

**PROFITABILITY DETERMINANTS OF COMMERCIAL  
BANKS IN MALAYSIA AFTER THE 1997 FINANCIAL CRISIS**

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**UNIVERSITI UTATRA MALAYSIA**

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# **PROFITABILITY DETERMINANTS OF COMMERCIAL BANKS IN MALAYSIA AFTER THE 1997 FINANCIAL CRISIS**

**A thesis submitted to the Research and Innovation in partial fulfillment of  
the requirement for the Degree of Master of Science (Banking)**

**College of Business (Banking Division)**

**University Utara Malaysia**

**By**

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I hereby certify that the substance of this thesis has not already been submitted to any degree and is not currently being submitted for any other degree qualification.

I also certify that any help received in preparing this thesis and all sources used have been acknowledged in this thesis.

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## **ABSTRACT (ENGLISH)**

This study is conducted to investigate the profitability determinants of the commercial banks in Malaysia after 1997 Financial Crisis. The study utilized the secondary data obtained primarily from the banks web sites for eight commercial banks i. e. CIMB, Public Bank, Maybank, Affin Bank, Am Bank, RHB Bank, Citi Bank and HSBC Bank during the period from 2004 to 2008.

The study following to other similar studied; incorporates some of macroeconomic variables to examine their affect on the banks profitability. The study used ROA as a dependent variable to estimate the bank's profit. The independent variables used in the study consisted of 10 variables namely capital ratio (CAR), expenses management (EXPS), interest coverage (INC), bank size (SIZE), total deposits (DEPOSITS), total loan (LONAS), total income (TI) Base Lending Rate (BLR) and two macroeconomic variables i. e. inflation rate (INFL), and gross domestic product (GDP).

Multiple regression analysis has applied to examine the significance contribution of these variables in the bank's profitability. The results however show that only EXPS, INC, LOANS, BLR and INFL are significant at the 5% and 10% confidence level.

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## ABBREVIATIONS

BNM	Bank Negara Malaysia
IMP3	Third Industrial Master Plan
SCP	The Structure Conduct-Performance Hypothesis
EFS	The Efficient-Structure Hypothesis
RMP	The Relative Market Power Hypothesis
ESX	X-Efficient Hypothesis
ESS	The Scale Efficient Hypothesis
ROA	Return on Assets
CAR	Capital Ratio
EXPS	Expenses Management/Overhead Expenses
INC	Interest Coverage
SIZE	Logarithm of the Total Assets of Each Bank
DEPOSITS	Logarithm of the Total Deposits of Each Bank
LOANS	Logarithm of the Total Loans of Each Bank
TI	Logarithm of the Total Interest Income and Non-Interest Income of Each Bank
BLR	Average Annual Base Lending Rate
INFL	Inflation Rate
GDP	Annual Percentage Change of Malaysian GDP by Industrial Origin

## **CHAPTER ONE**

### **BACKGROUND OF THE STUDY**

#### **1.1 Introduction**

Profit is the main reason why everybody puts an effort for the sake of making the business successful, because profits are an important source of investment funds. Profit can be used to buy more stock, improve technology or expand the premises, and make everybody happy at last. It needs to be remembered that profits are used to reinvest, which leads to better products for their customers, better wages and working conditions for their workers or to help the local community.

After growing at over 8-9 per cent per annum for over a decade, the Malaysian economy was caught in a financial crisis that arose from a regional contagion effect in 1997-98. The view was that a merger plan was fundamentally desirable because Malaysia had too many banks for a small economy. Research on the determinants of bank profitability has focused on both the returns on bank assets and equity, and net interest rate margins. It has usually explored the influence on bank performance of bank-specific factors, such as risk, market power, and regulatory costs.

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Malaysian Industrial Development Authority websites:

[http://www.mida.gov.my/en\\_v2/index.php?page=banking-system](http://www.mida.gov.my/en_v2/index.php?page=banking-system)

[http://www.mida.gov.my/en\\_v2/index.php?page=services-sector](http://www.mida.gov.my/en_v2/index.php?page=services-sector)