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## Geographical and Product Diversification During Instability Financial Period: Good or Bad for Banks?

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### Abstract


This paper analyses the effects of the geographical and product diversification strategy on the performance of Italian banks in markets characterized by considerable instability. The econometric analysis, developed in the cross-section and time series dimension, considers a panel data set comprising 4,038 observations relative to Italian banks in the period 2005-2010. The study measures the degree of product diversification in banks through the Herfindahl-Hirschman Index (HHI) calculated on the product lines present in the commercial portfolio offered by banks on the market, while it measures the degree of geographical diversification through the HHI built on the distribution of bank branches in 108 Italian provinces. The results confirm a positive relationship between product diversification and bank performance in terms of Return on Assets (ROA) and Return on Equity (ROE). Identical results are obtained with respect to the geographical diversification. Ascertainments made having recourse to Risk-Adjusted Performance indicators point to similar results. All this points to useful implications for bank supervisors and managers, particularly in current market conditions.

**Keywords:** Banks, Geographical Diversification, Product Diversification, Performance, Risk

**JEL Classification:** G21, G34

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