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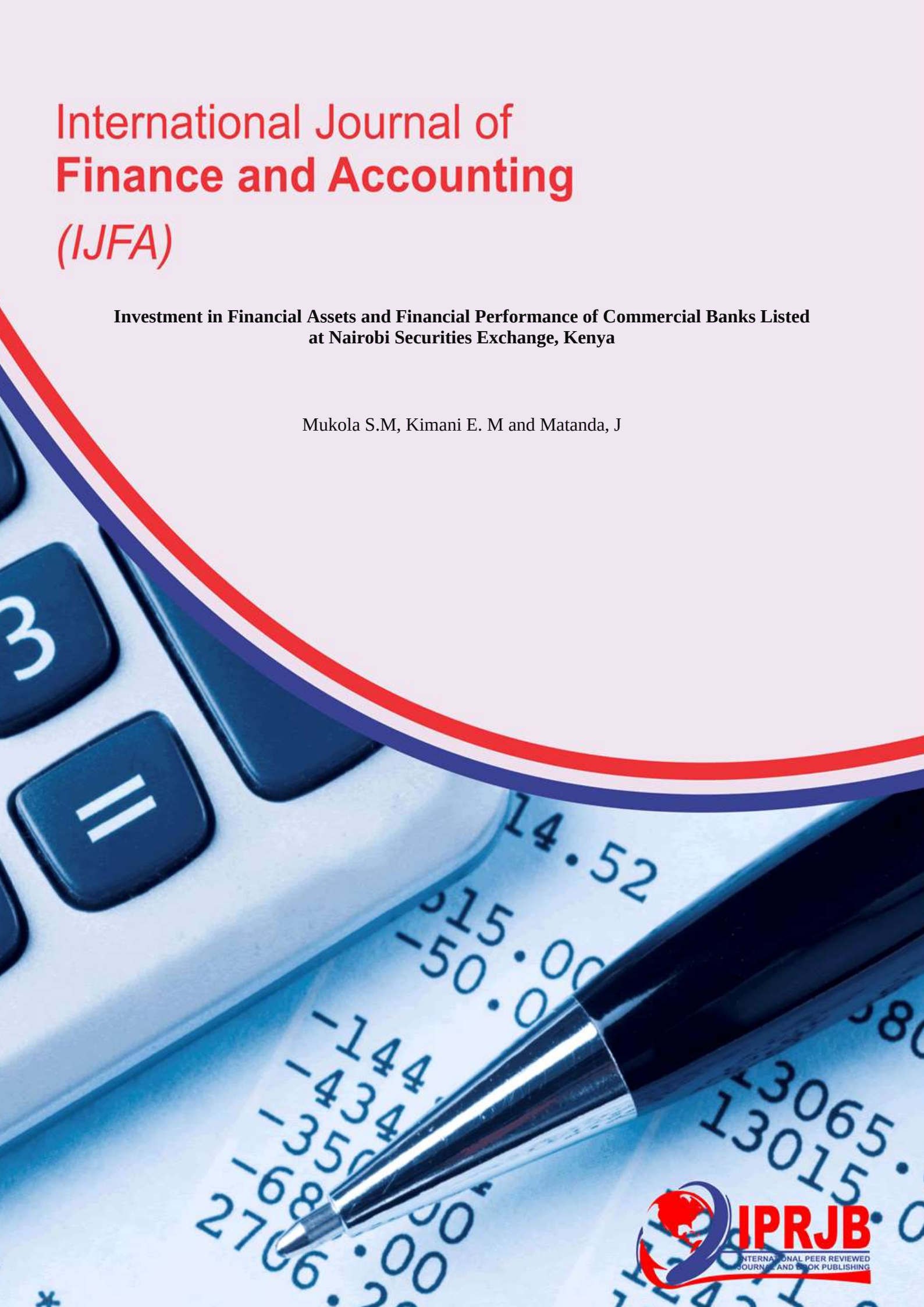

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Investment in Financial Assets and Financial Performance of Commercial Banks Listed at Nairobi Securities Exchange, Kenya

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Abstract

Purpose: The concept of diversification has taken a universal centre stage in the process of management and continues to be an increasingly important aspect of doing business in today's world of today. The study examined the effect of investment in financial assets on the financial performance of commercial banks listed at the NSE in Kenya. The study is anchored on asset quality theory. The study adopted a descriptive research design on a target population of 11 commercial banks listed at the NSE, Kenya. The study was conducted through a census. The study was conducted for a period of 5 years from 2020 to 2024.

Methodology: Secondary data was utilized to collect financial information from the bank's annual reports and financial statements for analysis. Data was gathered from secondary sources with the aid of a secondary data collection sheet. Data was obtained from financial and statistical reports released by the CBK and the KNBS. Data was analyzed using descriptive and inferential statistics. The descriptive statistical tools included frequencies, percentages, means, variances, and standard deviations. Inferential statistical tools included Pearson's product-moment correlation and panel regression analysis.

Findings: Investment in financial assets revealed a coefficient result of 0.138. The overall results revealed that 62.1% of the variation in the financial performance of commercial banks listed at the NSE, Kenya, is explained by investment in financial assets, while factors not studied in this research contributed to the remaining 37.9% of the variation, which is attributed to other factors not captured in this model. The findings therefore concluded that investment in financial assets has a significant positive effect on the financial performance of commercial banks listed at the NSE, Kenya. Lastly, the study found that investment in financial assets explains 62.1 % of the financial performance of commercial banks listed at the NSE in Kenya.

Unique Contribution to Theory, Practice and Policy: This study therefore suggests that further studies be conducted on other factors affecting the financial performance of these listed commercial banks to establish the 37.9% of the factors affecting financial performance for commercial banks listed at the NSE, Kenya.

Keywords: *Investment, Financial Assets, Financial Performance, Commercial Banks, NSE, Kenya*

INTRODUCTION

Financial performance is the company's ability to generate economic value and deliver returns to its investors (Tudose et al., 2022). It reflects how a company effectively manages its resources to generate profits and achieve its financial objectives. It is the company's financial condition over a certain period that includes the collection and use of funds, measured by several indicators of capital adequacy ratio, liquidity, leverage, solvency, and profitability. Moreover, financial performance can also refer to the company's ability to manage and control its resources (Mochamad Mochklas, 2018). Commercial banks aim at maximizing profitability with an acceptable level of risk, both for clients, potential investors, and shareholders.

Commercial banks carry out a large number of diversified operations in order to be competitive in the market and to achieve satisfactory profits. In Kenya, the banking sector has undergone significant transformations driven by technological advancements, regulatory changes, and macroeconomic shifts. These developments have intensified competition and highlighted the importance of financial performance for sustainability and growth. Ejim (2021) asserts that the financial performance of commercial banks has steadily declined over time due to numerous internal and external factors. Consequently, there is a growing interest among scholars and business analysts in identifying the specific investments that influence the financial performance of commercial banks (Sarkar & Rakshit, 2021).

Over the past 10 years, the Kenyan commercial banking sector, consisting of more than 40 commercial banks, has experienced mixed success. While banks such as Kenya Commercial Bank, Standard Chartered Bank, Co-operative Bank, and Equity Bank have reported high financial performance, some banks, such as Kingdom Bank, Bank of Africa, National Bank of Kenya, and Eco Bank, among others, recorded poor financial results (CBK, 2017). Commercial banks in Kenya have diversified their portfolio, intending to enhance their financial performance. A diversified portfolio allows banks to extend more credit, particularly to small businesses. This expansion not only benefits the banks but also stimulates economic growth by providing essential funding to various sectors (Gelman et al., 2023).

Financial assets, including loans and advances, and deposits, form the fundamental operations of commercial banks, directly impacting their financial performance. Loans and advances denote the credit provided to individuals and enterprises, yielding interest income for commercial banks. Deposits serve as the principal source of capital that banks employ for lending operations. The positive relationship between customer loans and advances and a bank's return on assets highlights the significance of prudent lending policies (Adeniran & Obembe, 2015). The increase in deposits is associated with improved bank performance, since it offers a reliable funding source for lending operations (Kumar & Singh, 2023).

Statement of the Problem

Financial performance reflects commercial banks' ability to generate profits, effectively manage and control resources to achieve their financial objectives, and create value for shareholders. Return on Assets (ROA) is a key indicator of financial performance, which is crucial for banks' survival and competitiveness in the dynamic financial market. However, there has been a decline in financial performance over recent years, leading some banks to shut down. Recent years have witnessed a concerning decline in ROA across commercial banks in Kenya. According to the Kenya Bankers Association, Historical data further shows volatility whereby ROA fell from 3.3% in 2019 to 2.07% in 2020, recovered to 3.3% in 2021, and peaked again at 3.4% in 2022 (CBK, 2022). The sector's average ROA dropped from 3.7% in 2022 to

2.9% in 2023, dropping further to 1.3% in 2024, signalling deteriorating asset profitability (CBK, 2022). The repeal of Kenya's interest rate cap in November 2019, initially anticipated to improve credit access and push ROA higher, has yielded mixed results. While banks regained autonomy in loan pricing, the expected increase in private sector lending did not fully materialize. Consequently, several banks faced profitability challenges, contributing to the sector's decline in ROA and triggering the closure of weaker banks. In response, banks increasingly sought alternative investment channels to support ROA. Bhuyan et al. (2019) examined the effect of alternative investments on the performance of commercial banks. The study found that small banks did not significantly benefit from alternative investments. The study, however, confined itself to real estate investments as the only alternative investment. Similarly, Njeru, Kagiri, and Thuo (2020) observed that investment in government securities positively correlates with financial stability; however, it may limit higher returns achievable through diversified portfolios. While the above studies provide valuable insights into the alternative investments and the performance of commercial banks, they do not adequately examine the comparative impact of investment in financial assets on financial performance, underscoring the necessity for further research to bridge this gap.

Objectives of the Study

The general objective of the study was to establish the effect of investment in financial assets on the financial performance of commercial banks listed at the NSE in Kenya.

Theoretical Review

This section provides a review of the information from other scholars who have conducted research in a similar field of study.

Asset Quality Theory

It was postulated by Sinkey in 2002. It argues that the profitability of banks is contingent upon the quality of a bank's assets, primarily its loan and investment portfolio. It asserts that poor asset quality, often characterized by non-performing loans or risky investments, results in increased credit risk, reduced earnings, and increased risk of insolvency. The theory is based on the assumptions that banks operate in environments characterized by imperfect information and are susceptible to agency problems, which may lead to suboptimal lending or investment decisions. It also assumes financial institutions seek to optimize returns while prudently managing risks through asset selection and monitoring.

The theory is popularly used in bank performance analysis, financial regulation, and credit risk evaluation. Investors and regulators use asset quality metrics such as the ratio of non-performing loans to total loans to assess the financial health of a bank. In academic research and pragmatic banking, this theory underpins the concept that continuous profitability and stability depend on maintaining a high-quality asset base, especially during financial crises when asset quality tends to decline. In academic research and pragmatic banking, the theory supports the concept that continuous profitability and stability depend on maintaining a high-quality asset base, especially during financial crises when asset quality tends to decline. Even though this theory is widely used in bank performance analysis, it underpins the complexities of contemporary banking and the diverse factors that affect a bank's performance.

Empirical Review

Ngware and Muluka (2024) conducted a study on the effect of deposit portfolios on the financial performance of commercial banks in Kenya. The study adopted a descriptive and

correlational research design. The study population comprised 43 commercial banks licensed by the Central Bank of Kenya as of December 2018. The study period was from 2003 to 2018. The study utilized secondary data obtained from the Central Bank of Kenya, World Bank, and the respective banks' audited financial statements. Data analysis utilized time series and cross-sectional unbalanced secondary panel methods. The study found that diversification of deposits has a positive impact on the financial performance of commercial banks in Kenya. While the study period provides an extensive data range, it does not account for more recent developments in the banking sector, thus limiting the applicability of findings.

Thiongo, Kilungu, and Kamau (2024) conducted a study on loan portfolio growth and financial performance of commercial banks in Kenya. The study employed a regression research design and targeted all 44 commercial banks in Kenya. A sample of 31 commercial banks was selected. The study period was 5 years, from 2011 to 2015. Data was analyzed using multiple linear regression. The findings of the study revealed that growth in loan portfolios had a negative effect on the financial performance of commercial banks in Kenya. The study effectively examines the relationship between loan portfolio growth and the financial performance of Kenyan commercial banks; however, it does not justify why a regression research design was used instead of a descriptive or explanatory research design.

Hammed et al. (2018) studied the impact of interest rate fluctuations on the profitability of commercial banks in Pakistan. The study adopted an explanatory research design. The study used correlation and regression analysis to examine the effects of interest rate adjustments, deposits with other banks, advances and loans, and investments on key profitability indicators. Secondary data was used in the study covering the period from 2007 to 2014. The study population comprised 20 banks that were selected in Pakistan based on their market share and return. The study found that deposits held with other banks and interest rates hurt bank profitability, while advances, loans, and investments had a positive effect. The study provides valuable insights; however, it does not explicitly state how the sample of the 20 banks was arrived at or whether it was a census study, hence limiting the generalizability of findings.

Dondi, Mule, and Ombok (2023) studied the effect of lending interest rates on the financial performance of commercial banks in Kenya. The study adopted a correlational research design. A census technique was employed in the study, encompassing all 32 commercial banks that were involved in mortgage financing. The study period was 7 years, from 2015 to 2021. Data was analyzed using inferential statistical techniques. Findings of the study revealed a significant and negative influence of lending interest rates on the financial performance of commercial banks in Kenya. While the research design used identifies relationships, it does not establish causation, and hence, a more robust research design would have been used.

Belay (2022) studied the effect of deposit mobilization on the financial performance of commercial banks in Ethiopia. The study adopted an explanatory research design. Data analysis utilized a balanced fixed effect panel regression model and EViews 10 econometric software. Secondary data was collected from all 17 commercial banks in Ethiopia since it was a census study. The study period was 8 years, from 2014 to 2021. Findings of the study revealed a positive relationship between deposit mobilization and the financial performance of commercial banks in Ethiopia. While the study demonstrates a positive correlation between deposit mobilization and financial performance, correlation does not imply causality. There is a need to investigate causal mechanisms, such as whether an increase in deposits directly leads to profitability.

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Conceptual Framework

The conceptual framework illustrates the relationship between the independent and dependent variables. In this study, the independent variable is investment in financial assets, and the dependent variable is the financial performance of commercial banks in Kenya, measured by Return on Assets (ROA).

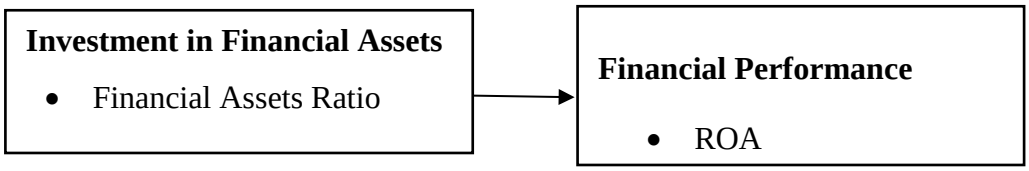

Figure 1: Conceptual Framework

METHODOLOGY

This section highlights the research design, target population, sampling frame, census, data collection instruments, data collection procedure and data processing and analysis employed.

Research Design

This study adopted a descriptive research design. A descriptive research design provides a detailed, accurate representation of characteristics, patterns, and trends within the subject of study (Creswell & Creswell, 2018).

Population of the Study

The target population refers to the specific group from which samples are drawn and tailored to meet the research objectives (Hair et al., 2020). The target population of the study comprised all 11 listed commercial banks at the Nairobi Securities Exchange (NSE), Kenya.

Sampling Frame

A sampling frame is a list or other device used to define a researcher's population of interest and from which a sample is drawn (Bryman, 2016). In this study, the sample frame consisted of a list of all 11 commercial banks listed at the NSE in Kenya.

Census

A census is a systematic process of collecting, analyzing, and disseminating demographic, economic, and social data about all individuals in a given population (Engbo et al., 2020). The census method was adopted, whereby all the 11 commercial banks listed at the Nairobi Securities Exchange were under consideration, hence no sampling was done.

Data Collection Instruments

A secondary data collection sheet was used. The secondary data was collected from audited financial statements of commercial banks and annual reports published by the Central Bank of Kenya using a secondary data collection sheet. The study collected data from the period 2020 to 2024.

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Data Processing and Analysis

The collected data were processed, cleaned, coded, and calculated using STATA 15. A descriptive statistical analysis described data in an understandable form, using frequencies, percentages, mean, and standard deviation. In order to test the relationship between the variables, the inferential test, including the Pearson product-moment correlation and panel regression analysis, will be used. The following panel regression equation will be used to shape the relationship between the dependent variable.

$$\gamma it = \beta_0 + \beta_1 X_{1it} + \varepsilon \quad \text{.....Equation 1}$$

FINDINGS AND DISCUSSIONS

This section mainly focuses on data analysis as stipulated in the research methodology and the study findings as set out in the research objectives. The data presented was for the period between 2020 and 2024.

Descriptive Statistics Results

This section provides a summary of the sample and data measures, which aid in describing the characteristics of a particular data set. The study used annual data that was sourced from the NSE, CBK, and individual bank reports to arrive at various statistical measures, which included the mean, maximum, minimum, standard deviation, skewness and kurtosis. The results of the descriptive analysis are shown in Table 1.

Table 1: Descriptive Statistics Results

Statistics	N	Min	Max	Mean	SD	Skewness	Kurtosis
Investment in Financial Assets	11	0.0749	0.8733	0.4490	0.3196	-0.4128	1.7798
ROA	11	-0.2812	0.3673	0.0528	0.1155	4.0234	-0.1618

The results in Table 1 show the descriptive results of financial assets investments, with the minimum and maximum values of 0.0749 and 0.8733, respectively. This means that while some commercial banks listed at the NSE earned very low income relative to their total financial assets, others earned very high income from their financial assets. On average, the return on financial assets investment across the sample was 0.4490 44.90%, suggesting that financial assets are generally profitable and are generating a moderately high return relative to their value. The average value implies that financial assets, on average, contribute substantially to institutional income, affirming their role as a core component of investment portfolios. A standard deviation of 0.3196 indicates moderate to high variability in return ratios, meaning that returns differ significantly across banks, with some performing much better or worse than others.

A negative skew of –0.4128 indicates that the data is left-skewed, meaning that the tail on the left (lower returns) is longer, and more commercial banks cluster around higher return values**,** above the mean. The skewness of –0.4128 is moderate, suggesting that a few firm commercial banks experienced unusually low returns from financial assets, dragging the tail to the left. The kurtosis of 1.7798, which is less than 3, means that the distribution is platykurtic (flatter than normal), i.e., there are fewer extreme values (outliers). In the context of financial assets, this indicates that returns from financial assets tend to be more balanced, without sharp spikes or collapses. The absence of many outliers may suggest stable and consistent performance across most institutions.

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In line with the dependent variable, financial performance measured by ROA, the lowest observed value of –0.2812 (–28.12%) indicates that at least some commercial banks made significant losses relative to their total assets. The maximum of 0.3673 of ROA implies that some commercial banks were able to generate very high profits from their assets, depicting a strong performance indicator and reflecting efficient asset utilization and healthy margins. The average mean of 0.05281 implies a moderate level of profitability, where companies earn a fair return on their assets. The SD value of 0.1155 (11.55%) of ROA is relatively high and reflects a considerable variation in financial performance across commercial banks listed at the NSE. The high SD implies that while some commercial banks achieved strong efficiency in converting assets into profits**,** others suffer from serious underperformance, highlighting the need for improved asset management and operational effectiveness.

The skewness value of 4.0234 indicates a strongly positive skew, suggesting that the distribution is highly right-skewed. This implies that a small number of outliers with exceptionally good performance are pulling the distribution's tail to the right. This could also suggest that most commercial banks earn less than the mean, which explains the low mean compared to the maximum. Kurtosis of -0.1618 is negative kurtosis and less than 3, indicating a platykurtic distribution with flatter than normal and fewer extreme values than a normal distribution, suggesting that the distribution is flatter than normal**,** with returns more evenly spread out and fewer extreme outcomes than a typical bell-shaped curve. This indicates a financial landscape where most firms have modest or low ROA**,** but a few outperform significantly.

Trend Analysis

This section provides a graphical representation of the movement and changes of the variables under study over the years 2020 to 2024

Trend Analysis for Investment in Financial Assets

The study sought to establish the trend analysis for financial assets between the periods of 2020 and 2024. Figure 2 shows the results

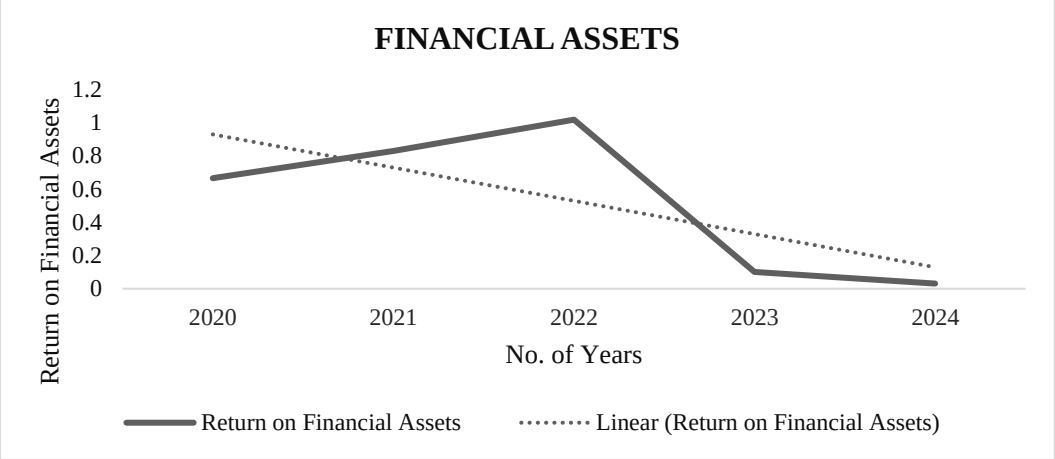

Figure 2: Trend Analysis for Investment in Financial Assets

According to Figure 2, the trend analysis reveals that in 2020, returns on financial assets were moderately strong as commercial banks relied heavily on loans, advances and deposits to stabilize income during the COVID-19 shock. In 2021, returns improved slightly as economic

activity began to recover; however, elevated loan loss provisions continued to suppress profitability. KCB Group, for instance, significantly increased provisioning in anticipation of loan defaults, which limited gains from financial asset investments despite improved market conditions. A strong performance was observed in 2022, when returns on financial assets peaked. This reflected improved credit quality, higher treasury yields, and increased trading income. Absa Bank Kenya reported enhanced returns from treasury operations and diversified financial asset portfolios as economic conditions normalized.

In 2023, returns declined sharply due to tighter monetary policy, rising interest rates, and heightened market volatility, which negatively affected bond prices and equity valuations. Despite this, banks such as Stanbic Holdings continued to post relatively strong results from financial intermediation and investment banking activities. In 2024, returns declined further as inflationary pressures, higher funding costs, and slower credit growth persisted. Nonetheless, major banks, including Equity Group, KCB, NCBA, and Absa, continued to benefit from digital lending platforms and diversified securities portfolios, helping to cushion the overall decline. Overall, the graph shows that while returns on financial assets improved up to 2022, the subsequent decline highlights the growing influence of macroeconomic pressures on banks' investment performance toward the end of the study period.

Trend Analysis for Financial Performance

The study sought to establish the trend analysis for financial performance between the periods of 2020 and 2024. Figure 2 shows the results

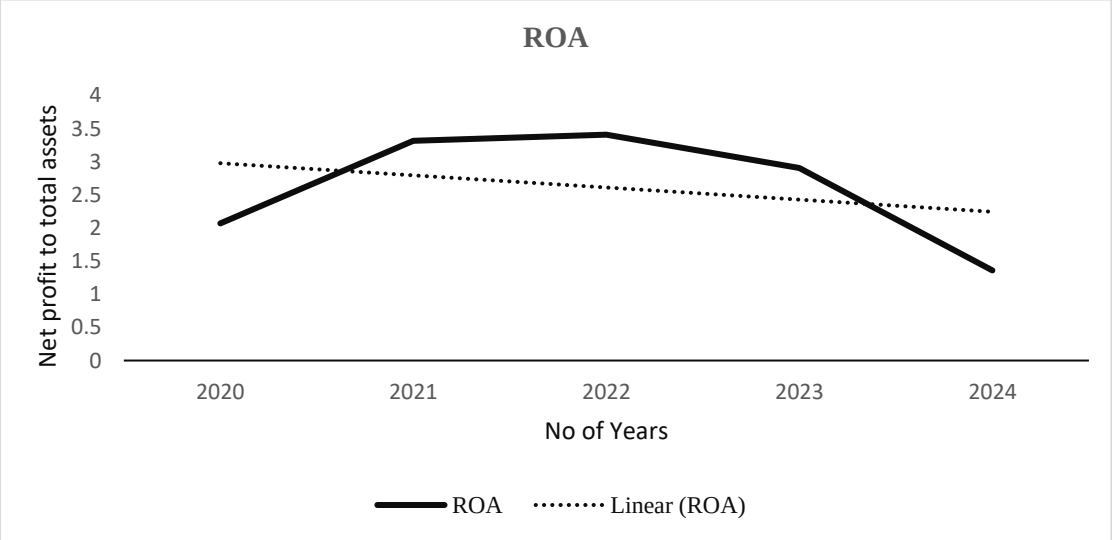

Figure 3: Trend Analysis for Financial Performance

In 2020, ROA stood at approximately 2.1%, reflecting the adverse impact of the COVID-19 pandemic on bank profitability. Commercial banks experienced reduced economic activity, rising non-performing loans (NPLs), and increased loan loss provisions. For example, KCB Group and Equity Group reported significant pressure on profitability due to heightened credit risk management costs and subdued lending, which constrained overall returns on assets. This low ROA underscores the vulnerability of banks' financial performance during periods of economic disruption, a key concern highlighted in the statement of the problem. In 2021, ROA increased markedly to about 3.3%, indicating a strong recovery as economic conditions

improved. Reduced lockdown measures supported loan repayments and income growth, while digital banking platforms enhanced operational efficiency.

In 2022, ROA peaked at approximately 3.4%, representing the highest performance during the study period. This improvement was driven by robust interest income, improved asset quality, and stronger returns from both lending and investment activities. Absa Bank Kenya and Stanbic Holdings reported increased earnings supported by higher loan growth, treasury income, and reduced credit impairment charges. In 2023, ROA declined to around 2.8%, reflecting the effects of tightening monetary policy, rising interest rates, and higher cost of funds. Although interest income increased, elevated operating and financing costs reduced net profitability. Banks such as KCB Group experienced margin pressures despite sustained lending activity.

In 2024, ROA declined further to approximately 1.4%, the lowest level in the latter part of the study period. Persistent inflationary pressures, slower credit growth, and increased market uncertainty significantly constrained profitability across the banking sector. Even though major banks such as Equity Group, KCB, and NCBA maintained diversified income streams, overall returns on assets weakened due to macroeconomic pressures. This sharp decline reinforces the core problem motivating the study: the inability of commercial banks to sustain stable and consistent financial performance despite diversification efforts.

Inferential Statistics

Inferential statistics were conducted to examine the effect of investment in financial assets on the financial performance of commercial banks listed at the NSE.

Correlation Analysis

Correlation analysis was used to determine the strength and direction of association between investment in financial assets and financial performance (ROA). The results are shown in Table 2

Table 2: Correlation Coefficient

		ROA	Investments in Financial Assets
ROA	Pearson Correlation		
	Sig.(2- tailed)	1.0000	
	N	11	
Investments in Financial Assets	Pearson Correlation	0.5483**	1.0000
	Sig.(2- tailed)	0.001	
	N	11	11

The correlation results in Table 2 reveal that investments in financial assets (r = 0.5483, p = 0.001) recorded a strong positive correlation, showing that efficient management of financial assets such as deposits, loans and advances significantly boosts profitability.

Regression Analysis

To further test the effect of investments in financial assets on financial performance, a panel regression analysis was done to obtain the R coefficient and R-squared that determined the relationship. The results are presented in Table 3.

Table 3: Model Summary

Model 1	Multiple R	R Squared	Adjusted R Square	S.E. Regression	Obs
Financial Performance	0.788	0.621	0.594	0.0660	55

The regression model results show that investments in financial assets have a strong positive association with the financial performance of commercial banks listed at the NSE, as indicated by a multiple correlation coefficient (R) of 0.788. The coefficient of determination ($R^2 = 0.621$) reveals that 62.1% of the variation in financial performance (measured by ROA) is explained by investments in financial assets, reflecting a strong explanatory power of the model, signifying that investments in financial assets are a major determinant of financial performance among listed commercial banks in Kenya. The remaining 37.9% of the variation is attributed to other factors not captured in this model, such as management efficiency, market conditions, credit risk exposure, or macroeconomic influences.

The Adjusted $R^2 = 0.594$ refines the explanatory strength of the model by taking into account the number of predictor variables included relative to the sample size. The Adjusted R^2 value of 0.594 corrects for potential overestimation that can occur when multiple predictors are used in the model. This implies that even after adjusting for the four explanatory variables, approximately 59.4% of the variability in banks' financial performance is still accounted for by investments in financial assets. The Standard Error (SE = 0.0660) measures the average distance between the actual financial performance values and the values predicted by the regression model. In essence, it indicates how accurately the model predicts financial performance based on the investments in financial assets.

Analysis of Variance (ANOVA)

The ANOVA was conducted to assess the overall significance of the regression model linking investments in financial assets to the financial performance of commercial banks listed at the NSE. The results are presented in Table 4.

Table 4: ANOVA Results

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	0.082	4	0.0205	5.684	0.027 [b]
	Residual	0.026	6	0.0043		
	Total	0.108	10			

The ANOVA results indicate that the overall regression model is statistically significant ($F(4,6) = 5.684$, $p = 0.027$), suggesting that the investments in financial assets have a significant effect on the financial performance of commercial banks listed at the NSE. Therefore, the null hypothesis that all regression coefficients are equal to zero is rejected, affirming that investments in financial assets account for a substantial proportion of the changes in the commercial banks listed at the NSE, Kenya.

Regression Coefficient Results

Panel regression analysis between the dependent and independent variables was conducted to establish the effect of investment diversification on the financial performance of commercial banks listed at the NSE, Kenya. The regression coefficient results, as presented in Table 5, illustrate the individual contributions of investment property, government securities, private equity, and financial assets to financial performance.

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Table 5: Regression Coefficients

	Unstandardized Coefficients		Standardized Coefficients	tStat	P-value
	Std Error	Beta	(Beta)		
(Constant)	0.041	0.014	-	2.929	0.027
Investment in Financial Assets	0.223	0.065	0.342	3.431	0.012

The constant term is positive and statistically significant at the 5% level, indicating that even in the absence of investments in financial assets, commercial banks listed at the NSE maintain a baseline financial performance (ROA) of 0.041. The significance of the intercept further implies that the model captures essential predictors but does not entirely explain all sources of banks' financial performance, emphasizing the multidimensional nature of these banks' ROA. The panel regression results in Table 5 thus become:

$$Y = 0.041 + 0.223X_{4it} \quad \text{.....Equation 2}$$

Hypotheses Test Results

The study sought to test the following null hypotheses (H_{01}) regarding the effect of investments in financial assets on the financial performance of commercial banks listed at the NSE, Kenya. The hypotheses were tested at a 5% significance level ($p = 0.05$) using the regression coefficients, t-statistics, and corresponding p-values presented in Table 5.

H_{01}: Investment in Financial Assets has no Significant Effect on the Financial Performance of Commercial Banks Listed at the NSE, Kenya

The regression coefficient for financial assets investment is positive and highly significant ($\beta = 0.223$, $t = 3.431$, $p = 0.012$). As the p-value (0.012) is less than 0.05, the null hypothesis is rejected. This demonstrates that financial assets investment significantly improves the financial performance of commercial banks listed at the NSE, Kenya, highlighting the importance of efficient management of financial assets in enhancing profitability.

The results are in agreement with Wambua and Githinji (2023), who found that investment in financial assets significantly improved the profitability of commercial banks in Kenya by generating stable income streams and enhancing liquidity management. Similarly, Nguyen and Phan (2020) and Aduda and Kimathi (2022) established that well-diversified financial asset portfolios contribute positively to return on assets, while Murithi and Karanja (2021) reported that firms with higher proportions of income-generating financial assets outperformed their peers in terms of profitability and financial stability, particularly during volatile economic periods. However, contrasting findings by Muriuki (2024) and Aboagye and Tandoh (2022) found that the relationship between financial asset investments and profitability was insignificant, citing weak portfolio management practices and fluctuating market returns.

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This section presents the summary of the key findings, conclusions and recommendations derived from the study on investment in financial assets and financial performance of commercial banks listed at the NSE, Kenya.

Summary

The study comes to the conclusion that the financial performance of banks is most positively impacted by investments in financial assets, which include loans, advances and deposits. This illustrates how active portfolio rebalancing and effective financial asset management significantly increase profitability and liquidity.

Recommendations

Based on the findings that investment in financial assets is the most significant contributor to financial performance, the study recommends that commercial banks listed at the NSE should prioritize efficient financial asset portfolio management as a core profitability strategy. Banks should strengthen credit risk assessment and monitoring systems to enhance the quality of loans and advances. Since loans constitute the largest proportion of financial assets, improved screening, real-time monitoring, and recovery mechanisms will reduce non-performing loans (NPLs), lower provisioning costs, and improve Return on Assets (ROA). Second, there is a need for diversification within financial assets, balancing high-yield loan portfolios with low-risk instruments such as government securities. This ensures income stability during periods of economic uncertainty and enhances liquidity management. Lastly, banks should strengthen asset-liability management (ALM) frameworks to manage interest rate risk and maintain optimal spreads between the cost of funds and returns on financial assets. Strategic treasury management will help sustain profitability even in volatile macroeconomic conditions.

Recommendations for Policy

To enhance the financial performance of commercial banks, policymakers should provide clear and adaptive regulatory frameworks that encourage investment in financial assets while mitigating systemic risk. Innovation and stability can be encouraged by implementing specific incentives, such as tax breaks or lower capital needs for banks that keep highly performing and diversified investment portfolios. To improve banks' ability to make decisions, policymakers should also back capacity-building programs, such as specialized instruction in risk management, investment analytics, and sustainable finance. Furthermore, requiring real-time, transparent reporting of investment portfolios can boost investor trust, lessen information asymmetry, and enhance market discipline. When taken as a whole, these actions can foster an atmosphere that encourages the banking industry's resilience, profitability, and long-term expansion.

Recommendations for Future Study

Building on the findings of this study, several avenues for future research can be identified to deepen the understanding of investment in financial assets and their impact on bank performance. Since the regression explained 62.1% of the variation in financial performance, future research could explore other moderating or mediating variables that may influence this relationship. For instance, corporate governance quality, managerial expertise, or market conditions could strengthen or weaken the effect of investment diversification on profitability. While this study focused on listed banks in Kenya, future research could compare similar regression models in other emerging or developed markets to evaluate whether the patterns of significance and impact of investment diversification are consistent globally or context-specific.

While this study focused on ROA as the primary measure of financial performance, further studies could incorporate alternative metrics such as ROE, Net Interest Margin (NIM), or

Tobin's Q. This would allow researchers to assess whether investment diversification impacts different aspects of bank performance differently, offering a more nuanced understanding of profitability and efficiency. Additional studies could examine the impact of investments in non-traditional sectors, such as technology, green energy, and fintech, on the financial performance of banks. As commercial banks increasingly seek innovative avenues for income diversification, understanding the risks and returns associated with these sectors could guide more strategic portfolio management. Exploring these areas would deepen understanding of investment strategies in banking, support more effective portfolio management, and inform regulatory policies aimed at sustaining financial sector growth.

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