FACTORS AFFECTING THE PERFORMANCE OF FOREIGN BANKS IN MALAYSIA

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MASTER OF SCIENCE (BANKING)
UNIVERSITI UTARA MALAYSIA
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A thesis submitted to the fulfillment of the requirements for the degree Master of Science (Banking) College of Business (Finance and Banking) Universiti Utara Malaysia

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We analyzed and compared the performance of domestic and foreign banks operating in Malaysia for the period of 5 years, from 2004 to 2008. We found that foreign banks have strong capital, but the statistics show that domestic banks more profitable. However, existing foreign banks are affecting financial services quality in Malaysia, because all banks offer better and low cost banking services for customer during strong competition. In this study used financial ratios of banks by extracting components of CAMEL Model, namely, Capital adequacy, Asset quality, Management, Earnings and Liquidity. To identify the determinants of performance of the Malaysian foreign and domestic banks during 2004-2008 years, this study has chosen multiple regression analysis.

The descriptive analysis suggested that the average ROA for the Malaysian commercial banks during the study period was about at 3.21% only. However, it is much better comparing with Asian crisis period, in the beginning of study period; commercial banks shifted their earnings and continued a constant growth thereafter. One more thing is that, in overall local banks show higher ROA than foreign banks. In conclusion, bank performance (including ROA and ROE) of commercial banks in Malaysia influenced by the capital adequacy ratio, total loans to total assets ratio, NPL to total assets ratio, interest expenses to total loans, total operating profit to revenue and loans to deposit ratio. Overall, CAMEL predicts 66.9% of ROA and 64.0% of ROE. We can say that CAMEL is good concept for evaluating bank performance.
ABSTRAK (BAHASA MELAYU)


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<tbody>
<tr>
<td>BNM</td>
<td>Bank Negara Malaysia</td>
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<tr>
<td>CCB</td>
<td>City commercial banks</td>
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<tr>
<td>CEE</td>
<td>Central and Eastern European</td>
</tr>
<tr>
<td>CTD</td>
<td>Cash to Deposit</td>
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<tr>
<td>DEA</td>
<td>Data Envelopment Analysis</td>
</tr>
<tr>
<td>EON</td>
<td>EON Bank (Edaran Otomobil Nasional)</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>HDFC</td>
<td>Housing Development Finance Corporation Bank</td>
</tr>
<tr>
<td>IBS</td>
<td>Islamic banking scheme</td>
</tr>
<tr>
<td>ICICI</td>
<td>Industrial Credit and Investment Corporation of India</td>
</tr>
<tr>
<td>IDBI</td>
<td>Industrial Development Bank of India</td>
</tr>
<tr>
<td>IETTL</td>
<td>Interest Expense to Total Loans</td>
</tr>
<tr>
<td>LLATTL</td>
<td>Loan and Lease Allowance to Total Loans</td>
</tr>
<tr>
<td>LTD</td>
<td>Loan to Deposit</td>
</tr>
<tr>
<td>NIM</td>
<td>Net Interest Margin</td>
</tr>
<tr>
<td>NPL</td>
<td>Non-Performing Loans</td>
</tr>
<tr>
<td>NPLTTA</td>
<td>NPL to Total Assets</td>
</tr>
<tr>
<td>OLS</td>
<td>Ordinary Least Squares</td>
</tr>
<tr>
<td>RHB</td>
<td>Rashid Hussein Bank</td>
</tr>
<tr>
<td>ROA</td>
<td>Return on Assets</td>
</tr>
<tr>
<td>ROE</td>
<td>Return on Equity</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Description</td>
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<tr>
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<tr>
<td>SETTA</td>
<td>Shareholders Equity to Total Assets</td>
</tr>
<tr>
<td>TLTTA</td>
<td>Total Loans to Total Assets</td>
</tr>
<tr>
<td>TOPTTR</td>
<td>Total Operating Profit to Total Revenue</td>
</tr>
<tr>
<td>UK</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>UTI</td>
<td>Unit Trust of India</td>
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<tr>
<td>VIF</td>
<td>Variance Inflation Factor</td>
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CHAPTER 1

INTRODUCTION

1.1 Introduction

Banks expand their operations internationally by establishing subsidiaries and branches or by taking over established foreign banks. This internationalization of banking systems has been encouraged by the liberalization of international financial markets.

According to Marashdeh, O. (2005) foreign banks were operating in Malaysia from as early as 1875 with the establishment of the Standard Chartered Bank. But, Salina, H. K. (2007) argues that the pioneers of Malaysian foreign commercial banking industry was the Chartered Mercantile Bank of India, London and China which was established in 1823 and the Standard Chartered Bank in 1875.

Since 1966 Bank Negara Malaysia has prohibited the expansion of existing foreign bank branches in Malaysia to protect domestic banks and to allow them to compete with foreign banks. However, foreign banks are free to set up representative offices in the country. In addition, from 1974, foreign banks were not allowed to establish branches in Malaysia.
References


