MALAYSIAN BANKS COMPETITIVE ADVANTAGE THROUGH MERGER AND ACQUISITION

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DECLARATION

I hereby declare that the project paper is based on my original work except for quotations and citations that have been duly acknowledge. I also declare it has not been previously or concurrently submitted for any other Master's programme at Universiti Utara Malaysia or other institutions.

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ABSTRAK

Kajian ini menganalisis faktor-faktor penentu kepada kelebihan persaingan sembilan bank perdagangan di Malaysia untuk tempoh lima tahun dari tahun 2005 hingga 2006.

Tujuan utama kajian ini adalah untuk menentukan sama ada penggabungan dan pengambilalihan meningkatkan kelebihan persaingan antara bank, untuk menguji hubungan antara kepimpinan kos, perbezaan, fokus dan modal pasaran dengan kelebihan persaingan antara bank dan untuk mendokumentasikan strategi yang di adaptasi oleh bank untuk terus kompetitif dan bertahan dalam industri.

Kajian ini telah memilih analisis kecenderungan, analisis deskriptif, analisis korelasi dan analisis regresi untuk mengenal pasti faktor-faktor penentu kelebihan persaingan antara bank-bank tempatan di Malaysia. Pembolehubah bersandar yang digunakan untuk kajian ini adalah untuk kelebihan persaingan (diukur dengan keuntungan sebelum cukai dan zakat), dimana untuk pembolehubah tidak bersandar adalah terdiri daripada kepemimpinan kos (diukur melalui nisbah keberuntungan dan keuntungan bersih terhadap jumlah pekerja), perbezaan (jumlah aset), fokus (keuntungan dari perbankan konvensional) dan penguasaan pasaran (diukur melalui modal pasaran dan nisbah pinjaman terhadap deposit).

Kesimpulan yang boleh dibuat daripada kajian ini adalah bank-bank tempatan di Malaysia mempunyai kelebihan persaingan selepas aktiviti penggabungan dan pengambilalihan.Apabila keuntungan dan penguasaan pasaran sesebuah bank meningkat, ia secara langsung meningkatkan kelebihan persaingan bank tersebut.

ABSTRACT

We analyze the determinants of Malaysian banks competitive advantage by using a sample of nine local commercial banks operating in Malaysia for the period of five years, from 2005 to 2009.

The main objective of this study is to determine whether merger and acquisition increase competitive advantage among banks, to explore the relationship between cost leadership, differentiation, focus and market capitalisation to the bank's competitive advantage and to document the strategies adopt by banks in order to stay competitive and survive.

This study has chosen trend analysis, descriptive analysis, correlation analysis and regression analysis to identify the determinants of the competitive advantage of local banks in Malaysia. The dependant variable is competitive advantage (measure by profit before tax and zakat), where for independent variables are cost leadership (measure by profit margin ratio and net income to total employee ratio), differentiation (measure by size of total assets), focus (measure by profit from conventional banking) and market share (measure by market capitalization and loan to deposit ratio).

By doing this research, we can conclude that local banks in Malaysia gain competitive advantage after merger and acquisition. As the profit and market share by each bank increase, it will help the bank to increase their competitive advantage.

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Thank you

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CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter provides a brief discussion on bank's competitive advantage through merger and acquisition through in Malaysia. 1.1 highlights the background of merger and acquisition. Section 1.2 provides the problem statement and briefly explanation from where that problem generated from. Section 1.3 provides the specific statement of problems that will be concentrating for this study. Section 1.4 presents the research objectives of the study. The significance of the study is discussed in section 1.5.

1.1 Background of the study

A takeover is a general term referring to the transfer of control of a firm from one group of shareholders to another. Takeovers can occur by acquisition, proxy contests, and going-private transactions. For takeover achieve by acquisition, it will be by merger, tender offer for shares of stock, or purchase of assets.

A merger refers to the absorption of one firm by another. The acquiring firm retains its name and its identity, and it acquires all of the assets and liabilities of the acquired firm. After a merger, the acquired firm ceases to exist as a separate business entity.

A consolidation is the same as merger except that an entirely new firm is created. In a consolidation, both the acquiring firm and the acquired firm terminate their previous legal existence and become part of the new firm. The rules for mergers and consolidations are basically the same. Acquisitions by merger and consolidation result in combination of the assets and liabilities of acquired and acquiring firms.

1.1.1 Financial Crisis in Malaysia 1997-98

During the early 1990's, Malaysia was a popular investment destination, and this was reflected in Kuala Lumpur Stock Exchange (KLSE) activity which was regularly the most active stock exchange in the world with turnover exceeding even markets with far higher capitalization such as the New York Stock Exchange (NYSE). Expectations at the time were that the growth rate would continue, propelling Malaysia to developed status by 2020, a government policy articulated in Wawasan 2020. At the start of 1997, the KLSE Composite index was above 1,200, the ringgit was trading above 2.50 to the dollar, and the overnight rate was below 7%.

In July 1997, within days of the Thai baht devaluation, the Malaysian ringgit was "attacked" by speculators. The overnight rate jumped from under 8% to over 40%. This led to rating downgrades and a general sell off on the stock and currency markets. By the end of 1997, ratings had fallen many notches from investment grade to junk, the KLSE had lost more than 50% from above 1,200 to fewer than 600, and the ringgit had lost 50% of its value, falling from above RM2.50 to under RM3.80 to the dollar.

In September that year, various defensive measures were announced in order to overcome the crisis. The principal measure taken was to move the ringgit from a free float to a fixed exchange rate regime. Bank Negara fixed the ringgit at RM3.8 to the one dollar. Capital controls were imposed while aid offered from the IMF was refused. Various task force agencies were formed such as Corporate Debt Restructuring Committee and Danaharta. The Corporate Debt Restructuring Committee dealt with corporate loans. Danaharta discounted and bought bad loans from banks to facilitate orderly asset realization and recapitalized banks.

Many banks in Malaysia experienced severe erosion in their capital equity due to high non-performing loan (NPL). Banks were better capitalized and NPLs were realised in an orderly way. Small banks were bought over by stronger ones.

To response to the financial crisis, Malaysia through Bank Negara Malaysia introduced Financial Sector Master Plan (FSMP) in March 2001. The Bank therefore embarked on a comprehensive restructuring and reform of the financial sector. This included the aggressive development of the domestic financial markets and the strengthening of the regulatory and supervisory oversight.

> 'Malaysia 's own experience in managing the financial crisis in 1997-1998 was that a decisive and comprehensive response at an early stage of the crisis not only produced an early recovery but it also reduced the cost of the crisis on the financial system and the economy.'
>
> (Source: Zeti 2009)

Under the period of financial and banking sector reforms (2000-2005), it was largely based on Financial Sector Master Plan. By that period, Malaysia improved economic performance and emerged subsequently from 1997 Asian Financial Crisis. In 2005 the last of the crisis measures were removed as the ringgit was taken off the fixed exchange system.

1.1.2 Financial Sector Master Plan

Bank Negara Malaysia (BNM) has launched Financial Sector Master Plan (FSMP) in March 2001. FSMP contains to the broad strategies for the development of the Malaysian financial sector for the next 10 years (2001 to 2010).

The FSMP identified three key objectives in its implementation phases: firstly, to enhance domestic capacity by building the capabilities of domestic banking institutions and increased deregulation in certain areas to increase competition; secondly, to promote financial stability through strong, risk adjusted prudential regulations and supervision; and finally, to meet the socio-economic objectives of Malaysia, which includes increasing the level of consumer activism.

As recommended in the FSMP, BNM has also developed a broad framework for the establishment of full-fledged investment banks in Malaysia. The functions of an investment bank are currently performed be different entities within a banking group: that is the merchant bank, stock broking firm and discount house. The more competitive and challenging environment has made it imperative for these different entities to attain higher levels of efficiency and economies of scale, by facilitating mergers between these different entities. With the creation of investment banks, the consumers would benefit by being able to obtain a wide range of banking and securities related products and services from the merged entity. This led to merger and acquisition activities in Malaysia.

1.1.3 Merger and Acquisition in Malaysia

The merger programmed for domestic banking institutions was initiated in 1999 and concluded in 2000 succeeded in consolidating the fragmented domestic banking sector without causing disruptions to the provision of banking services. In 2001, the focus of the domestic banking groups was to complete the business integration processes and rationalization exercises. This formed the most critical aspect of the mergers. By the end of 2001, all banking groups had conducted their branch rationalization exercise and ten banking groups had rationalized their workforce.

On the basis of the parameter, approval has been granted for the formation of ten banking groups as follows:

Table 1.1: Merger Program for Domestics Banking Institutions

Original Anchor Banking Group	Merged with	Resultant Entity After Merger
1 Affin Bank Berhad Group Perwira Affin Bank Berhad Asia Commercial Finance Berhad Perwira Affin Merchant Bank Berhad	BSN Commercial Bank (M) Berhad BSN Finance Berhad BSN Merchant Bankers Berhad	Affin Bank Berhad AFFIN ACF Finance Berhad Affin Merchant Bank Berhad
2 Alliance Bank Berhad Group Multi-Purpose Bank Berhad	International Bank Malaysia Berhad Sabah Bank Berhad Sabah Finance Berhad Bolton Finance Berhad Amanah Merchant Bank Berhad Bumiputra Merchant Bankers Berhad	Alliance Bank Berhad Alliance Finance Berhad Alliance Merchant Bank Berhad
3 Arab-Malaysian Bank Berhad Group Arab-Malaysian Bank Berhad Arab-Malaysian Finance Berhad Arab-Malaysian Merchant Bank Berhad	MBf Finance Berhad	Arab-Malaysian Bank Berhad Arab-Malaysian Finance Berhad Arab-Malaysian Merchant Bank Berhad
4 Bumiputra Commerce Bank Berhad Group Bumiputra Commerce Bank Berhad Bumiputra Commerce Finance Berhad Commerce International Merchant Bankers Berhad		Bumiputra Commerce Bank Berhad Bumiputra Commerce Finance Berhad Commerce International Merchant Bankers Berhad
5 EON Bank Berhad Group EON Bank Berhad EON Finance Berhad	Oriental Bank Berhad City Finance Berhad Perkasa Finance Berhad Malaysian International Merchant Bankers Berhad	EON Bank Berhad EON Finance Berhad Malaysian International Merchant Bankers Berhad
6 Hong Leong Bank Berhad Group Hong Leong Bank Berhad Hong Leong Finance Berhad	Wah Tat Bank Berhad Credit Corporation (Malaysia) Berhad	Hong Leong Bank Berhad Hong Leong Finance Berhad

7 Malayan Banking Berhad Group Malayan Banking Berhad Mayban Finance Berhad Aseambankers Malaysia Berhad	The Pacific Bank Berhad PhileoAllied Bank (M) Berhad Sime Finance Berhad Kewangan Bersatu Berhad	Malayan Banking Berhad Mayban Finance Berhad Aseambankers Malaysia Berhad
8 Public Bank Berhad Group Public Bank Berhad Public Finance Berhad	Hock Hua Bank Berhad Advance Finance Berhad Sime Merchant Bankers Berhad	Public Bank Berhad Public Finance Berhad Public Merchant Bank Berhad
9 RHB Bank Berhad Group RHB Bank Berhad RHB Sakura Merchant	Bankers Berhad Delta Finance Berhad Interfinance Berhad	RHB Bank Berhad RHB Delta Finance Berhad RHB Sakura Merchant Bankers Berhad
10 Southern Bank Berhad Group Southern Bank Berhad	Ban Hin Lee Bank Berhad United Merchant Finance Berhad Perdana Finance Berhad Cempaka Finance Berhad Perdana Merchant Bankers Berhad	Southern Bank Berhad Southern Finance Berhad Southern Investment Bank Berhad

(Source: www.mida.gov.my)

The implementation of the Financial Sector Masterplan (FSMP) remains on track. During the initial phase of the FSMP implementation, efforts were focused on enhancing the capability and capacity of domestic financial institutions. These efforts were continued in 2004 with further institutional development initiatives as well as measures to strengthen the regulatory and supervisory framework, and enhance the consumer education and protection framework. The measures implemented have yielded positive results and strengthened the respective building blocks of the financial sector.

The restructuring, consolidation and rationalization efforts that were undertaken in the banking sector have placed the financial sector on a stronger foundation. Financial reforms have also changed the environment. Progressive deregulation and liberalization have increased the flexibility to financial institutions, while also resulting in new business opportunities and increased competition. These developments have also further strengthened the incentives for improved performance. Significant structural changes during this period have also reshaped the landscape. The introduction of capital market intermediaries, investment banks, an increasing presence of new international players in Islamic finance, and a significantly more developed bond market, has resulted in a significantly more diversified financial system

1.2 Statement of the Problem

The merger of CIMB Bank and Bank Niaga in Indonesia create new entity bank; CIMB Niaga. In November 2008, CIMB Niaga merged with PT Bank Lippo Tbk, with around 77.24% of the shares of the merged bank held by CIMB Group. The bank offers a comprehensive suite of both conventional and Islamic banking products and services, through a network of 650 branch offices all over Indonesia. Do merger and acquisition increase the competitive advantage of the banks? How these new entity banks compete with existing banks? And how much return generated from this merger?

In 2008, Maybank had made three acquisitions for RM12.5bil. The most controversial being the RM8.6bil it paid for Bank Internasional Indonesia (BII). As reported in The

Stars, Maybank suffered loss in acquisitions of BII. The estimating loss of this acquisition is RM3.2bil, which represents a 37.2% loss on its total investment by Maybank. Why is it happened? Do Maybank doesn't did research before made decision? What is the role of Bank Negara Malaysia? After suffered huge amount of losses,what bank do to survive in the industry?

Beside merger and acquisition, there is also a policy for a bank to remain a small bank like Affin bank. Their policy target only for niche market that maybe overlooked by big banks. Is there any competitive advantage to the new bank in the industry?

1.3 Research Questions

Specific research questions are:

a) Do merger and acquisition increase the competitive advantage of the banks?

b) What the banks do in order to compete and to survive?

c) Is there any competitive advantage for those small banks?

1.4 Research Objectives

a) To determine whether merger and acquisition increase competitive advantage among banks.

b) To explore the relationship between cost leadership, differentiation, focus and market capitalisation to the bank's competitive advantage.

c) To document the strategies adopt by banks in order to stay competitive and survive.

1.5 Significance of the study

Although many studies on merger and acquisition in Malaysia are available, only a few studies discuss the impact of that. Furthermore, only a few studies had been done on competitive advantage. Therefore, this research will enrich literatures on the art of merger and acquisition in Malaysia and the specifically focusing on competitive advantage. To academician on the other hand, the impact of merger and acquisition is about knowledge on performance of banks, thus can know how banks generate competitive advantage after the process of merger and acquisition. This research's findings will enlighten academician to do more research on this topic.

To scholars, this study highlights the effects of factors such as cost leadership, differentiation, focus and market capitalization on competitive advantage of banks arising from the merger and acquisition activities.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

The chapter discusses on the theories and evidences about theories for merger and acquisition and also forces to bank's competitive advantage. Section 2.1 of the chapter discusses on theories that have been developed underlying this studies. Section 2.2 reviews empirical researches that are closely related to this study.

2.1 Theoretical Review

The main objective of an institution is to be wealthy and prosperity. The wealthy can be achieved either through the process of introducing or developing new products or by expanding the capacity of existing products. Besides, an institution can grow their wealthy by merging or acquire other institution.

Cross-Border merger is another type of merger. It becomes a fundamental characteristic of the global business landscape nowadays. Wikipedia (2010) determined that even mergers of companies with headquarters in the same country are very much of this type and require cross-border Merger. In theory, it is possible for large cross-border banks to expand their activities via the opening of *de novo* operations. However, Hernando et al. (2009) suggest practice around the world has shown that *de novo* operations are usually a costly and slow way for a bank to enter a new market. Overall, Marcelo (2008) suggests that the act of cross-border acquisition does not lead to value destruction.

There are a few reasons why banks merge or acquire other banks:

a) To gain higher financial scalability,
b) To improve complementary products and capabilities,
c) To generate a wider distribution network.

Many mergers and acquisitions are motivated by possible gains in efficiency from combining operations. These mergers create synergies. By this mean, it shows that the two firms are worth more together than apart.

There are four possible sources of synergy which are revenue enhancement, cost reduction, lower taxes, and lower cost of capital. First, after merger or acquisition, a combined firm may generate greater revenues that two separate firms. Increased revenue may come from marketing gains, strategic benefits and market power.

Second, a combined firm may operate more efficiently than a separate firm. A firm can obtain greater operating efficiency in economics of scales, complementary resources and elimination of inefficient management.

Third, tax gains may be powerful incentives for some acquisitions. The possible taxes gains can come from an acquisition are the following:

a) The use of tax losses from net operating losses.

b) The use of unused debt capacity.

c) The use of surplus of funds.

Forth, the cost of capital can often be reduced when two firms merge because the costs of issuing securities are subject to economic of scales.

By doing merger and acquisition, it leads to the Value-Creation of bank itself. In simple words, value-creation means performing activities that increase the value of goods or services to consumers. To create value-creation in bank, it must first have high competitive advantage compare to other banks in the industry.

In studying competitive advantage among banks, it is important to know the basic things about the bank itself; the type of bank, the operation of bank, the efficiency of bank and others. This research is developing to study about the effectiveness and efficiency of banks competitive advantage after merger or acquisition.

Canals (1994) stated that there are four main areas of the sources of competitive advantages in banking. First, human resources which include people and professional training. Second, financial resources of bank which cover capital and deposits. Third, assets of bank include branch network, information system and telecommunications system. Lastly, intangible assets include brand image, experience, managerial talent, product quality and service quality.

Canals (1994) also reports that there are three main components of competitive advantage in bank are cost leadership, differentiation and focus. Cost leadership has been the strategy most used to gain competitive advantage. It affects to activity within the value-chain of banks and extends to each and every activity comprising primary as well as support functions. Besides, it also affects financial innovation of banks. Cost leadership can lead to maximum market share. Cost leadership can give the bank superior benefits compared to other competitors while establishing close relationship with clients.

Differentiation consists of offering financial services that potential or actual buyers perceive as being unique. It leads to sustainable competitive advantage to the extends that it permits relative control of the structural forces of the banking industry; it creates special links with customers, diminishes competition to some extent, and creates barriers to entry while protecting against substitution. By doing differentiation of products, it allows the bank to fix higher prices compared to standard products that lead to imply higher margins.

The third component is focus. Focus in this strategy means focus on a specific market segment which can correspond to specialization in certain products area, customers or geographic area. In turn, focus encompasses a strategy of cost leadership and differentiation. When focusing in certain target, it helps bank to serve its customers more efficiently than its competitors.

After all the process of merger and acquisition fulfill, there are a few challenges that must face by banks in order to compete as a new entity in the existing industry. First, to manage staff morale throughout the merger process including internal redeployment and change of branch model (retain existing employees). Second, ensure a clear understanding of Transaction Banking scope, role and function to all relevant stakeholders. Third, ensure smooth transition of customer relationships between the relationship managers of new entity banks. Lastly, to manage cross team dependencies and gather system requirements from multiple businesses and support teams across both banks especially to cross-border merger.

2.2 Empirical Review

Rhoades (1998) proved that from nine samples of mergers, nine of that were clearly successful in improving efficiency and improved profitability relative to peers. Instead of improving efficiency, some of these banks increase their corporate image/value. In contrast, Sufian (2004) report that that during the merger year, Malaysian banks' overall efficiency level deteriorates significantly compared to the pre-merger period, which was mainly due to scale inefficiency. Despite that, post merger Malaysian banks' mean overall efficiency has not only recovered but is higher compared to the pre-merger period.

Berger et al. (1999) pointed the consequences of mergers and acquisitions, which may lead to changes in efficiency, market power, economies of scale and scope, availability of services to small customers and payments systems efficiency. This merger and acquisition may enable banking firms to benefit from new business opportunities that have been created.

Brierley (2001) reported that Abbey Bank and Llyoyds Bank in Europe gain cost efficient after do merger and acquisition. Besides cost efficient, these two banks increase their retail deposit and gain loan portfolio with a good performance record

Besides improvement in cost and profit efficiency, mergers and acquisitions could also lead banks to earn higher profits through the banks market in leveraging loans and deposit interest rates. Prager and Hannan (1998) found that banks mergers and acquisitions have resulted in higher banks concentration, which in turn leads to significantly lower rates on deposits. Some evidence also suggested that U.S. banks that involved in M&As improved the quality of their outputs in the 1990s in ways that increased costs, but still improved profit productivity by increasing revenues than costs, Berger and Mester (2003).

Berger and Humphre (1994) argued that not all mergers bring cost efficient to the new entity banks. Some mergers have reduced costs, but others have raised costs. The efficiency benefits from mergers are not strongly related to the degree of deposit market overlap or the difference in efficiency between the acquiring and acquired banks

A few researches have been undertaken in the area of merger and acquisition and on their impact on their competitive advantage among new and existing banks. After the process of merger and acquisition had been done, there will be two possibilities which are success of failure. Poorly managed banks are more likely to be acquired by other banks in the same country. And larger banks are more likely to be acquired by other banks in the same country.

This finding seems to reflect that the acquisition of large banks is more beneficial in terms of achieving product diversification and penetration in new market segments as proved in article wrote by Hernando, Nieto and Wall (2009). Similarly, Dietrich and Sorensen (1984) also suggest that acquiring banks prefer to acquire small, low risk targets (low debt ratio). The banks with high capital to asset ratio are more likely to acquire the banks with low capital to asset ratios.

As much, the successful of mergers depends on mainly four factors; Profitability, Credit quality, Asset mix and Contract of operating experience as showed in the book by Shrivastava, Pandey and Vidyarthi (2007). There are major achievements of merger such as can raised awareness on the importance of transaction banking in achieving a balanced funding mix for the bank and optimum revenue from borrowing clients. Then bank can aligned product offering, features, fees and charges from both organizations that lead to quick wins on cross selling and harmonization of pricing. Furthermore, merger helps bank to define extensive customer communication and inter staff communication plans. Several activities are already in progress including customer gathering, joint visits, acknowledgement letter, and employee gathering. Last but not least, enable the bank to plan and design a more robust IT enterprise environment to accommodate business demands, even after the merger.

Cost and regulation become the most factors in cross-border merger that should be concerned. Buch and DeLong (2007) suggest that information costs significantly impede cross-border bank mergers and also regulations influence cross-border bank merger activity. Hence, policy makers can create environments that encourage cross-border activity, but information cost barriers must be overcome even in (legally) integrated markets.

Merger also can bring failure to the bank. It has been proved by previous study that not all mergers are successful and some of them fail to achieve their objectives due to certain reasons. There are several causes for failure of bank mergers:

a) Often merger overestimate for managing newly acquired assets and sometimes overbid. Shrivastava et al. (2007).
b) Potential revenue loss associated with consolidation is often underestimated by the management. (Shrivastava et.al. (2007).
c) Lack of comprehensive communications strategy – lose hearts and minds of employees.
d) No proper up front planning and transition management– lack of a "Master Plan"

As shown by Shih (2003), merging a weaker bank into a healthier bank in many cases would result in a bank even more likely to failure bank. On the other hand, he found that mergers between relatively healthy banks would create banks that are less likely to fail. The losses by Maybank in Malaysia in 2008 after acquire BII from Indonesia proved what has Shih (2003) wrote in his article.

In a nut shell, Pilloff and Santomero (1996) agree that merger and acquisition enables costs to be lowered if scale or scope economies can be achieved. Larger institutions may be more efficient if redundant facilities and personnel are eliminated within the post-merger organization. Moreover, costs may be lowered if one bank can offer several products at a lower cost than separate banks each providing individual products. Cost efficiency may also be improved through merger activity if the management of the acquiring institution is more killed at holding down expenses for any level of activity than that of the target. Bank's cost efficiency can help banks to improve their value and also increase the competitive advantage for the bank itself.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter explains about the methods used to conduct this study. This chapter is organized as follows: in section 3.1 discusses about the data that will be collected for this study. Section 3.2 is the sample selection: explain about the sample for this study. Section 3.3 explains the independent and dependent variables. Section 3.4 presents the conceptual framework. Section 3.5 is discussed about how the data will be analyzed for this study. Finally, section 3.6 provides the hypothesis statements.

3.1 Data Collection

The secondary data was gathered through the existing financial report and also data stream of each bank. Five years data was taken from 2005 to 2009. These financial items were converted into financial ratios which are used as proxies for the determinants of competitive advantage

All these data was obtained through UUM' Library (for data stream) and Bursa Malaysia website.

3.2 Sample Selection

The sample banks used in this study were selected from local banks in Malaysia that involved in the process of merger and acquisition. This study decided to use sample of nine banks that already involved in the process of merger and acquisition. The list of banks selected for this study are as follows: Affin Bank Berhad, Alliance Bank Malaysia Berhad, AmBank (M) Berhad, Malayan Banking Berhad, Public Bank Berhad, RHB Bank Berhad, CIMB Bank Berhad, EON Bank Berhad, Hong Leong Bank Berhad. The data stream and financial statement are the main source of data.

3.3 Variables

The variables used in this study can be categorized into two main types which are; the dependent and independent variables.

a) Dependent variable:

   The dependent variable for this study is competitive advantage among banks in Malaysia.

b) Independent variable:

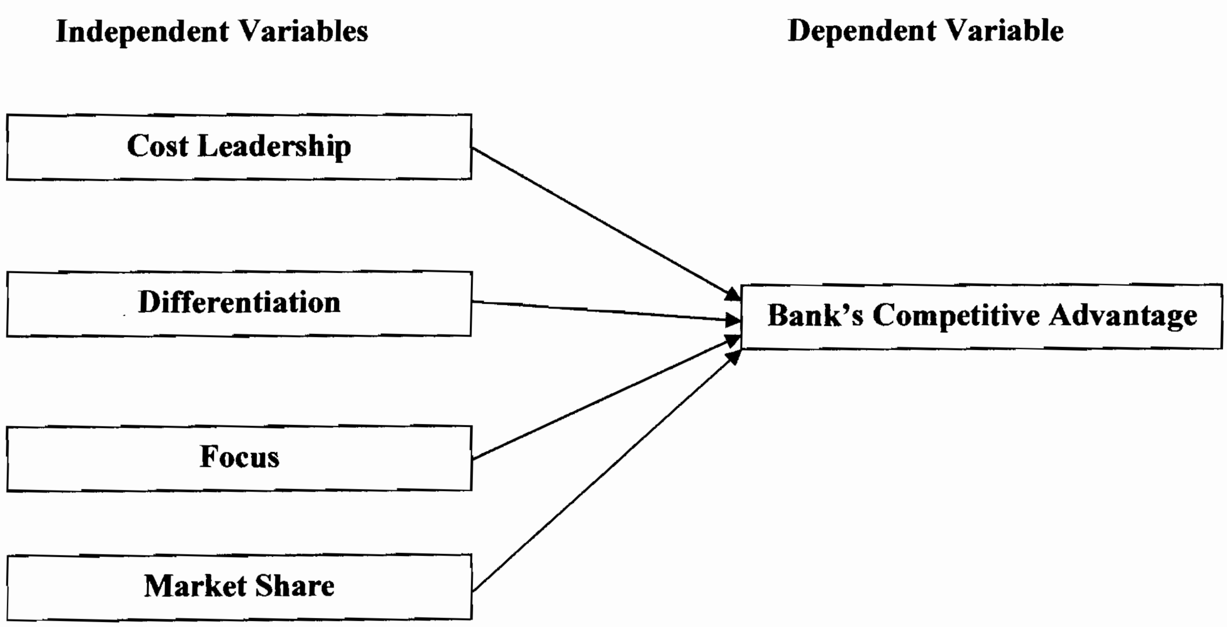
   For this study, the independent variables are cost leadership, differentiation, focus and market share of banks after merger and acquisition.

These variables are adopted from year 2005 to 2009. However, we introduced new measurement replacing market share for profitability. Our rationale is that banks which experienced success after merger and acquisition would record increase in profit. The bank with strong profitability is able to capture larger market share.

3.4 Conceptual Framework

Figure 3.1 shows the conceptual framework of this study that includes all respective variables for this study model.

Figure 1: Conceptual Framework Diagram



As can be seen in figure 3.1, there are four independent variables which arecost leadership, differentiation, focus and market capitalization, and one dependent variable that is bank's competitive advantage. .

Table 3.1: Operational Framework

Variables	**Operational Definition**
Competitive Advantage	Profit Before Tax and Zakat
Cost Leadership	Profit Margin Revenue / No. of employees
Differentiation	Size – Total Asset (Ln)
Focus (by type)	% of Conventional Banking
Market Share	Market Capitalization Loan to Deposit Ratio

Table 3.1 shows the operational definition of the dependent variable and independent variables. The measurement of the variables:

a. Competitive advantage.

For this study, competitive advantage measured by looking at profit before tax and zakat. In the analysis, we measure it as PBTZ.

b. Cost Leadership

Two variables used to measure cost leadership. First is Profit Margin ratio (PM). This ratio calculated by taking net profit before tax and zakat divided to operation revenue. Second is the ratio of net income to total employee of the bank (INCEE).

c. Differentiation

Differentiation measured by looking at size of total assets of the bank (LNTA). Since size of total asset it very large amount, so we use simple logarithm of it.

d. Focus

The percentage of profit from conventional banking used to measure focus by bank (NPCON).

e. Market Share

To measure market share, we take two variables which are market capitalization (MCAP) and loan to deposit ratio (LD). To get the figure of market capitalization, we use the formula of bank's share outstanding times the market price. And use simple logarithm for the amount. Second ratio is loan to deposit ratio by take total loan divided to total deposit.

3.5 Data Analysis

In this section, trend analysis, descriptive statistics, correlation analysis, and regression analysis are used to answer the research questions.

3.5.1 Trend analysis

Trend analysis is a form of comparative analysis that is often employed to identify current and future movements. The process may involve comparing past and current financial ratios as they related to various institutions in order to analyse the movement of any data.

3.5.2 Descriptive analysis

The descriptive analysis explains descriptive information and enables us to understand and interpret the data. This study uses descriptive analysis to show the mean, median, minimum, maximum, and standard deviation for each variable of the sample companies.

3.5.3 Correlation Analysis

Correlation matrix of the variables is used to examine how one variable is correlated with one another. The results of this examination explain the nature, direction, and significant of the correlation of the variables used in this study. Pearson's correlation method is used for correlation analysis in this study. High value of correlation coefficient (i.e. greater than 0.9) among independent variables indicates that multicollinearity issue might arise. To test the presence of multicollinearity among the independent variables, this study employed the tolerance and variance inflation factor (VIF) method. Variables with VIF value greater than 10.0 indicate the existence of multicollinearity problem.

3.5.4 Regression model

The panel nature of the data allows the use of panel data methodology. Therefore, to examine the relationship between the explanatory variables and the dependent variables this study uses a panel data regression model. Panel data involves the pooling of observations on a cross-section of units over a number of time periods. A panel data approach is more useful than either time-series or cross-section data alone because it allows sorting out economics effects that cannot be distinguished with the use of either cross-section or time-series data alone. The model that being applied for this study is as follows:

$$CA = \beta_0 + \beta_1 MCAP + \beta_2 PM + \beta_3 INCEE + \beta_4 LNTA + \beta_5 NPCON + \beta_6 LD + \varepsilon_t$$

3.6 Hypothesis Statement

There are many hypotheses that provide new insights on the determinants of bank's competitive advantage. To test whether there is a relationship between the dependent and independent variables, the hypothesis are:

Hypothesis 1:

H_0: The Profit margin is significantly related to competitive advantage of bank.

Hypothesis 2:

H_0: The revenue to total employee ratio is positively related to competitive advantage of bank.

Hypothesis 3:

H_0: Size of total asset is positively related to competitive advantage of bank.

Hypothesis 4:

H_0: The profit from conventional banking is negatively related to the competitive advantage of bank.

Hypothesis 5:

H_0: Market Capitalization is negatively related to competitive advantage of bank.

Hypothesis 6:

H_0: the loan to deposit ratio is positively related to competitive advantage of bank.

CHAPTER FOUR

ANALYSIS OF RESULTS

4.0 Introduction

This chapter provides analysis and results on the relationship between competitive advantage and its determinants. The determinants for this research include market capitalization, profit margin, income to employee ratio, total assets, net profit for conventional banking and loan to deposit ratio.

This chapter consists of 3 sections. The first section provides the descriptive analysis of the data and variables for the study. The second section discusses the correlation analysis between dependent and independent variables. The third section discusses the results of the linear regression.

4.1 Trend Analysis

To be able to get a better picture on banks' history on making profit throughout the observation period, trend analysis was used. To know the profit trend of a bank is important to determine the bank's performance in comparison with its competitors its industry. The trend analysis also provides an insight for investors to identify any extraordinary events that might affect a bank's profitability.

Figure 4.1: Trend Analysis of Net Profit before Tax and Zakat (PBTZ) of Malaysian Commercial Banks

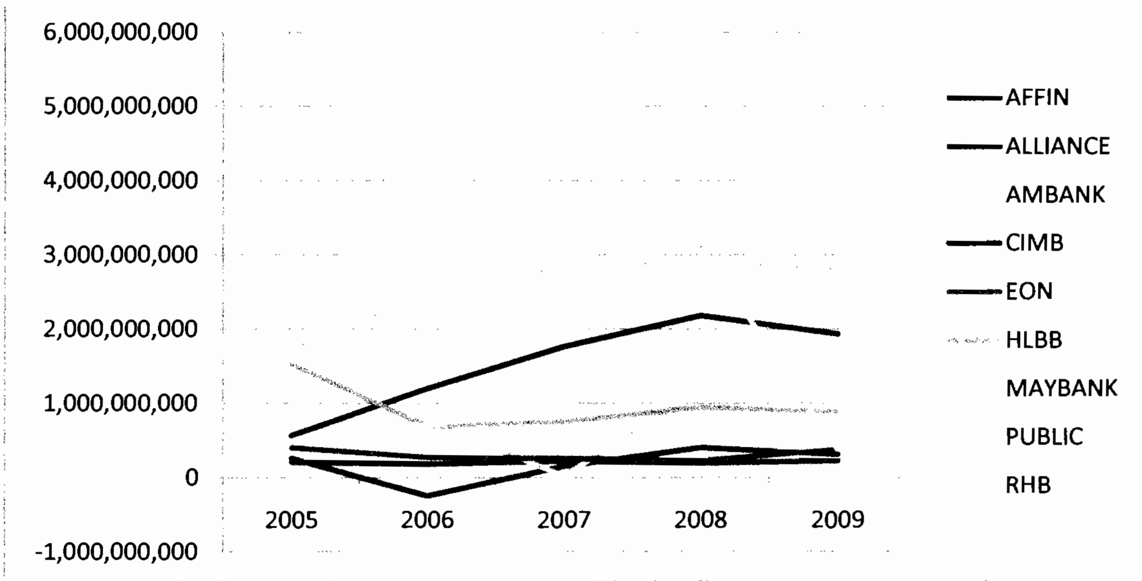
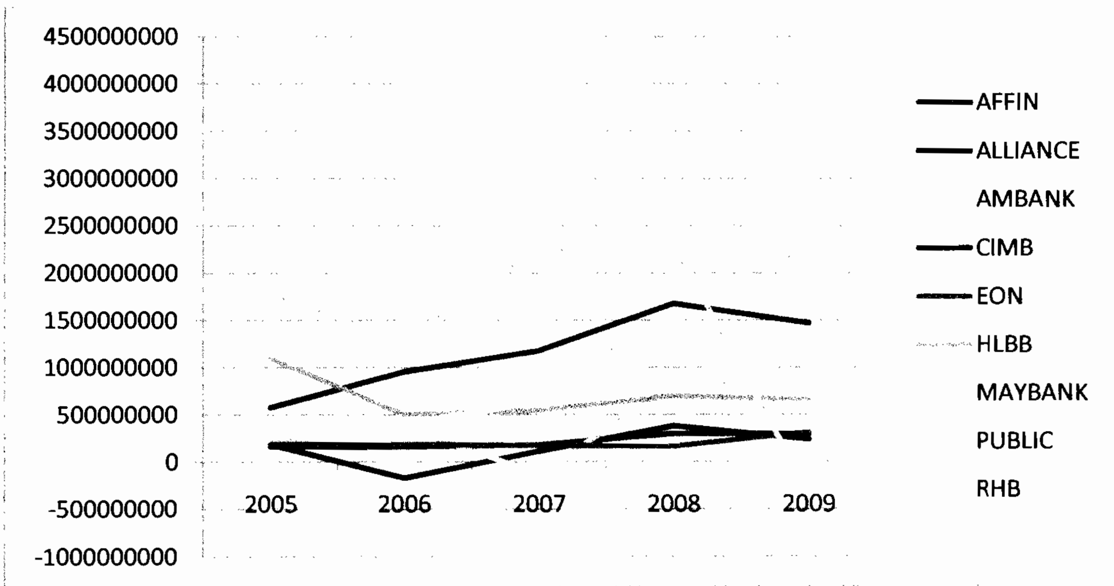


Figure 4.1 shows the trend analysis of net profit before tax and zakat (PBTZ) of Malaysian commercial banks. Overall, the chart shows that RHB Bank gains the highest PBTZ, while Affin Bank in contrast gains the lowest PBTZ during the observation period. Most banks increase their PBTZ in year 2008. Nevertheless, in year 2009 shows that all banks recorded losses in their PBTZ, which was triggered by the world financial crisis that occurs in that particular year. This chart however, is not illustrating the real

competitive advantage of the banks because PBTZ only takes operating revenue into calculation. The actual profit that a bank received is the net profit after tax and zakat (NPATZ). Hence, it is used as a standard to measure banks' profitability.

Figure 4.2 shows the Trend Analysis of Net Profit after Tax and Zakat of Malaysian Commercial Banks. In 2005, Maybank gain the highest profit compare to other local banks, followed by Public Bank that gain RM18 million net profit. Alliance Bank on the other hand had the lowest profit compared to others.

Figure 4.2: Trend Analysis of Net Profit after Tax and Zakat of Malaysian Commercial Banks



In year 2009 shows a sharp decline on Maybank's NPATZ from 2008. The reason for this decline is due to the losses that Maybank suffered after acquiring Bank Internasional

Indonesia (BII). This proved the theory that not all merger and acquisition will lead to high profit.

Figure 4.3: Growth rate for local banks from 1998 until 2004

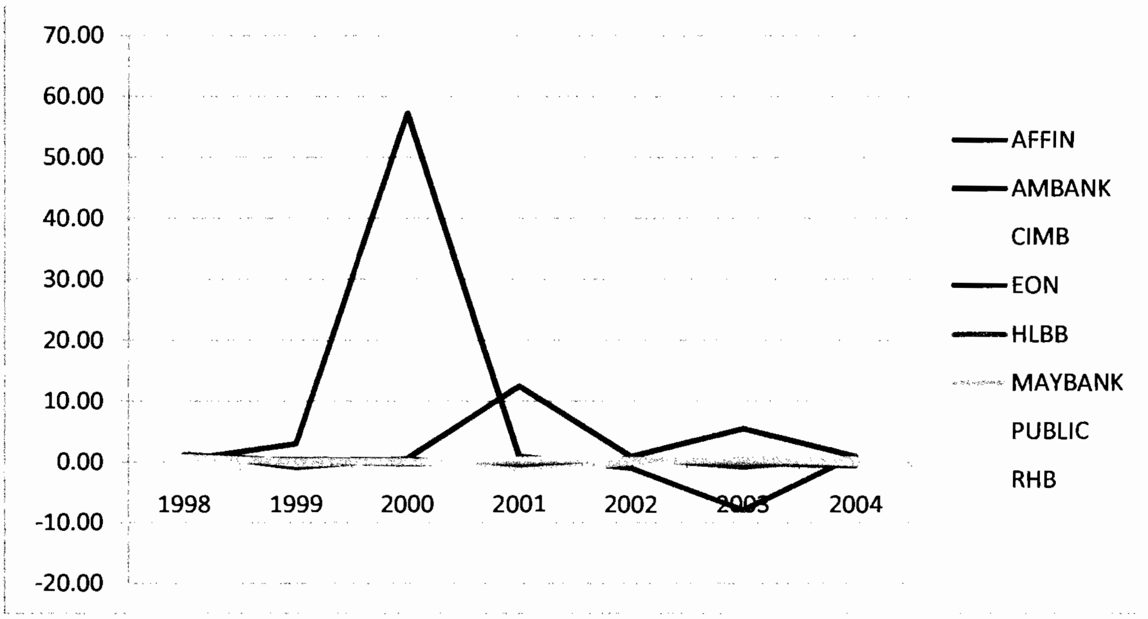


Figure 4.3 above show the growth rate for local banks for period 1998 until 2004 for net profit after tax and zakat (NPATZ). From the figure above, AmBank shown that it's NPATZ growing intensively from 1999 to 2000 and jump sharply in 2001. At this time, because of the financial crisis, AmBank face so much loss. Affin Bank also show the growth rate fluctuate from year to year. For all banks except AmBank and Affin, the growth rate show above are slightly same every year.

From the three figure of Trend analysis, we can conclude that local banks in Malaysia gain competitive advantage after merger and acquisition.

4.2 Descriptive Analysis.

This section presents the descriptive statistics and provides an overview of all variables used in the analysis.

Table 4.1: Descriptive Statistics of the Dependent and Independent Variables

	N	Minimum	Maximum	Mean	Std. Deviation	Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error
PBTZ	45	0.0000	22.3944	19.9625	3.2376	34.4930	0.6950
MCAP	45	15.1556	24.5078	21.0902	1.8830	2.7230	0.6950
PM	45	-0.2126	0.9301	0.3733	0.2167	1.4210	0.6950
INCEE	45	-52242.1000	208554.6000	88521.9300	54236.2200	0.4110	0.6950
LNTA	45	23.7937	25.8970	24.8365	0.6223	-1.0370	0.6950
NPCON	45	-34.1716	163.4678	83.1169	26.1488	10.3790	0.6950
LD	45	0.5181	1.1641	0.8472	0.1589	-0.3120	0.6950
Valid N (listwise)	45						

N = 45, PBTZ, MCAP, PM, INCEE, LNTA, NPCON, LD.

Table 4.1 shows the summary of minimum, maximum, mean and standard deviation of 9 local banks in Malaysia. Table 4.1 illustrates that there were 45 numbers of valid cases for each variable. For dependant variable; PBTZ or profit before tax and zakat shows the mean that is RM19.9625 while the maximum is RM22.3944 which are in natural log. The actual amount of PBTZ is maximum amount is RM 5,318.233,000.

The mean for MCAP is 21.0902 and minimum and maximum range of MCAP is between 15.1556 and 24.5078. The mean for LNTA is 24.8365 and minimum and maximum range of LNTA is between 23.7937 and 25.8970. The actual amount of minimum and maximum amount of size of total assets are RM 21,550,647,000 and RM 238,277,142,000 respectively.

For independent variables of PM, INCEE and NPCON, the minimum statistic for PM, INCEE and NPCON is -0.2126, -52242.1000 and -34.1716. The negative sign appear in the minimum statistic because there are losses in net profit for certain banks in certain years. Mean for PM is 0.3733 shows that Malaysian banks on average achieved profit margin of 31.33% over the study period.

The statistic for LD demonstrates the mean of 0.8472 while the minimum and maximum LD is 0.5181 and 1.1641 respectively. The 0.8472 figure means that from total of deposit from customer, the bank use 84.72% of deposit for loan purposes.

Kurtosis measures of the peakedness or flatness of a distribution when compared with the normal distribution. For variables of PBTZ, MCAP, PM, INCEE and NPCON, its shows a positive value which mean the value indicate a relatively peaked distribution. For variables of LNTA and LD, its shows negative value which indicates a relatively flat distribution.

4.3 Correlation Analysis

The correlation coefficient represents the linear relationship between two variables. The most widely-used type of correlation coefficient is *Pearson r*, also called *linear* correlation. The significance level calculated for each correlation is a primary source of information about the reliability of the correlation. The significance of a correlation coefficient of a particular magnitude will change depending on the size of the sample from which it was computed. Here, I analyzed the significant correlations between the dependent variable and each independent variable separately to decide whether to accept or reject the hypothesis.

Table 4.2: Correlation between PBTZ and all ratios

	Variables	PBTZ	MCAP	PM	INCEE	LNTA	NPCON	LD
Pearson Correlation	PBTZ	1	0.141	0.437	0.604	0.457	-0.302	-0.035
	MCAP	0.141	1	0.03	0.379	0.291	0.064	-0.216
	PM	0.437	0.03	1	0.49	-0.085	0.182	-0.309
	INCEE	0.604	0.379	0.49	1	0.534	0.228	-0.445
	LNTA	0.457	0.291	-0.085	0.534	1	-0.088	-0.119
	NPCON	-0.302	0.064	0.182	0.228	-0.088	1	-0.429
	LD	-0.035	-0.216	-0.309	-0.445	-0.119	-0.429	1

Table 4.2 shows the correlations between PBTZ and independent variables. PBTZ were positively correlated with MCAP, PM, INCEE and LNTA. Besides that, PBTZ were negatively correlated with NPCON and LD. From the table, the highest correlation coefficient is between PBTZ and INCEE (r = 0.604), which indicates strong relationship between variables. The strong positive relationship between bank's profit and the ratio of net income to total employee indicates that when bank's profit increase, the INCEE ratio for the bank will also increase. The possible explanation is that when banks gain more profit, they will pay more salary to their employees. Based on Hair et. al. (1998), there appears to be no highly correlated variables.

4.4 Multicollinearity Test

Issue of multicollinearity is foreseeable when independent variables show sign of significant correlation. The existence of multicollinearity will cause a problem in the multiple regression analysis that makes it difficult to identify the effect of each independent variable on the dependent variable. The variance inflation factors (VIF) is a widely used method to detect and measure multicollinearity. Variables with values of VIF more than 10.0 are considered to be highly correlated, causing a multicollinearity problem which might leads to false analysis.

Table 4.3: Test for multicollinearity using variance inflation factor

Variables	Tolerance	VIF
MCAP	0.817	1.224
PM	0.573	1.746
INCEE	0.339	2.946
LNTA	0.523	1.914
NPCON	0.773	1.294
LD	0.676	1.479

Table 4.3 show the tolerance and VIF test for each independent variable in the regression model. This table shows that the model is free from multicollinearity issue since all VIF is less than 5.

4.5 Regression Analysis

Regression analysis includes any techniques for modelling and analyzing several variables, when the focus is on the relationship between a dependent variable and one or more independent variables. More specifically, regression analysis helps to understand how the typical value of the dependent variable changes when any one of the independent variables is varied, while the other independent variables are held fixed.

To make sure that regression analysis is sufficient to guarantee that ordinary regression estimates will have good properties, the Gauss-Markov assumptions will be used. First assumption; assume that the errors u_i have an expected value of zero: E(u_i) = 0 This means that on average the errors are balance out. Second assumption; assume that the independent variables are non-random. Third assumption; assume that the independent variables are linearly independent. The failure of this assumption, known as *multicollinearity*, clearly makes it infeasible to disentangle the effects of the supposedly independent variables. Fourth assumption; assume that the disturbances u_i are homoscedastic. And last assumption; assume that the disturbances are not autocorrelated.

4.5.1 Model Summary

Table 4.4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.807(a)	0.651	0.595	2.059387	0.651	11.791	6	38	0	2.138

a. Predictors: (Constant), LD, LNTA, PM, MCAP, NPCON, INCEE
b. Dependent Variable: PBTZ

Table 4.4 above shows the strength of the relationship between dependant variable and independent variables. The coefficient of R is 80.7%. The R^2 value is 65.1% and the Adjusted R^2 value is 59.5%. The results indicate that the changes in independent variables explain 59.5% of the changes in the dependent variables. In other words, MCAP, PM, INCEE, LNTA, NPCON and LD collectively explain 59.5% of the changes in profit before tax and zakat (PBTZ). The remaining 40.5% of changes is explained by other factors which are not captured in the model. This model shows that competitive advantage of a bank after merger is affected by the changes in the factors such as its market value (measure by MCAP), profit margin, income to total employee ratio, total assets and also profit achieved.

Furthermore, Durbin-Watson statistic result is 2.138 which mean there is no serious serial correlation between PBTZ and independent variables.

4.5.2 Coefficient Analysis

Table 4.5: Coefficient Analysis and Collinearity Statistics

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-7.931	17.673		-0.449	0.656
	MCAP	-0.119	0.182	-0.069	-0.655	0.516
	PM	4.807	1.894	0.322	2.539	0.015
	INCEE	3.03E-05	0	0.507	3.079	0.004
	LNTA	1.118	0.69	0.215	1.62	0.113
	NPCON	-0.049	0.014	-0.397	-3.641	0.001
	LD	2.664	2.375	0.131	1.122	0.269

a Dependent Variable: PBTZ

Based on the coefficient analysis, the model of this study can be as follows:

$$PBTZ = \beta_0 - 0.069MCAP + 0.322PM + 0.507INCEE + 0.215LNTA - 0.397NPCON + 0.131LD + \varepsilon_t$$

The analysis in Table 4.5 shows the relationship between dependent variable (PBTZ) and independent variables in the model. MCAP is negatively related and not significant to PBTZ. Despite a 6.9% decrease in MCAP reduce 1% in PBTZ. The example of merger and acquisition for CIMB Bank can explain this relationship. As the merger of bank done in end of 2006, the bank faced a decrease in their share price during the first two years of merger and acquisition because of high expenses (marketing and branding) involved in streamlining the operation. This affected the profit performance and share price in the short-term period.

This negative relationship also has same explanation to the relationship between NPCON and PBTZ. The result shows that NPCON is significantly but negatively related to the PBTZ. As NPCON decrease 39.7%, it will reduce 1% of the PBTZ. This could be due to the rationalization programs undertaken by the group to strength the corporate image of the new entity for example the merger of Bank of Commerce and Bank Bumiputera Malaysia Berhad to become Bumiputera Commerce Bank (BCB). Later, BCB acquire Southern Bank and become new entity bank, CIMB Bank. This efforts cost a lot of money which subsequently reduce the profit. However, these efforts increase the competitive advantage of CIMB Bank and bring the banks to become the second largest bank in Malaysia after Maybank.

Based on the model, it shows that PM is significantly and positively related to PBTZ. As PM increase 32.2%, it contributes to an increase of 1% of PBTZ. PM is the profit margin ratio that consist operating profit divided with operating revenue. So an increasing in profit will lead to increase in profit margin ratio and later will increase the competitive advantage of the bank itself.

The independent variable of INCEE refers to the ratio of net income to the total employees of the bank. It has *Beta* of 0.507 which shows it is significantly and positively related to the PBTZ. An increase in PBTZ will increase income per employee. This mean that when profit increase, it allows the banks to pay higher income to their employee.

After merger and acquisition, logically the total assets will increase they consists of the the total assets of the two banks merged. This statement explains the positive relationship between LNTA and PBTZ. From the coefficient analysis, it shows that 21.5% increase in total asset will increase 1% of the PBTZ.

The independent variable of Loan to deposit ratio (LD) is significantly and positively related to PBTZ. LD is the ratio of total loan to total deposit. As for this study, total deposit refers to the deposit from customer only. So, the model above illustrate that when LD increase by 13.1%, it will lead to the increasing of 1% in PBTZ. As total loan increase, total assets also will increase since loan made up the largest portion of the total assets, and consequently lead to the increasing in profit. A bank with a larger loan portfolio tends to have a higher competitive advantage than the bank with lower loan portfolio.

CHAPTER FIVE
CONCLUSION AND RECOMMENDATION

5.0 Introduction

This chapter summarizes this study. Section 5.1 highlights overview of the research process. Section 5.2 summarizes the findings from this study. Suggestion for future research is shown in section 5.3.

5.1 Overview of the Research Process

This study was conducted to explore competitive advantage of Malaysian local banks after merger and acquisition. For the purpose of the study, nine local Malaysian banks were selected namely Affin Bank, Alliance Bank, AmBank, CIMB Bank, EON Bank, Hong Leong Bank, Maybank, Public Bank and RHB Bank. A sample of five years annual reports from 2005 until 2009 gathered for each bank that generates 45 years observation. This study use Profit before Tax and Zakat to represent competitive advantage for bank and assumed four main areas to determine bank's competitive advantage which cover cost leadership, differentiation, focus and market capitalization.

For this study, Trend analysis, Descriptive analysis, Correlation analysis and regression analysis used in order to analyze the relationship between dependent variable and independent variable.

5.2 Summary of Findings

The findings from the analysis give answered to research objectives as follow:

First objective is to determine whether merger and acquisition increase competitive advantage among banks. From the analysis, it shows that merger and acquisition help banks to increase competitive advantage at least two years after the process of merger. As shown in Figure 2, Trend Analysis of Net Profit after Tax and Zakat of Malaysian, eight out of nine Malaysian local banks increase their competitive advantage except for Maybank. From the all figures of trend analysis, we can conclude that local banks in Malaysia gain competitive advantage after merger and acquisition.

Second objective is to explore the relationship between cost leadership, differentiation and focus to the bank's competitive advantage. We find that cost leadership (measured by PM and INCEE) is positively and significantly related to competitive advantage (measure as PBTZ). The result implies that banks with lowest cost will obtain higher profit margin. Second independent variable as measure by LNTA has positive relationship with competitive advantage. Third independent variable as measure by NPCON has significant but negative relationship with PBTZ. Last independent variable which is market share has negative (MCAP) and positive (LD) relationship to PBTZ.

Third objective is to document the strategies adopt by bank in order to stay competitive and survive. All the strategies include in the table below:

Table 5.1: Strategy adopted by local banks in Malaysia.

Bank	Strategy
Affin Bank	• Improve in asset quality, growth strategy, earnings sustainability, human capital management and operational efficiency. • Deepening relationship with existing customers by leveraging the Group synergy by focusing on potential business within Group of companies • Strengthening management of assets quality to ensure continuous improvement in the level of NPL's.
Alliance Bank	• Committed to long-term strategy of improving asset quality, whilst growing loan and advances, further strengthening risk management systems. • Work hard to streamline bank wide functions for better synergy to achieve sustainable and profitable growth.
AmBank	• Banking business work towards consolidating and enhancing its market positions in the capital markets through product innovation and operational efficiencies. • Increase their presence in market segments where they already have meaningful market share and in new market segments in which the Group believes that it can gain significant market share. • The Group's Islamic banking business has plans to increase its income stream via the introduction of new Syariah-compliant products
CIMB Bank	• Merger within oversea's bank. • Both local and oversea's banks have individually and aggressively focused on innovating new product lines and penetrating untapped customer segments for organic business expansion, while simultaneously seeking potential merger and acquisition opportunities as part of an inorganic growth strategy.
EON Bank	• EON Bank Group is one of Malaysia's most pioneering banking groups with a suite of innovative, first-of-its-kind financial products and services for both consumers and businesses. • Improve transformation programmed, aggressive promotions and marketing strategy.
Hong Leong Bank Berhad	• The Group will continue to push ahead with an aggressive integrated channel and e-banking strategy. • The Group will continue to adopt a balanced market driven strategy, focusing to grow market share for its chosen segments, keep to a prudent enterprise-wide risk management policy and improve on its delivery of excellent customer service at all points of customer contact.
Maybank	• Continue to expand the contribution of our non-banking businesses in line with

	the strategy to diversify the Group's income base. • Introduce the café bank branch marks a new milestone in Maybank's retail banking strategy to provide greater banking convenience to a diverse range of customers including mass affluent customers • Oversea expansion by opened a second branch in Cambodia as part of its strategy to grow its international network as well as to make inroads into the domestic markets where it is present.
Public Bank	• Public Bank Group continued to pursue its long-term business strategy of focusing on the consumer and middle market commercial enterprises, particularly the SMEs. • Bank Group had been able to generate a steadily growing stream of foreign exchange income from its strategy of concentrating resources on non-proprietary trading activities in the foreign exchange markets, thus avoiding the risk of volatility in profitability of the Public Bank Treasury business usually associated with proprietary foreign exchange trading activities
RHB Bank	• RHB Capital's regional expansion strategy by acquire oversea's bank, in view of its attractive macroeconomic factors, strong cultural similarities and economic inter-connections with Malaysia, as well as its close geographical proximity to Malaysia".

5.3 Suggestion for Future Research

This study focuses on the competitive advantage only for local banks in Malaysia. Future research must capture foreign banks that operate in Malaysia. Furthermore, future research should analyze longer period and include more bank specific variables which were not tested in this study. This will help the study become more comprehensive.

Besides, future research should explore another method of analysis such as logic regression. This method could be used to analyze the success and failure of a merger and acquisition. Last but not least, future research can include other economic factors in the model such as inflation rate and growth domestic product. (GDP)

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APPENDICES

Frequencies

Statistics

		PBTZ	MCAP	PM	INCEE	LNTA	NPCON	LD
N	Valid	45	45	45	45	45	45	45
	Missing	0	0	0	0	0	0	0
Mean		19.962526	21.090204	.373322	88521.9269	24.8365	83.116898	.847136
Std. Deviation		3.2375	1.88299	.21666	54236.2243	.6222	26.1488356	.15895
Kurtosis		34.493	2.723	1.421	.411	-1.037	10.379	-.312
Std. Error of Kurtosis		.695	.695	.695	.695	.695	.695	.695
Minimum		.0000	15.1556	-.2126	-52242.09	23.7937	-34.1716	.5181
Maximum		22.3944	24.5078	.9301	208554.62	25.8970	163.4678	1.1641

Regression

Descriptive Statistics

	Mean	Std. Deviation	N
PBTZ	19.962526	3.2375527	45
MCAP	21.090204	1.8829925	45
PM	.373322	.2166695	45
INCEE	88521.926944	54236.2243296	45
LNTA	24.836513	.6222735	45
NPCON	83.116898	26.1488356	45
LD	.847136	.1589548	45

Correlations

		PBTZ	MCAP	PM	INCEE	LNTA	NPCON	LD
Pearson Correlation	PBTZ	1.000	.141	.437	.604	.457	-.302	-.035
	MCAP	.141	1.000	.030	.379	.291	.064	-.216
	PM	.437	.030	1.000	.490	-.085	.182	-.309
	INCEE	.604	.379	.490	1.000	.534	.228	-.445
	LNTA	.457	.291	-.085	.534	1.000	-.088	-.119
	NPCON	-.302	.064	.182	.228	-.088	1.000	-.429
	LD	-.035	-.216	-.309	-.445	-.119	-.429	1.000
Sig. (1-tailed)	PBTZ	.	.177	.001	.000	.001	.022	.411
	MCAP	.177	.	.422	.005	.026	.339	.077
	PM	.001	.422	.	.000	.290	.116	.019
	INCEE	.000	.005	.000	.	.000	.066	.001
	LNTA	.001	.026	.290	.000	.	.284	.218
	NPCON	.022	.339	.116	.066	.284	.	.002
	LD	.411	.077	.019	.001	.218	.002	.
N	PBTZ	45	45	45	45	45	45	45
	MCAP	45	45	45	45	45	45	45
	PM	45	45	45	45	45	45	45
	INCEE	45	45	45	45	45	45	45
	LNTA	45	45	45	45	45	45	45
	NPCON	45	45	45	45	45	45	45
	LD	45	45	45	45	45	45	45

Variables Entered/Removed(b)

Model	Variables Entered	Variables Removed	Method
1	LD, LNTA, PM, MCAP, NPCON, INCEE(a)	.	Enter

a All requested variables entered.
b Dependent Variable: PBTZ

Model Summary(b)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.807(a)	.651	.595	2.0593870	.651	11.791	6	38	.000	2.138

a Predictors: (Constant), LD, LNTA, PM, MCAP, NPCON, INCEE
b Dependent Variable: PBTZ

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	300.036	6	50.006	11.791	.000(a)
	Residual	161.161	38	4.241		
	Total	461.197	44			

a Predictors: (Constant), LD, LNTA, PM, MCAP, NPCON, INCEE
b Dependent Variable: PBTZ

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	-7.931	17.673		-.449	.656					
	MCAP	-.119	.182	-.069	-.655	.516	.141	-.106	-.063	.817	1.224
	PM	4.807	1.894	.322	2.539	.015	.437	.381	.243	.573	1.746
	INCEE	3.03E-005	.000	.507	3.079	.004	.604	.447	.295	.339	2.946
	LNTA	1.118	.690	.215	1.620	.113	.457	.254	.155	.523	1.914
	NPCON	-.049	.014	-.397	-3.641	.001	-.302	-.509	-.349	.773	1.294
	LD	2.664	2.375	.131	1.122	.269	-.035	.179	.108	.676	1.479

a Dependent Variable: PBTZ

Collinearity Diagnostics(a)

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions						
				(Constant)	MCAP	PM	INCEE	LNTA	NPCON	LD
1	1	6.463	1.000	.00	.00	.00	.00	.00	.00	.00
	2	.302	4.627	.00	.00	.14	.12	.00	.00	.01
	3	.134	6.956	.00	.00	.60	.28	.00	.00	.00
	4	.082	8.872	.00	.00	.00	.04	.00	.66	.04
	5	.015	20.769	.00	.11	.00	.13	.00	.22	.78
	6	.004	41.185	.02	.88	.02	.01	.02	.04	.16
	7	.000	202.059	.98	.01	.23	.42	.98	.07	.00

a Dependent Variable: PBTZ

Raw Data

		Variables							
Bank	Year	NPBTZ	OPREV	EMPLOY	TA	NPCONV	DEPO	LOAN	MKTCAP
AFFIN	2,005	209,565,000	225,324,000	3,324	24,993,405,000	163,363,000	17,842,071,000	16,423,069,000	3,870,849,000
AFFIN	2,006	185,437,000	218,459,000	3,171	26,180,984,000	159,024,000	19,772,740,000	15,746,648,000	3,870,849,000
AFFIN	2,007	223,225,000	251,209,000	3,011	26,233,528,000	180,859,000	19,780,674,000	15,100,333,000	3,819,238
AFFIN	2,008	197,900,000	409,553,000	2,891	27,730,474,000	299,936,000	20,979,568,000	17,054,062,000	3,870,849,000
AFFIN	2,009	230,284,000	385,139,000	2,900	30,333,116,000	295,240,000	21,815,054,000	19,108,595,000	6,451,415,000
ALLIANCE	2,005	262,427,000	1,268,110,000	3,163	21,550,647,000	187,391,000	15,521,306,000	13,964,342,000	5,476,026,060
ALLIANCE	2,006	-243,370,000	1,144,552,000	3,288	21,687,615,000	-171,772,000	16,255,499,000	12,913,801,000	721,785,570
ALLIANCE	2,007	156,262,000	1,308,070,000	3,497	24,337,863,000	111,544,000	17,787,487,000	13,019,480,000	2,392,033,170
ALLIANCE	2,008	406,178,000	1,326,547,000	3,621	25,845,226,000	381,194,000	18,211,867,000	13,305,655,000	8,709,148,200
ALLIANCE	2,009	314,052,000	1,395,482,000	3,738	28,486,604,000	237,078,000	23,224,565,000	16,277,911,000	5,857,796,940
AMBANK	2,005	489,696,000	4,639,405,000	8,973	62,114,233,000	203,987,000	34,447,340,000	40,099,556,000	852,213,600
AMBANK	2,006	757,842,000	4,871,268,000	9,280	72,260,637,000	365,505,000	38,918,164,000	44,860,468,000	1,043,961,660
AMBANK	2,007	23,120,000	6,025,613,000	9,603	78,982,858,000	-128,897,000	42,381,662,000	47,610,755,000	1,065,267,000
AMBANK	2,008	1,194,437,000	5,992,682,000	9,683	83,191,707,000	810,819,000	47,767,451,000	52,453,593,000	1,278,320,400
AMBANK	2,009	1,217,848,000	5,860,729,000	9,712	89,892,881,000	878,254,000	64,131,506,000	56,947,831,000	1,704,427,200
CIMB	2,005	572,689,000	2,484,948,000	8,029	86,489,410,000	578,297,000	56,445,228,000	54,153,477,000	17,130,291,840
CIMB	2,006	1,201,223,000	4,079,826,000	8,547	127,779,828,000	955,435,000	83,531,216,000	72,965,410,000	44,015,333,200
CIMB	2,007	1,767,939,000	5,535,628,000	8,653	139,958,526,000	1,178,487,000	99,307,364,000	73,011,777,000	27,360,882,800
CIMB	2,008	2,184,696,000	5,315,385,000	8,732	147,069,901,000	1,678,036,000	107,105,025,000	84,922,177,000	4,999,309,129
CIMB	2,009	1,937,069,000	5,394,477,000	8,906	160,221,618,000	1,469,073,000	114,449,911,000	84,456,367,000	14,989,005,360
EON	2,005	407,987,000	1,163,007,000	4,932	35,942,461,000	182,746,000	24,280,745,000	25,922,290,000	2,885,681,190
EON	2,006	278,501,000	1,122,312,000	5,023	34,498,975,000	185,868,000	22,176,110,000	23,099,427,000	20,744,989
EON	2,007	264,980,000	1,206,028,000	5,285	35,681,762,000	173,892,000	23,801,647,000	23,557,776,000	17,819,414
EON	2,008	231,629,000	1,307,864,000	5,477	37,274,729,000	161,943,000	26,218,488,000	24,825,228,000	16,223,645
EON	2,009	378,796,000	1,258,763,000	5,739	40,145,911,000	312,120,000	29,081,849,000	27,380,310,000	31,250,465
HLBB	2,005	1,530,057,000	2,265,576,000	5,272	57,761,133,000	1,099,500,000	39,990,690,000	25,578,044,000	2,449,165,850
HLBB	2,006	697,119,000	1,462,432,000	5,334	55,139,095,000	502,556,000	39,058,948,000	24,671,107,000	1,706,515,560

HLBB	2,007	759,444,000	1,605,385,000	5,447	66,161,398,000	547,031,000	51,873,299,000	27,965,985,000	1,738,117,700
HLBB	2,008	949,021,000	1,877,559,000	5,604	69,992,756,000	696,530,000	56,466,660,000	30,306,207,000	1,785,520,910
HLBB	2,009	886,395,000	1,868,656,000	5,732	70,732,513,000	659,678,000	59,719,145,000	30,938,086,000	1,753,918,770
MAYBANK	2,005	5,318,233,000	12,619,257,000	19,773	175,434,713,000	3,809,643,000	118,275,713,000	115,481,632,000	37,210,530,000
MAYBANK	2,006	3,535,390,000	11,503,450,000	22,500	197,057,006,000	2,520,198,000	125,137,436,000	127,848,395,000	37,969,470,000
MAYBANK	2,007	4,151,847,000	13,955,755,000	22,879	197,135,271,000	2,876,171,000	149,576,055,000	136,223,498,000	38,892,250,000
MAYBANK	2,008	3,118,575,000	13,092,754,000	22,956	227,447,240,000	2,303,965,000	163,452,930,000	138,855,474,000	48,811,230,000
MAYBANK	2,009	383,079,000	13,064,811,000	23,104	238,277,142,000	-331,165,000	156,322,564,000	144,431,798,000	70,776,630,000
PUBLIC	2,005	1,733,179,000	5,049,081,000	12,800	107,447,321,000	1,789,435,000	82,205,182,000	64,579,905,000	829,884,000
PUBLIC	2,006	2,440,137,000	6,370,944,000	13,396	134,267,022,000	1,289,750,000	102,642,918,000	75,891,397,000	1,312,935,000
PUBLIC	2,007	2,850,783,000	7,832,708,000	14,287	158,471,100,000	2,272,736,000	126,424,828,000	89,805,707,000	1,594,608,000
PUBLIC	2,008	2,897,716,000	8,556,614,000	16,160	166,698,854,000	2,106,197,000	134,062,248,000	93,174,291,000	1,986,182,000
PUBLIC	2,009	2,789,170,000	7,171,221,000	17,169	176,576,601,000	2,181,665,000	135,387,490,000	107,962,807,000	1,405,755,000
RHB	2,005	478,330,000	1,853,542,000	8,332	74,154,469,000	269,802,000	40,844,274,000	37,090,808,000	1,290,283,000
RHB	2,006	714,574,000	2,504,950,000	8,403	85,948,893,000	392,045,000	47,791,098,000	46,879,331,000	1,290,283,000
RHB	2,007	1,022,077,000	2,751,051,000	8,587	85,063,579,000	645,393,000	64,315,697,000	47,470,523,000	1,439,285,000
RHB	2,008	1,317,150,000	3,011,747,000	8,763	84,238,533,000	936,456,000	61,592,948,000	52,600,047,000	1,439,285,000
RHB	2,009	1,357,344,000	3,064,898,000	8,902	94,045,473,000	1,079,716,000	71,589,904,000	59,116,696,000	1,439,285,000

Bank	Year	Variables						
		PBTZ	MCAP	PM	INCEE	LNTA	PROFITC	LD
AFFIN	2005	19.16054	22.0767397	0.930061	49146.51	23.94188	84.11365	0.920469
AFFIN	2006	19.03823	22.0767397	0.848841	50149.48	23.9883	91.21696	0.796382
AFFIN	2007	19.22369	15.1555614	0.888603	60066.09	23.9903	82.09706	0.763388
AFFIN	2008	19.10327	22.0767397	0.48321	103748.2	24.0458	91.46119	0.812889
AFFIN	2009	19.25482	22.58756532	0.597924	101806.9	24.13551	90.00561	0.875936
ALLIANCE	2005	19.38548	22.4236455	0.206943	59244.7	23.79367	80.22631	0.899689
ALLIANCE	2006	0	20.39723866	-0.21263	-52242.1	23.80001	163.4678	0.794427
ALLIANCE	2007	18.86704	21.59540954	0.11946	31897.05	23.9153	47.10692	0.731946
ALLIANCE	2008	19.8223	22.88763983	0.306192	105273.1	23.97539	92.31757	0.730604
ALLIANCE	2009	19.56507	22.49103942	0.225049	63423.76	24.0727	83.22556	0.700892
AMBANK	2005	20.0093	20.56334776	0.105551	22733.42	24.85224	31.87536	1.164083
AMBANK	2006	20.44599	20.7662886	0.155574	39386.31	25.00355	40.34062	1.152687
AMBANK	2007	16.95621	20.78649131	0.003837	-13422.6	25.0925	-34.1716	1.123381
AMBANK	2008	20.90094	20.96881287	0.199316	83736.34	25.14441	61.05546	1.098103
AMBANK	2009	20.92035	21.25649494	0.207798	90429.78	25.22188	60.5328	0.887985
CIMB	2005	20.16585	23.56411419	0.230463	72026.03	25.18329	102.9196	0.959399
CIMB	2006	20.90661	24.50780389	0.29443	111786	25.57357	95.20315	0.873511
CIMB	2007	21.29308	24.0323802	0.319375	136194	25.66461	98.63475	0.73521
CIMB	2008	21.50474	22.33256557	0.411014	192170.9	25.71417	99.90623	0.792887
CIMB	2009	21.38444	23.43058279	0.359084	164953.2	25.79982	99.53966	0.737933
EON	2005	19.82675	21.78302682	0.350804	37053.12	24.30519	63.29195	1.067607
EON	2006	19.44493	16.84781529	0.248149	37003.38	24.2642	93.64854	1.041636
EON	2007	19.39516	16.69579908	0.219713	32902.93	24.29791	84.91318	0.989754
EON	2008	19.26065	16.60198033	0.177105	29567.83	24.34158	90.61573	0.94686

EON	2009	19.75251	17.2575448	0.300927	54385.78	24.41579	89.08983	0.941491
HLBB	2005	21.14857	21.61901333	0.67535	208554.6	24.77958	88.18335	0.6396
HLBB	2006	20.36247	21.25771944	0.476685	94217.47	24.73312	92.10193	0.631638
HLBB	2007	20.4481	21.27606858	0.47306	100427.9	24.91536	90.59174	0.539121
HLBB	2008	20.67094	21.30297604	0.505455	124291.6	24.97166	91.56603	0.53671
HLBB	2009	20.60267	21.28511842	0.474349	115086.9	24.98217	89.87059	0.51806
MAYBANK	2005	22.39441	21.61901333	0.67535	208554.6	24.77958	88.18335	0.976377
MAYBANK	2006	21.98609	21.25771944	0.476685	94217.47	24.73312	92.10193	1.021664
MAYBANK	2007	22.14682	21.27606858	0.47306	100427.9	24.91536	90.59174	0.910731
MAYBANK	2008	21.86064	21.30297604	0.505455	124291.6	24.97166	91.56603	0.849514
MAYBANK	2009	19.76375	21.28511842	0.474349	115086.9	24.98217	89.87059	0.923934
PUBLIC	2005	21.27322	20.53679649	0.343266	139799.6	25.40027	82.04545	0.785594
PUBLIC	2006	21.61532	20.99553093	0.38301	96278.74	25.6231	75.08255	0.739373
PUBLIC	2007	21.77086	21.18989377	0.363959	159077.2	25.78884	82.6161	0.710349
PUBLIC	2008	21.78719	21.40948004	0.338652	130334	25.83945	82.52861	0.695008
PUBLIC	2009	21.74901	21.06384036	0.388939	127070	25.89702	86.28963	0.797436
RHB	2005	19.98581	20.97812741	0.258063	32381.42	25.02942	91.9298	0.908103
RHB	2006	20.3872	20.97812741	0.285265	46655.36	25.17702	81.94801	0.980922
RHB	2007	20.7451	21.0874123	0.371522	75159.31	25.16666	84.51192	0.738086
RHB	2008	20.99874	21.0874123	0.437338	106864.8	25.15692	91.59909	0.853995
RHB	2009	21.0288	21.0874123	0.442868	121289.1	25.26704	94.44806	0.825769

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