

ABSTRACT

Changing face of global banking that started after financial liberalization, deregulation and introduction of technology in past few decades has led to fierce competition among the banks. To compensate the loss of earnings induced by shrinking spreads, banks have expanded their earnings beyond the traditional activities. Keeping in view the recent trend of rising non-interest revenues, this study aims at analyzing the determinants of non-traditional income activities and income diversification in Pakistan. Generalized Least Square is used with balanced Panel data set of 19 commercial banks of Pakistan including public, private and foreign banks for the period 2006 to 2012. Empirical results show a positive relationship between declining loan quality and non-interest income, which shows that bank are more likely to increase earnings from non-traditional sources in order to avoid risky interest loans. Our study finds that non-interest income and business growth as measured by advances to total assets are positively related, which indicates the presence of cross selling and fee charge on loan origination etc. Also a positive relation between size and non-interest income and between natural logarithm of total assets and non-interest income is observed, which indicates that banks with more deposits and total assets are likely to earn more fee-based income. Moreover, the results show that non-interest income and ROE are positively associated, while a weak negative relationship is found between non-interest income and ROA.

Keywords: Generalized Least Square, Non-interest income, Panel Data, Income Diversification

JEL Classification Code: C01, D24, E44