and regression analysis was used to analyze the data.

The findings indicate that financial assets and loans have got a negative influence on a bank's performance while loans have got a positive impact while cash and cash equivalents and other assets were found to have no significant influence.

It is recommended that bank asset diversification should focus on balancing risk and return by spreading investments across varied, low-correlation asset classes, such as combining loans, government securities, and diverse sector-specific investments – to minimize the impact of sectoral downturns. Commercial banks should regularly review existing diversification strategies and asset diversification plans since circumstances may change with time depending on market dynamics.

Key words: Commercial banks, diversification, financial performance, portfolio management, risk management.

Introduction

The major objective of financial investors is the maximization of returns while striving to manage risk (Pourbabaee, Kwak and Pirvu, 2024). To achieve this objective, it is important to have regular and standard mechanisms of assessing the financial performance of a firm which will then portray the performance trend (Chakrabarti and Mahmood, 2007). Financial performance is a subjective measure of how well a firm uses its assets to generate revenues (Investor Words, 2019). It can also be used as a universal measure of a firm's overall financial health over a specified period that is conveyed in terms of overall profits and losses during that period (Investor Words, 2019). Financial analysts and other stakeholders use financial performance to judge the outcomes of firms' business activities and strategies deployed, as well as comparing similar firms in the same industry or making comparing between sectors. Banks act as intermediators between surplus spending economic units (SSU) and deficit spending economic units (DSU) by providing conducive environment and facilitating the needs of each group (Noni, 2012). Funds obtained from SSUs are distributed to DSUs through credit portfolios made up of mortgages, securities, loans and other assets. Asset diversification is an investing process composed of unlike assets for the purpose of minimizing associated risk or maximizing returns (Lamichhane, 2021;

Investor Words, 2019). This process ensures that a portfolio`s performance is not damaged due to poor performance by a single security or industry (Baisi, 2025).

The measurement of profitability is one of the significant requirements for reviewing the financial health of commercial banks and the return on asset (ROA) and return on equity (ROE) are the most regularly preferred profitability ratios (Gill *et. al.*, 2012; Lekwauwa, and Bans-Akutey, 2023). Bank regulators and financial analysts are known to have used the two ratios for measuring industry performance, forecasting market formation trends, and other purposes where profitability is required.

The CRDB Bank Plc is a commercial bank headquartered in Tanzania and currently also operating in Burundi, the Democratic Republic of Congo, the Comoros, and Dubai. It was incorporated Tanzania under the Companies Act, CAP 212 Act No. 12 in 1996 and was listed on the Dar es Salaam Stock exchange (DSE) for the first time on 17th June, 2009 (TIOB, 2019). Over the years CRDB Bank has become the most innovative and preferred financial services partner in the region (IPPmedia, 2019) and is currently the largest bank in the country in terms of both assets and deposits (IPPmedia, 2019).

Statement of the Problem

Diversification and its implication on firm financial performance has been drawing attention from investors, policy makers and academicians because of the relevance of the theme to policy and development actions (Chakrabarti, 2007; Monokroussos and Gorstsos, 2020). Improvements on performance in developing institutional environments are contributed to by the diversification of assets which does not lower value of the firm but increases its value (Ehiedu and Priscilla, 2022).

With the changing political environment since the late 1980's and globalization, the financial services sector has experienced competition like never before with the industry prone with rivalry between banks and non-bank financial institutions (Baisi, 2025; Kumbirai and Webb, 2010). This situation has necessitated the commercial banks to improve their service delivery as well as indulging into not only coming up with new products but also diversifying the new and old products (Gill, et al., 2012). Commercial banks, like any other business entity have got to work towards maximizing shareholder wealth and, therefore, align their investment alternatives and strategic decisions towards this direction (Baisi, 2025; Rathore, 2020). Diversification is amongst the major strategic decisions made by a business entity because it helps a business spread its risk across different areas, reducing dependency on a single market or product. It can also lead to increased revenue streams and improved long-term sustainability. Alluding that net interest income is still a bank's main income source because it provides stability to their earnings the research set out to investigate the impact of the other sources of income on a bank's earning power. This is an important phenomenon especially when non-interest sources of income and main traditional bank activity are negatively correlated (Hassan and Adam, 2014).

Literature Review

The modern portfolio theory (MPT) as postulated by Markowitz (1952) focuses on maximizing expected returns when selecting portfolios that are consistent with independently tolerable risk levels (Grant, 2015; Ateya, 2020). This theory focuses on the maximization of the expected returns from a portfolio for a precise risk that arises from such a collection of assets invested in for the maximization of returns. This is because a portfolio is defined as a range of investments held by an individual or organization (InvestorWords, 2019; Makau and Jogongo, 2018). It can further be defined as a combination of financial assets (Chakrabarti and Mahmood, 2007). A portfolio can also comprise of non-publicly tradable-securities like personal savings, real estate and art (Coulson, 2013; Bikeri, 2022). By means of statistical models, MPT guides the formation of optimal portfolios by using expected returns along with tolerable risk associated to each portfolio (Markowitz, 1952).

The maximum diversification (MD) portfolio theory was introduced by Choueifaty and Coignard (2008). It aims at maximizing standards of measurement or system defining scope of a portfolio diversification so as to construct portfolios of higher returns compared to other (traditional) portfolio

strategies, minimum correlation among assets and minor and/or tolerable risks.

Reducing risk of relying on only a single or some income sources, avoiding seasonal fluctuations by producing goods and/or services with unlike demand cycles, achieving higher growth rate and countering competitors by invading their core industry or market, are some of the major reasons for diversification (Gray and Thong, 2014; Dixit, 2020). The MD portfolio theory emphasizes the formation of a portfolio that can provide alerts to portfolio managers about the changes in economic conditions. Financial assets have a positive and statistically significant relationship with financial performance of commercial banks as measured by ROA (Faulkender and Wang, 2006; Hailu and Tassew, 2018; Gaber, 2018). Thus fluctuations on financial assets could imply a responsive measure by portfolio managers to the existing economic conditions with the motive of avoiding economic consequences of relying on only a single income source. The continued upward and downward movements reveal that the portfolio managers have been trying to establish optimal weights on the desired elements (Clarke, et. al., 2013; Grant, 2015).

According to Moses (2010), loan portfolios are the banks' and other lending institutions major assets. A loan is a sum of money or item of property that is borrowed and is anticipated to be paid in the future with interest which is considered to be the opportunity cost (InvestorWords, 2019). They are the major source of earnings in commercial banks (Tariq, et. al., 2014). Provision of loans and earning interest income from those loans is one of the ways used by commercial banks to make money (Coulson, 2013). A commercial bank can issue loans of different types as a loan may include mortgages, motor vehicle loans and business loans (Noni, 2012). A commercial bank may focus in just one, a few types of loans or even all types of loans if it is highly matured and has the capacity to facilitate them (Ehiedu and Priscilla, 2022). Moses (2010) recommends every commercial bank to strive to have a best loan mix because some types of loans have greater effect on financial performance than others.

Alemu and Aweke (2017) investigated six commercial banks in Ethiopia. The overall performance of these banks were analyzed using audited financial reports for a period of ten years between 2007 and 2026. Secondary data was collected and analyzed using descriptive statistical tools to rate banks performance and the CAMEL rating approach was used. A regression model was also used to measure the impact of the elements' rating on bank performance (ROA and ROE). It was found that asset quality indicators were irrelevant in determining the profitability ratios. The same results were found by Kumbirai and Webb (2010) in South Africa who concluded that the performance of the commercial banks had increased significantly for the first two years of the study due to the onset of the global financial crisis in 2007, a significant change in the trend of the performance of commercial banks was noticed, reaching its peak in 2008/2009. The financial crisis led to low liquidity, tumbling profitability and declining credit quality in the banking sector of South Africa. Likewise, Philita (2017) and Makokha, et. al. (2016) found that portfolio diversification, bank size, interest rate spread and asset quality have significant positive influences on the financial performance of commercial banks in Kenya. Moreover, Makokha, et. al. (2016) concluded that 68% of the changes in the financial performance of commercial banks in Kenya are explained by portfolio diversification and that most banks increse their performance and profit by diversifing their investments.

Research Methodology

A descriptive research design was adopted since the purpose of the study was to describe the characteristic of the elements being studied (Saunders and Thornhill, 2009). This design basically involved gathering of data that describes events and then organize tabulates, depicts and describes the data collection (Glass and Hopkins, 1984). A longitudinal study approach was used since the interest was to show the nature of growth, trace pattern of change and possibly give a true picture of cause and effect over time (Rajulton, 2001).

Of the licensed commercial banks in Tanzania, the CRDB Bank Plc. was used as a case study because it is the leading banking institution in Tanzania in terms of assets, loans and advances and customer deposits as well as being the second-best capitalized commercial bank (TIOB, 2019). The study used only secondary data since all required information was obtained from the CRDB Bank Plc annual reports (Grady, Cummings, and Hulley, 2019). The quantitative secondary data was evaluated through descriptive statistical design using Microsoft excel which provided the regression model that tested the relationship between variables.

The following analytical model was used to determine the relationships between the variables (outcome and predictor):

$$Y = \alpha_0 + \alpha_1 X_1 + \alpha_2 X_2 + \alpha_3 X_3 + \alpha_4 X_4 + \mathcal{E}$$

Where:

Y = Financial performance of commercial banks measured using ROA
α_0 = Regression constant
$\alpha_1, \alpha_2, \alpha_3$ and α_4 = Coefficients associated with predictor variables
X_1 = Financial assets measured as natural logarithm
X_2 = Cash and cash equivalents measured as natural logarithm
X_3 = Loans measured as natural logarithm
X_4 = Other assets measured as natural logarithm
$\mathcal{E}$ = Error / residual coefficient

Findings

The amount of CRDB Bank Plc's financial assets expressed in natural logarithmic form are presented in figure 1 indicating that the composition of financial assets within the bank's portfolio, financial assets increased steadily from 7.96 units in the year 2005 up to 8.17 units in the year 2008. Then, there was a slight decrease in 2009 to 8.16 which was then followed by a reasonable rise to 8.35 in the year 2010. For the next two years, the bank had a consecutive decline on the financial assets diversification to 8.24 and 8.11 units for the year 2011 and 2012 respectively. In 2013, the bank had a significant increase on its financial assets to 8.32 units. The gradual increase continued from one year to another up to 8.88 units in 2020. Another decline was observed in 2021 to 8.75 units, followed by a rise to 9.04 units in 2022 and a further slight increase to 9.10 in 2023 which makes it the highest through the study period.

The asset diversification in financial assets by CRDB bank included government securities as well as corporate bonds (CRDB Bank, 2024). The bank generally experienced an increase in the investment in government securities which are, theoretically, risk free, and therefore have got lower returns. Government securities is one of the common ways the government uses to obtain loans from financial institutions in order to facilitate government projects for the purpose of improving the public welfare as they wait for government fund collections and/or aids. However, to banks, these government securities are some of the desired financial assets due to their risk free nature and contribution to the returns (Gill, et. al., 2012).

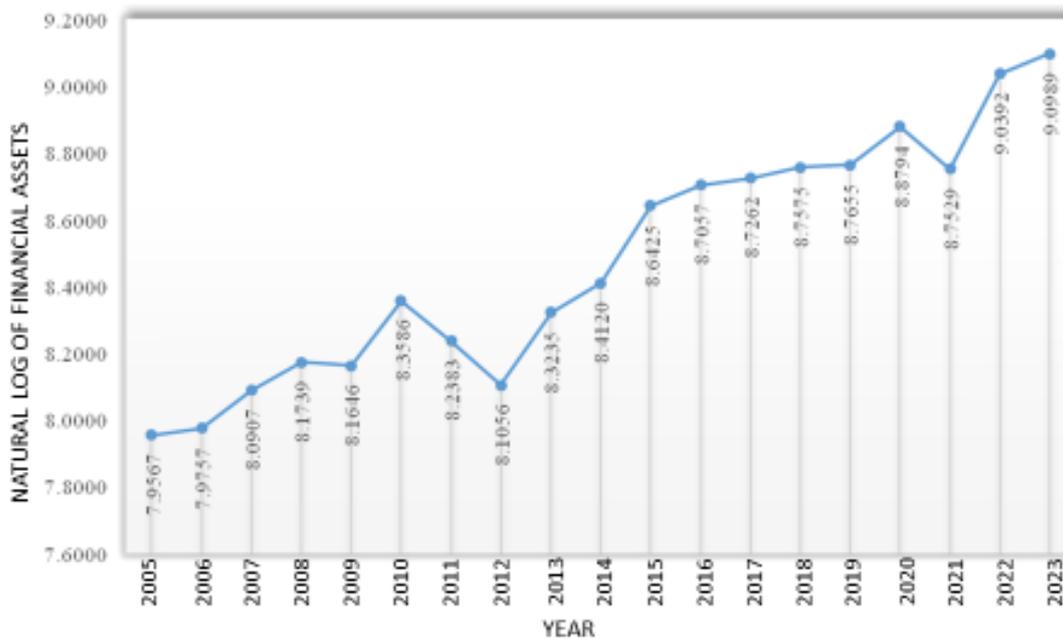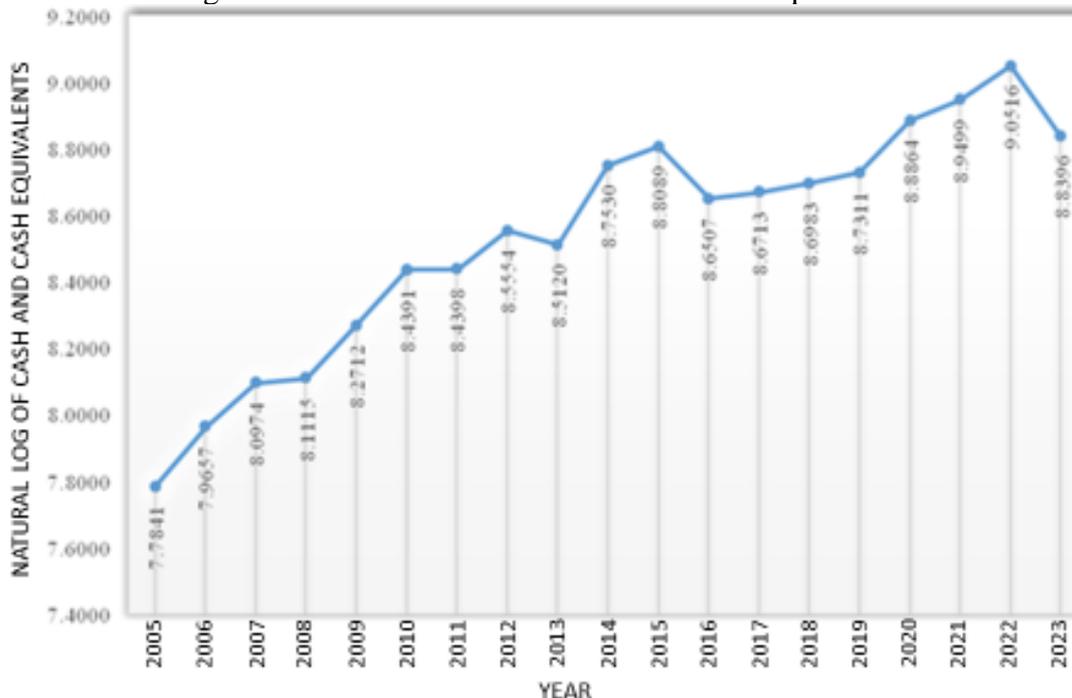Figure 1: CRDB Bank Plc's Financial Assets

Figure 2: CRDB Band PLC's Cash and Cash Equivalents

The trend of investments in cash and cash equivalents is shown in Figure 2. Cash and cash equivalents of the bank experienced a significant rise from 7.48 units in the year 2005 to 7.97 in 2006. A continued increase was then observed throughout the following years up to 8.56 in the year 2012 which was then followed by a slight decline in 2013 to 8.51. In 2014, a rise of the cash and cash equivalents to 8.75 was observed followed by a further increase to 8.81 in the year 2015. However, a significant decline on the cash and cash equivalents was observed in 2016 to 8.65 followed by gradual increase to 8.67, 8.70 and 8.73 in 2017, 2018 and 2019 respectively. Further increase to 8. 89, 8.95 and 9.05 at its highest in 2020, 2021 and 2022 respectively. However, the cash and cash equivalents decreased to 8.84 in 2023.

Throughout the study period, a trend in the diversification into loans by CRDB bank was established. The data collected on loans included advances and overdrafts. The diversification into loans was measured as natural logarithm and the findings are presented in Figure 3. Diversification into loans was 7.54 units in the year 2005 which slightly declined to 7.54 in 2006. As at the year 2007, diversification into loans increased to 7.64 which kept on increasing steadily to 7.78, 8.08, 8.31, 8.61, 8.77, 8.92, 8.98, 9.05, 9.22, 9.29, 9.36, 9.44 and 9.55 from the year 2008 up to 2020 respectively. However, there was a slight decline to 9.54 in 2021 and further decline to 9.50. But again a rise to 9.53 was observed in 2023. This trend accounts for the existence of credit appraisal technique.

Thus, the confidence by CRDB bank to keep on providing more loans, overdrafts and advances from one year to another as seen in the figure above, indicates that it evaluates repayment capacity of its' borrowers by appraising borrowers' payment history. The credit appraisal technique consists of the 5`Cs which includes character, capacity/cash flow, capital, conditions and collateral. But for the case of banks, much concern is on collateral. Therefore, we can say that CRDB bank borrowers have been showing a good payment history, sufficient collateral and attractive cash flow which then gives the lender (CRDB bank) confidence to increase loans issuing year after year.

Figure 3: Loans
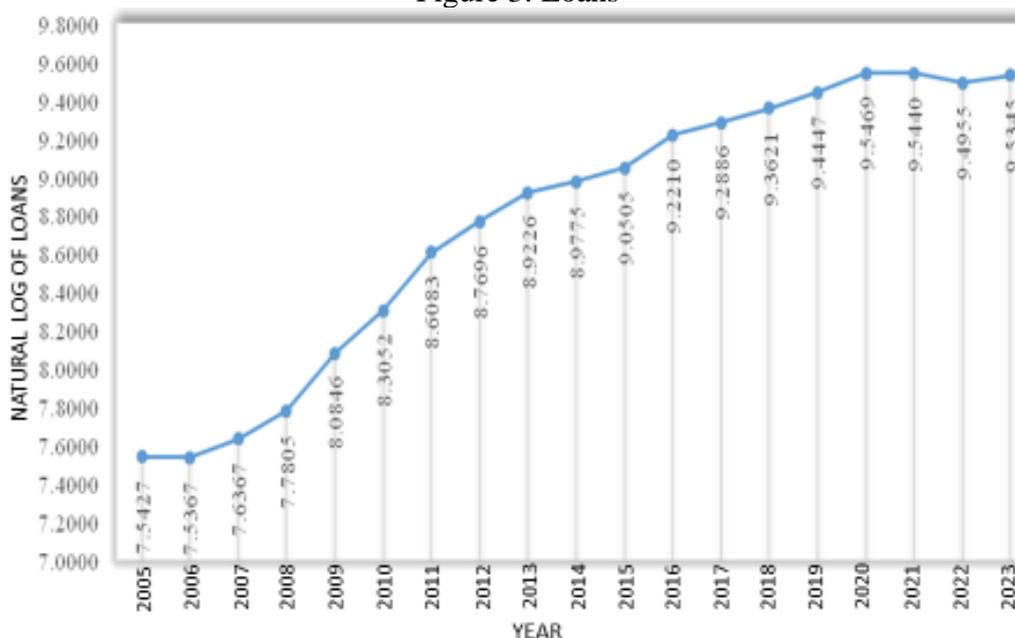
Other assets have on average been the smallest portion of the banks entire assets for each financial year of interest. However, these other assets had a contribution in the computation of the net income which eventually led to the presented values of ROA, thus such participation should not be ignored. For that matter, the study also established the trend in diversification in to other assets that are presented in the statement of financial position of a commercial bank. The values were expressed as natural logarithm and the results obtained are as presented in the figure 4.

Diversification into other assets was 6.64 units in the year 2005 which was then followed by a significant increase in the next year to 6.98. In 2007, a mere increase to 7.07 units and a further increase to 7.56 units in 2008. However, a slight decline to 7.45 units in 2009 was observed followed by a continuous increase from the year 2010 up to the year 2023 besides a very minor decline in the year 2016 as presented in figure 4. These other assets mainly included non-current assets held for sale,

property and equipment, motor vehicles, and deferred tax. Most of these other assets only facilitate the banks' operations and are therefore considered essential and may be increased or decreased by the management whenever suitable as evidenced by the growth in figure 4 since CRDB bank has exhibited a steady growth throughout the period.

Figure 4: Other Assets
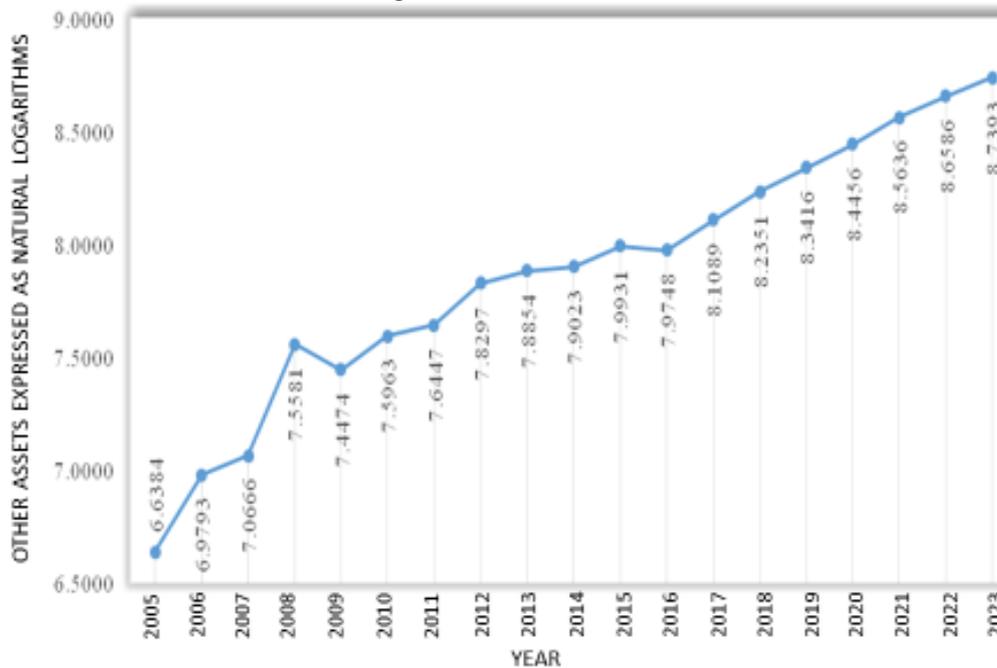
The banks financial performance was measured using return on asset with:
ROA = Net Income / Total Asset

Figure 5 shows a fluctuating trend financial performance for CRDB Bank. In 2025 the financial performance was 0.87% and decreased to 0.79% in 2006 and then to 0.35% in 2007 before increasing steadily to 1.22% by the year 2008. The return on asset kept on increasing year after year until reaching its highest point at 3.27% in 2012. Several declines were observed throughout the following years to 2.8%, 2.48%, 2.10% and 1.35% for 2013, 2014, 2015 and 2016 respectively. A significant increase was again observed in 2017 at 2.53% followed by partial declines in the year 2018 up to the year 2020. In the year 2021, a major decline of the financial performance to 1.2% and much further decline to 0.53% in 2022 before increasing to 1.18% in the year 2023.

Such fluctuations in CRDB Banks financial performance could have been driven by a complex interplay of internal (i.e. bank specific) factors and external (i.e. macroeconomic and market) factor. The internal bank-specific factors are for example credit risk and asset quality (non-performing loans – NPLs), capital adequacy ratio (CAR), management efficiency and operating costs, liquidity management, diversification and technology investments. The external macroeconomic factors are interest rates, economic growth (GDP), inflation rates, exchange rate fluctuations. The market-specific and regulatory factors were market competition, regulatory changes, and customer loyalty.

Figure 5: Return on Assets

Regression analysis (at 5% level of significance) was performed to model the relationships between the dependent variable (financial performance) and the independent variables in order to determine the strength of correlations as presented by the coefficient of determination (R^2) in the regression statistics summary (Table 1).

Table 1: Model Summary

Regression Statistics	
Multiple R	0.77869569
R Square	0.606366978
Adjusted R Square	0.493900401
Standard Error	0.006213988
Observations	19

Table 1 shows that the model has a coefficient of determination (R^2), measuring deviations in the financial performance, of 0.6064. It implies that 60.64% of the deviations in the ROA of CRDB bank was accounted for by the predictor variables while 39.36% of deviations in the financial performance of the bank is accounted for by some other aspects. A test on the independence of the variables was done using Durbin-Watson statistic whose results are shown in Table 2.

Table 2: Durbin-Watsons Statistics

Durbin-Watsons calculation	
Sum of squared difference of residuals	0.000803974
Sum of squared of residuals	0.000540591
Durbin-Watsons Statistic	**1.487212807**

Usually the Durbin-Watson statistic is approximately 2 if the residuals are uncorrelated, and in general the value ranges from 0 to 4. The residuals are considered to imply a strong and positive correlation if the Durbin-Watson statistic value is near 0, and a strong and negative correlation if near 4. A Durbin-Watson value of 1.5 was obtained which is less than 2. It can, thus, be concluded that there is a positive serial correlation between the variables. That is, a positive error for one observation increases the chance of a positive error for another observation and a negative error for one observation increases the chance of a negative error for another observation.

Data reliability was measured using Cronbach's alpha, α, which measures the internal data consistency. This value ranges from 0 up to 1, and basically considered to be acceptable when α ≥ 0.7. Cronbach's alpha results for this study are as presented in Table 3.

Table 3: Reliability Statistic

Reliability Statistic	
Cronbach's Alpha	No of items
0.814523908	5

The study's Cronbach's alpha was 0.81 implying that the internal data consistency used was good and therefore, the data used to measure the financial performance of CRDB Bank Plc was good. The Analysis of Variance (ANOVA) was used to test the statistical significance of the model predicting the relationship between the predictor variables and outcome variable. The findings of this test are presented in Table 4.

Table 4: ANOVA Results

	Df	SS	MS	F	Significance F
Regression	4	0.000832747	0.00021	5.391530452	0.00767981
Residual	14	0.000540591	3.9E-05		
Total	18	0.001373338			

The ANOVA (F-test) result was used to investigate the regressions' model goodness of fit at a 5% level of significance (Table 4). The computed F value was 5.39 with a P value of 0.00768. Therefore, the null hypothesis was rejected since the P value was significantly low (P<0.05). This implies that the model predicting the relationship between asset diversification and financial performance (return on asset) was statistically significant at the 5% level of significance.

From the coefficients tables, each predictor`s variable as well as the constant was determined from the results of the regression model (Table 5).

Table 5: Regression Coefficients

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	0.190953714	0.088494072	2.15781363	0.0488012	0.0011528	0.3807546
Financial assets	-0.04087695	0.01110227	-3.68185562	0.0024643	-0.064689	-0.017065
Cash and Cash equivalents	-0.00470631	0.016433891	-0.28637848	0.7787825	-0.03995	0.0305409
Loans	0.022346881	0.00782153	2.857098298	0.0126712	0.0055714	0.0391224
Other Assets	0.002328364	0.010670769	0.218200171	0.8304217	-0.020558	0.0252149

From Table 5, the resulting regression model was:

$$Y = 0.191 - 0.041X_1 - 0.005X_2 + 0.022X_3 + 0.002X_4 + \mathcal{E}$$

Where **Y** = Financial performance measured using ROA, **X₁** $= $ Financial assets, **X₂** $=$ Cash and cash equivalents, **X₃** $=$ Loans and **X₄** $=$ other assets

Table 5 shows that the financial performance of CRDB will be 0.191 units if all other factors are held constant. However, when other factors are held constant, a unit change in financial assets will change the financial performance of CRDB bank by 0.041 units in the opposite direction. Similarly, a unit change in cash and cash equivalents while holding other factors constant will cause a change in the financial performance of the bank by 0.005 units in the opposite direction. However, when all other factors are held constant, a unit increase in loans will result to an increase of financial performance of a commercial bank by 0.022 units and vice versa. Finally, a unit change in other assets will result to a change in the financial performance of the bank by 0.002 units when other factors are held constant.

Discussion of findings

The study found that the predictor variables (financial assets, cash and cash equivalents, loans and other assets) had a high correlation (R = 0.78) with the outcome variable ROA. The analysis also deduced that the predictor variables accounted for 60.64% (coefficient of determination, R^2) of the variance in the financial performance of the bank. Furthermore, the ANOVA results showed that the F statistics were significant at 5% level of significance. The implication here is that at least one of the financial performance model was fit to explain the relationship. The Cronbach's alpha of 0.814 was used to measure reliability of the data collected, that is, how well the test measured what it should. Having this value means that the internal consistency of the data was considered to be good.

The regression analysis showed that a unit change in financial assets would have a negative impact on the financial performance of the bank by 0.041 units. Furthermore, having a P value of 0.002, this impact was significant at a 5% level of significance. This implied that having financial assets in a portfolio portrays a negative relationship with commercial banks performance. Thus, at a P value of 0.002 the null hypothesis, H_0 was rejected since the P value of the financial assets was significantly low (P < 0.05). Therefore, financial assets have an impact on financial performance of commercial banks in Tanzania at a 5% level of significance.

These findings are in conformity with Mulwa and Kosgei (2016) that asset diversification has a negative and significant effect on commercial banks ROA. But it is also known that the objective of a business firm when selecting a portfolio to invest in, is to maximize returns while striving to satisfy some risk constraints. The findings are in contrast with Mutega (2016) who revealed that an increase in financial assets, results to increase of financial performance of commercial banks. The difference in the results can be attributed to the way data was collected and analyzed between the two studies. While the study by Mutega (2016) used data of the entire population of commercial banks in Kenya, this study included only one commercial bank in Tanzania as a case study. Further, this study period was for 19 years (2005 to 2023) while Mutega's (2016) study period was for a 10-years (2001 to 2010) period. However, arguments from other studies (e.g. (Grady, Cummings, and Hulley, 2019; Kumbirai and Webb, 2010) maintain that investment in different assets by a company improves the possibilities of having a good return although not guaranteed because of the uncertainty facing the investments.

CRDB Bank has continued to increase its diversification in financial with a few observed declines in some years. Increasing diversification, however exhibited a negative impact on the financial performance of the bank which might imply that there may be some reasons which prompted the bank's management to continue diversifying investments in financial assets. Some of the reasons may include

the nature and types of financial assets that the bank invests in such as investing in government securities which are risk free assets with longer maturity periods and whose returns cannot directly be observed on each year's financial performance but will rather be reported after certain duration depending on maturity.

Cash and cash equivalents have a negative impact on ROA which is in agreement with Boolaky (2011) who found that deposits are inversely related to banks` returns but depending on the existing economic condition. This also concurs with Makokha, Namusonge and Sakwa (2016) who found that portfolio diversification has a significant impact on financial performance of commercial banks. However, the results were insignificant at a P value of 0.779, thus we fail to reject the null hypothesis. Therefore, cash and cash equivalents have no impact on financial performance of commercial banks in Tanzania at a 5% level of significance.

The study also reveals that a unit increase in loans lead to an increase in the financial performance of CRDB bank by 0.022 units. The implication is that diversification in loans has positive impact on the financial performance of the bank. This is in agreement with Ndege (2012) that credit risk has a positive significant impact of financial performance of commercial banks. It also concurs with Mutega (2016) that loan portfolio constitutes the largest, major asset and the biggest income avenue for commercial banks. Thus, at a P value of 0.013 the null hypothesis, H_2 was rejected since the P value of loans was significantly low ($P < 0.05$). Therefore, loans have an impact on financial performance of commercial banks in Tanzania at a 5% level of significance.

The impact of other assets on commercial banks' financial performance was also tested. These other assets had a positive impact on ROA, implying that an increase in other assets leads to better financial performance of commercial banks. However, these results were insignificant at a 5% level of significance and therefore mean that commercial banks financial performance is not influenced by other assets. Thus, at a P value of 0.83 we failed to reject the null hypothesis, H_3 at 5% level of significance since the P value of other assets was significantly greater ($P > 0.05$).

Conclusion and Recommendations

The study investigated the impact of asset diversification on the financial performance of commercial banks in Tanzania. The Durbin Watsons statistic of 1.487 implied that a positive serial correlation existed between the study variables. Data reliability was tested and the internal consistence was good at a Cronbach's alpha of 0.81. Furthermore, a coefficient of determination (R^2) of 0.6064 was obtained from the regression analysis implying that 60.64% of the deviations in the financial performance of commercial banks are accounted by the predictor variables financial assets, cash and cash equivalents, loans as well as other assets.

The study found that financial assets had influence on financial performance of commercial banks indicating that changes on diversification into financial assets by commercial banks will have an impact on its financial performance. Also a negative correlation was established between financial assets and financial performance implying that an increase in financial assets would lead to a decrease in commercial banks' financial performance and reverse is true. Loans were found to have a significance influence on commercial banks' financial performance. Therefore, an increase in diversification into loans would positively increase financial performance. This was also confirmed by the positive correlation between loans and financial performance of commercial banks. Cash and cash equivalents were found to have no significant influence on commercial banks financial performance. This implies that changes in cash and cash equivalents will have no impact on the profitability of commercial banks. However, this could also imply that the cash and cash equivalents were very low throughout the study

period to portray an impact on financial performance. Finally, it was also established that other assets have no significant influence on the financial performance of commercial banks.

It has been established that the values of the bank's financial assets generally kept on increasing despite having a negative relationship with the financial performance. Such trend puts the bank into risky positions. Thus, therefore commercial banks are recommended to further review the types of financial assets they invest into, asset quality as well as the asset diversification plan in general so as to assess the exact cause of the negative effect on financial performance. It is further recommended that in order to maintain financial stability and avoid negative shocks, commercial banks have to regularly identify the determinants of financial performance of commercial banks from time to time due to the prevalence of economies of scale in the banking sector as well as market dynamics. Banks should also promote confidence in asset diversification and introduce marketing policies that will spread and encourage it.

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