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**THE DETERMINANTS OF NON-FINANCING INCOME:
AN ANALYSIS ON ISLAMIC BANKS IN MALAYSIA**



**Thesis Submitted to
Othman Yeop Abdullah Graduate School of Business,
Universiti Utara Malaysia,
In Partial Fulfilment of the Requirement for the Master in Islamic Finance and
Banking**



Pusat Pengajian Perniagaan Islam
ISLAMIC BUSINESS SCHOOL
كلية إدارة الأعمال الإسلامية
Universiti Utara Malaysia

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ABSTRACT

This study analyzes the determinants of non-financing income among the 10 selected Islamic banks in Malaysia. A comprehensive analysis of the 10 Islamic banks in Malaysia has been conducted over the period 2012 up to 2018. The main objective of this study is to examine the relationship between non-financing income for Islamic banks in Malaysia with determinants factors such as the size of the bank, core deposits from customers, return on asset and provision of loan losses. This study has adopted a few types of analysis methods including descriptive analysis, pearson correlation analysis and multiple regression analysis to examine the relationship among all of the variables. Based on the findings of this study, all of the independent variables (the size of the bank, core deposits from customers, return on asset and provision of loan losses) are significant in determining the non-financing income for Islamic banks in Malaysia. The findings also imply a consistency to previous studies from different background of bank's type and period covered. Now, non-financing income becomes a vital element in increasing and boosting banks' revenues.

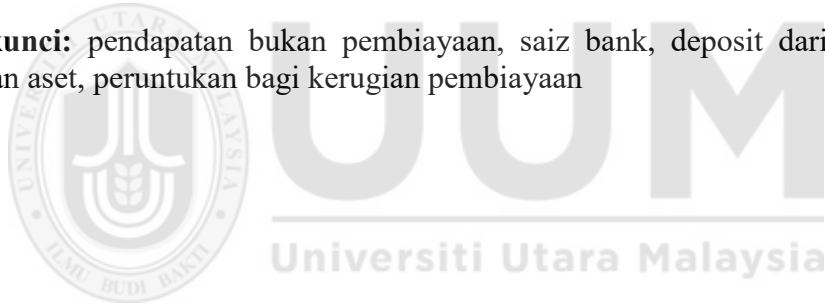
Keywords: non-financing income, bank's size, core deposits, return on asset, provision of loan losses



ABSTRAK

Kajian ini adalah mengenai faktor-faktor yang menentukan pendapatan bukan pembiayaan bagi 10 bank Islam yang terpilih di Malaysia. Kajian yang terperinci ke atas 10 bank Islam yang terpilih di Malaysia dijalankan bagi tempoh tahun 2012 hingga tahun 2018. Objektif utama kajian ini adalah untuk menguji hubungan antara pendapatan bukan pembiayaan bagi bank-bank Islam di Malaysia terhadap faktor seperti saiz bank, deposit daripada pelanggan, pulangan aset, peruntukan bagi kerugian pembiayaan. Kajian ini telah mengadaptasi beberapa jenis metod analisa termasuklah Analisa Deskriptif, Analisa Korelasi Pearson dan Analisa Regresi Berganda dengan tujuan untuk menguji hubungan antara semua pembolehubah. Berdasarkan dapatan kajian, semua pembolehubah bebas (saiz bank, deposit daripada pelanggan, pulangan aset, peruntukan bagi kerugian pembiayaan) merupakan faktor yang ketara (penting) dalam menentukan pendapatan bukan pembiayaan bagi bank-bank Islam di Malaysia. Hasil dapatan kajian adalah selari dengan kajian-kajian terdahulu yang mempunyai pelbagai latarbelakang jenis perbankan dan tahun. Kini, pendapatan bukan pembiayaan menjadi satu unsur yang penting bagi meningkatkan pendapatan bank.

Kata kunci: pendapatan bukan pembiayaan, saiz bank, deposit daripada pelanggan, pulangan aset, peruntukan bagi kerugian pembiayaan



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LIST OF ABBREVIATIONS

NFI	Non-Financing Income
GFC	Global Financial Crisis
USD	United States Dollar
GDP	Growth Domestic Product
BNM	Bank Negara Malaysia
ROA	Return on Asset
ROE	Return on Equity
NTA	Non-Traditional Activity
OECD	Organisation for Economic Co-operation and Development
PROV	Provision



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CHAPTER ONE

INTRODUCTION

1.1 Background of Study

Generally, the income structure for Islamic banking consists of two differences structures. Firstly, the income generates from traditional activities such as financing, dealing, and operating businesses, and secondly the income produced from non-traditional activities, for instance, non-financing activities. The incomes generated from non-traditional activities are generally identified as non-interest income in the conventional banking system and non-financing income in the Islamic banking system (Mat Isa et al., 2015). These two structures of income are the main sources of income for any Islamic banking industry.

The incomes generated from financing activities such as home financing, personal financing, and vehicle financing for the retail sector or the incomes from the term, trade, and working capital financing for the corporate sector. All of these activities have been categorized under the traditional activities of Islamic banks. Meanwhile, the incomes generated from non-financing activities such as fee-based activities, custodial services, and trading activities are another form of non-traditional activities for the Islamic banks.

There are few changing factors such as globalization, competition among financial institutions and global economic status forces the financial institutions or the banking industry to expend their income structures which vary from not only on traditional activities generating income as the main focus but non-financing income as well. This

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APPENDICES

APPENDIX A – DESCRIPTIVE ANALYSIS

Descriptive Analysis for Affin Islamic Bank Berhad

		Statistics				
		NII	ASSET	DEPOSIT	ROA	PROV
N	Valid	7	7	7	7	7
	Missing	0	0	0	0	0
Mean		2.47836400	5.51308099	9.63245291	9.33782856	4.42395909
Median		2.20827441	5.48188814	9.50189743	9.21051036	4.44029554
Std. Deviation		.477477375	.254887095	.287424157	.284726507	.247247461
Skewness		.803	.640	1.140	1.538	.006
Std. Error of Skewness		.794	.794	.794	.794	.794
Kurtosis		-1.363	-.275	.094	1.626	-1.325
Std. Error of Kurtosis		1.587	1.587	1.587	1.587	1.587
Minimum		2.054124	5.239628	9.369402	9.109669	4.080922
Maximum		3.202746	5.944897	10.140618	9.887734	4.723842
Sum		17.348548	38.591567	67.427170	65.364800	30.967714

Descriptive Analysis for Alliance Islamic Bank Berhad

		Statistics				
		NII	ASSET	DEPOSIT	ROA	PROV
N	Valid	7	7	7	7	7
	Missing	0	0	0	0	0
Mean		2.56257885	5.38368376	9.05403554	8.89326336	4.18317184
Median		2.50959926	5.36644320	9.12670873	8.98293776	4.10098911
Std. Deviation		.193783844	.138177372	.212094308	.231815067	.210343226
Skewness		.685	.067	-.113	-.430	.333
Std. Error of Skewness		.794	.794	.794	.794	.794
Kurtosis		-.564	-.701	-1.810	-1.765	-2.293
Std. Error of Kurtosis		1.587	1.587	1.587	1.587	1.587
Minimum		2.332144	5.184589	8.786655	8.553544	3.958907
Maximum		2.879198	5.583120	9.338909	9.152616	4.449685

Sum	17.938052	37.685786	63.378249	62.252844	29.282203
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Descriptive Analysis for Ambank Islamic Berhad

		Statistics				
		NII	ASSET	DEPOSIT	ROA	PROV
N	Valid	7	7	7	7	7
	Missing	0	0	0	0	0
Mean		4.08809831	6.65782983	10.45351267	10.13625499	5.47821515
Median		4.08597631	6.66670231	10.50606430	10.18989882	5.46721590
Std. Deviation		.147422111	.072411798	.149212024	.162911829	.056169547
Skewness		.809	.129	-1.753	-1.502	-.008
Std. Error of Skewness		.794	.794	.794	.794	.794
Kurtosis		1.182	-.676	3.303	2.484	-.069
Std. Error of Kurtosis		1.587	1.587	1.587	1.587	1.587
Minimum		3.901973	6.569481	10.147578	9.813125	5.389528
Maximum		4.356709	6.768953	10.589404	10.300752	5.553734
Sum		28.616688	46.604809	73.174589	70.953785	38.347506

Descriptive Analysis for Bank Islam Malaysia Berhad

		Statistics				
		NII	ASSET	DEPOSIT	ROA	PROV
N	Valid	7	7	7	7	7
	Missing	0	0	0	0	0
Mean		5.25058592	7.39342163	10.81412613	10.68494945	6.24397348
Median		5.20729797	7.38050513	10.81504108	10.69721509	6.23539064
Std. Deviation		.167109241	.105891582	.186289111	.185944918	.107074118
Skewness		.788	-.043	-.220	-.445	-.551
Std. Error of Skewness		.794	.794	.794	.794	.794
Kurtosis		.314	-.786	-.856	-.810	.699
Std. Error of Kurtosis		1.587	1.587	1.587	1.587	1.587
Minimum		5.048573	7.242226	10.530038	10.390563	6.057486
Maximum		5.544396	7.547291	11.065680	10.916397	6.386711
Sum		36.754101	51.753951	75.698883	74.794646	43.707814

Descriptive Analysis for Bank Muamalat Malaysia Berhad

		Statistics				
		NII	ASSET	DEPOSIT	ROA	PROV
N	Valid	7	7	7	7	7
	Missing	0	0	0	0	0
Mean		3.91790033	6.31797348	9.99797244	9.85711621	4.85249076
Median		3.98154907	6.33025552	10.01851123	9.88044920	5.00996841
Std. Deviation		.256018327	.076985350	.068544465	.050708198	.355510744
Skewness		-1.494	-.009	-.148	-.658	-1.084
Std. Error of Skewness		.794	.794	.794	.794	.794
Kurtosis		2.925	-2.187	-1.763	-1.130	-.080
Std. Error of Kurtosis		1.587	1.587	1.587	1.587	1.587
Minimum		3.404525	6.226141	9.906568	9.777312	4.237001
Maximum		4.200205	6.409846	10.083461	9.912076	5.201806
Sum		27.425302	44.225814	69.985807	68.999813	33.967435

Descriptive Analysis for CIMB Islamic Bank Behad

		Statistics				
		NII	ASSET	DEPOSIT	ROA	PROV
N	Valid	7	7	7	7	7
	Missing	0	0	0	0	0
Mean		4.69057649	7.14102078	11.04640405	10.79443084	6.19263727
Median		4.63966823	7.10180776	10.90704071	10.70280842	6.00146438
Std. Deviation		.287500192	.170559054	.277681054	.284476955	.309422329
Skewness		-.609	1.373	.857	.618	.933
Std. Error of Skewness		.794	.794	.794	.794	.794
Kurtosis		.745	1.305	-1.090	-1.003	-.488
Std. Error of Kurtosis		1.587	1.587	1.587	1.587	1.587
Minimum		4.182661	6.984439	10.808175	10.470728	5.901430
Maximum		5.044785	7.464218	11.487751	11.241624	6.721992
Sum		32.834035	49.987145	77.324828	75.561016	43.348461

Descriptive Analysis for Hong Leong Islamic Bank Berhad

		Statistics				
		NII	ASSET	DEPOSIT	ROA	PROV
N	Valid	7	7	7	7	7
	Missing	0	0	0	0	0
Mean		2.96585238	6.14468282	10.11240966	9.90093980	5.31644302
Median		3.01062089	6.07189180	10.05537138	9.82805794	5.40672324
Std. Deviation		.355036140	.187882955	.146962262	.194883451	.288118304
Skewness		-.750	.858	.853	.524	-1.692
Std. Error of Skewness		.794	.794	.794	.794	.794
Kurtosis		.318	.317	-.799	-1.711	3.947
Std. Error of Kurtosis		1.587	1.587	1.587	1.587	1.587
Minimum		2.341806	5.911068	9.986380	9.698963	4.720283
Maximum		3.360375	6.470954	10.355248	10.185028	5.642262
Sum		20.760967	43.012780	70.786868	69.306579	37.215101

Descriptive Analysis for Maybank Islamic Berhad

		Statistics				
		NII	ASSET	DEPOSIT	ROA	PROV
N	Valid	7	7	7	7	7
	Missing	0	0	0	0	0
Mean		5.69552419	7.98200527	11.94206971	11.65223148	7.15961202
Median		5.61822459	8.00626756	11.95986835	11.72354370	7.10043962
Std. Deviation		.220776618	.299574233	.310277625	.327626170	.281573301
Skewness		.166	-.151	-.532	-.354	.466
Std. Error of Skewness		.794	.794	.794	.794	.794
Kurtosis		-2.513	-1.051	-.239	-1.358	-.747
Std. Error of Kurtosis		1.587	1.587	1.587	1.587	1.587
Minimum		5.457456	7.540462	11.423355	11.170217	6.790435
Maximum		5.939908	8.387130	12.324811	12.051445	7.588627
Sum		39.868669	55.874037	83.594488	81.565620	50.117284

Descriptive Analysis for Public Islamic Bank Berhad

		Statistics				
		NII	ASSET	DEPOSIT	ROA	PROV
N	Valid	7	7	7	7	7
	Missing	0	0	0	0	0
Mean		3.55556006	6.81150311	10.68790041	10.51296376	5.96774643
Median		3.61361697	6.73791550	10.72891221	10.57381125	6.00265174
Std. Deviation		.349694081	.111071517	.273465442	.302016246	.115702436
Skewness		-.121	.775	-.208	-.213	.484
Std. Error of Skewness		.794	.794	.794	.794	.794
Kurtosis		-2.489	-1.319	-1.222	-1.401	-.363
Std. Error of Kurtosis		1.587	1.587	1.587	1.587	1.587
Minimum		3.157000	6.719858	10.285455	10.073370	5.830121
Maximum		3.935740	6.988044	11.037691	10.890043	6.161207
Sum		24.888920	47.680522	74.815303	73.590746	41.774225

Descriptive Analysis for RHB Islamic Bank Berhad

		Statistics				
		NII	ASSET	DEPOSIT	ROA	PROV
N	Valid	7	7	7	7	7
	Missing	0	0	0	0	0
Mean		4.32811256	6.49527876	10.63135000	10.23054555	5.55465897
Median		4.25703014	6.45031243	10.69368658	10.23738505	5.54087131
Std. Deviation		.268778874	.312275136	.341508728	.332876655	.390655264
Skewness		-.027	.445	-.175	.175	-.081
Std. Error of Skewness		.794	.794	.794	.794	.794
Kurtosis		.067	-1.076	-1.208	-.572	-1.506
Std. Error of Kurtosis		1.587	1.587	1.587	1.587	1.587
Minimum		3.903991	6.151455	10.150726	9.760004	5.049215
Maximum		4.725616	6.982770	11.091613	10.730562	6.074886
Sum		30.296788	45.466951	74.419450	71.613819	38.882613

APPENDIX B – CORRELATION ANALYSIS

Descriptive Statistics

	Mean	Std. Deviation	N
NII	3.95331531	1.074394433	70
ASSET	6.58404804	.790128423	70
DEPOSIT	10.43722335	.795081210	70
ROA	10.20005240	.779901626	70
PROV	5.53729080	.896109437	70

Correlations

		NII	ASSET	DEPOSIT	ROA	PROV
NII	Pearson Correlation	1	.935**	.884**	.889**	.870**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	70	70	70	70	70
ASSET	Pearson Correlation	.935**	1	.955**	.969**	.966**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	70	70	70	70	70
DEPOSIT	Pearson Correlation	.884**	.955**	1	.993**	.958**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	70	70	70	70	70
ROA	Pearson Correlation	.889**	.969**	.993**	1	.962**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	70	70	70	70	70
PROV	Pearson Correlation	.870**	.966**	.958**	.962**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	70	70	70	70	70

** . Correlation is significant at the 0.01 level (2-tailed).

APPENDIX C – MULTIPLE REGRESSION ANALYSIS

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.951 ^a	.904	.898	.342882390

a. Predictors: (Constant), PROV, DEPOSIT, ASSET, ROA

b. Dependent Variable: NII

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	72.006	4	18.002	153.116	.000 ^b
	Residual	7.642	65	.118		
	Total	79.648	69			

a. Dependent Variable: NII

b. Predictors: (Constant), PROV, DEPOSIT, ASSET, ROA

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-5.244	1.138		-4.608	.000
	ASSET	2.240	.259	1.647	8.651	.000
	DEPOSIT	1.324	.470	.980	2.816	.006
	ROA	-1.499	.553	-1.088	-2.711	.009
	PROV	-.737	.203	-.615	-3.635	.001

a. Dependent Variable: NII