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DETERMINANTS OF NON-INTEREST INCOME IN MALAYSIAN BANKING INDUSTRY: A COMPARATIVE ANALYSIS ON CIMB BANK AND RHB BANK

BY
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Thesis Submitted to
Othman Yeop Abdullah Graduate School of Business,
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In Partial Fulfilment of the Requirement for the Master of Sciences (Banking)
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(Certification of Project Paper)

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We have analysed the determinants of non-interest income among banking industry in Malaysia. A comparative analysis between CIMB Bank and RHB Bank has been conducted from the period of 2004 till 2015.

The main objective of this study is to identify the relationship between non-interest income of CIMB Bank and RHB Bank with factors such as bank size, total loan, total equity, net interest margin and inflation in the short run and long run. This study employs time series analysis techniques such as Vector Error Correction Model (VECM), Johanssen Co-Integration Analysis and Forecast Error Variance Decomposition (FEVD) Analysis to identify the relationship among variables in the short run and long run. Based on our analysis bank size, total equity capital, net interest margin and inflation are the significant factors determine non-interest income of CIMB Bank whereas only bank size and net interest margin are the significant factor determines non-interest income of RHB Bank in the long run. According to FEVD analysis in the short run, total loan is the only significant factor in determining the non-interest income of CIMB Bank whereas bank size and inflation are the significant factor determining the non-interest income of RHB Bank. This study finds that each bank has their unique determinants of non-interest income. Both in the long run and short run the determinants of non-interest income differ between CIMB Bank and RHB Bank. The determinants of non-interest income differ between the banks may be due to policy of the banks towards non-interest business or the types of non-interest products the banks involved in. The findings are consistent with the industry expert opinion where banks are increasing their share of non-interest income in the areas which they have additional strength and competitive advantage—

Keywords: Non-Interest Income, Total Equity Capital, Net Interest Margin (NIM), Vector Error Correction Model (VECM), Forecast Error Variance Decomposition (FEVD)
ABSTRAK


Kata Kunci: Pendapatan Bukan Faedah, Jumlah Ekuiti, Net Interest Margin, Vector Error Correction Model (VECM), Forecast Error Variance Decomposition (FEVD)
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CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

Commercial banks source of income are basically from interest income and non-interest income. These two components are the main sources of income for banks in all the countries. Banks earn interest income from loan disbursed by them and non-interest incomes are derived from fees and charges from offering various types of financial services and products (Kwast, 1989). Traditional source of income for banks are interest income and are derived from all types of lending which are offered by financial institutions. Lending to corporate includes business loans, working capital loan, term loan, venture capital lending, syndication etc. Whereas lending to retails include real estate loan, hire purchase loan for vehicles, personal loan for various purpose, education loan etc.

Due to globalization, competition and global economic environment, banks need to diversify their operations to earn other than interest income. Theoretically, diversification is preferred by banks because fee based products are not related to traditional banking operations. Therefore revenue diversification gives banks additional income stream other than interest based income. So, banks start to venture into other operations such as insurance, unit trust, brokerage service, trade finance service, foreign exchange, advisory service, fiduciary or private banking etc. All these services give revenue to the bank in the form of fee or service charges which are classified as non-interest income. The contribution of non-interest income to banks
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References


