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

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UNIVERSITI UTATRA MALAYSIA

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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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DECLARATION

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.
ACKNOWLEDGEMENTS

First of all, my praise goes to Allah S.W.T Whose blessing and guidance have helped me complete this work. Peace be upon our Prophet Mohammad S.A.W, who has given light to mankind.

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### ABBREVIATIONS

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<tr>
<td>BNM</td>
<td>Bank Negara Malaysia</td>
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<td>DEPOSITS</td>
<td>Logarithm of the Total Deposits of Each Bank</td>
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<td>LOANS</td>
<td>Logarithm of the Total Loans of Each Bank</td>
</tr>
<tr>
<td>TI</td>
<td>Logarithm of the Total Interest Income and Non-Interest Income of Each Bank</td>
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<td>BLR</td>
<td>Average Annual Base Lending Rate</td>
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<td>INFL</td>
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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.
The contents of the thesis is for internal user only
REFERENCES


### Working Papers


Asian Development Bank website

Malaysian Industrial Development Authority websites: