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**BANK NONINTEREST INCOME AND RISK:  
AN EMPIRICAL ANALYSIS OF COMMERCIAL BANK  
IN MALAYSIA**



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AN EMPIRICAL ANALYSIS OF COMMERCIAL BANKS IN MALAYSIA**

by



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**Pusat Pengajian Ekonomi,  
Kewangan dan Perbankan**

SCHOOL OF ECONOMICS, FINANCE, AND BANKING

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## ABSTRACT

The purpose of this study is to investigate the impact of noninterest income on Malaysian commercial banks risk for over the period 2005 to 2014. Previous studies document that noninterest income activities may influence bank risk as the earnings volatility increases when banks expand into noninterest income generating activities due to higher level of competition. Employing a sample of 27 commercial banks in Malaysia, the finding of this study suggests that banks' risk will increase when net noninterest income increase. This study also includes bank size and return on equity (ROE) as control variables to see their impact on bank risk. The results indicate that larger banks tend to have lower risk, while banks with higher ROE will also have lower risk.



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## ABSTRAK

Tujuan kajian ini adalah untuk mengkaji kesan pendapatan bukan faedah ke atas risiko bank perdagangan Malaysia bagi tempoh 2005 hingga 2014. Kajian terdahulu mendokumenkan bahawa aktiviti pendapatan bukan faedah boleh mempengaruhi risiko bank kerana kemeruapan pendapatan akan meningkat apabila bank-bank mengembangkan aktiviti penjanaan pendapatan kepada bukan faedah disebabkan oleh tahap persaingan yang lebih tinggi. Menggunakan sampel 27 bank perdagangan di Malaysia, dapatan kajian ini menunjukkan bahawa risiko bank akan meningkat jika pendapatan bukan faedah meningkat. Kajian ini juga memasukkan saiz bank dan pulangan ke atas ekuiti (ROE) sebagai pembolehubah kawalan untuk melihat kesannya terhadap risiko bank. Keputusan menunjukkan bahawa bank-bank besar lebih cenderung mempunyai risiko yang lebih rendah, manakala bank-bank yang mempunyai ROE yang lebih tinggi juga akan mempunyai risiko yang lebih rendah.



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## CHAPTER ONE

### INTRODUCTION

#### 1.0 Introduction

In the aftermath of the financial deregulation and liberalization, banks have been diversifying into new and innovative products and services other than traditional lending activities in order to stay competitive in the banking industry. Commercial banks have explored into new markets and are widening their range of products to gain market share.

Generally, the main business of a commercial bank is traditional intermediation activities which is deposit-taking and making loans. However, banking business nowadays begins to focus on other type of income, which non-interest income. In the United States and Europe, an increase in the noninterest income activities has caused the net interest margin of banks has been gradually declining (Allen & Santomero, 2001). This is due to one strategy to increase banks profit margin is to diversify away from traditional interest income generating activities toward noninterest income generating activities.

Noninterest income generating activities are a combination of heterogeneous components that generate noninterest income. Noninterest income consists of three components:

- 1) Fee and commission income comprises service charges and fees, underwriting fees, securitization, checking, brokerage income, letter of credit, cash management and others;

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