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Abstract

This paper investigates the effect of revenue diversification on bank performance and risk. Using a panel dataset of 226 listed banks across 11 emerging economies and a new methodological approach, System Generalized Method of Moments estimators (System GMM), the results in this paper provide empirical evidence of the impact of the observed shift towards non-interest income generating activities on insolvency risk and bank performance. The core finding is that diversification *across* and *within* both interest and non-interest income generating activities decrease insolvency risk and enhance profitability. The results also show that these benefits are largest for banks with moderate risk exposures. By extension, these results have significant strategic implications for bank managers, regulators and supervisors who share a common interest in boosting bank performance and stability.

JEL classification: G10, G21, G28

Keywords: Emerging Economies, Revenue Diversification, Banks, Insolvency Risk

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