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**An Empirical Study of Income Diversification and its Impact on Profitability of Banks**

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**Abstract**

Objectives: The paper is studying diversification in income of Indian banks and impact of income diversification on profitability and sustainability of industry, mainly in environment shift of recent financial crisis. Statistical analysis: The study is a multivariate regression analysis to find diversification score on the secondary data for Indian banking industry for sample period of 10 years, from 2006 to 2015. Score of diversifications are calculated at two stages as DS (1), DS (2) to find share of non-traditional income in total income and categorization in non-traditional income respectively. The impact on the different income categories ; Share of Non-Interest Income(SNI), Share of fee Based Income (S FI), Share of Other Income(S OT), are tested against selected control variables. F-test used to test hypothesis as direct association with two set of variables. Further criterion scores techniques (SIC), (AIC) and (HQIC) are use as model improvement to test goodness of fit of the model.

Findings: The study found that income shift of new business lines helps banks to improve their profitability by dint of many barriers in implementation. The growth trend of such income is not stable during whole study period, majorly due to global financial crisis. In the library of literatures, the share of non-interest based income activities and fee based income sources has been more distinct for Private and Foreign banks, even though SBI and Its associate’s banks are not far behind them. The role of the study to highlight the path for banks adopting new Non-interest income streams to enhance profitability and continuity in profitability. As reported, diversification in non-interest income sources may have positive impact on overall profitability and risk-adjusted performance along with improvement in stability of banking system. Other non-interest incomes are more changeable in compare to Fee based income generated by fee, commission and brokerage activity. By dint of many good effect of diversification banks, mainly in Indian context should take appropriate majors while diversification of its income.

Application/Improvements: The study provide a complete understanding about the positive effect of income diversification on profitability of banks but the decision makers should take appropriate majors, while taking diversification decision.

**Keywords:**

Diversification Indexes, Profitability, Bank, Profitability, Multivariate Analysis.

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