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### Income diversification and bank performance: evidence from malaysian banks

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#### Abstract

Using annual financial information from Malaysian banks over the period of 2005-2015, we study the diversification effect on bank's performance. Specifically, we test the link between non-interest income and risk-adjusted performance. Our fixed effect panel regression results show that income diversification increases bank's performance confirming risk reduction hypothesis and resource-based view theory. In our view, the less integrated financial market in Malaysia gives advantage for Malaysian banks to achieve better diversification gains. Moreover, the surging of Islamic banking might play important role to the performance of income diversification. Further research is needed to explore further other possibilities that may explain this association.

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