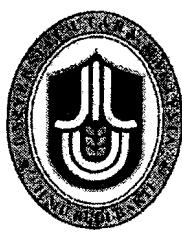


THE MEASUREMENT AND DETERMINANTS OF BANK'S PERFORMANCE IN MALAYSIA

By

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A Dissertation Submitted in Partial Fulfillment of the Requirement
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ABSTRACT

We analyzed the performance of domestic banks operating in Malaysia for the period of 7 years, from 2005 to 2011. In this study, we used financial ratios of banks by extracting components of CAMELS Model, namely, Capital adequacy, Asset quality, Management Quality, Earnings, Liquidity and Sensitivity to Market Risk. To identify the determinants of performance of the Malaysian domestic banks during 2005-2011 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 closed to 1% (0.99%). The results show that bank performance (measured by ROA) of commercial banks in Malaysia was influenced by the Capital Adequacy ratio, Asset Quality ratio, Management Quality ratio, NIM, Liquidity ratio and Sensitivity to Market Risk ratio. Overall, CAMELS predicts 60.6% of ROA. The significant determinants of ROA among CAMELS measurement over the study period were Management Quality, Liquidity and Sensitivity to Market Risk.

ABSTRAK

Kami menganalisa prestasi bank-bank tempatan yang beroperasi di Malaysia untuk jangkamasa 7 tahun (2005 sehingga 2011). Di dalam kajian ini kami menggunakan nisbah kewangan bank-bank untuk mengekstrak komponen model CAMELS, iaitu kecukupan modal, kualiti asset, kualiti pengurusan, pendapatan, nisbah kecairan dan kepekaan kepada risiko pasaran. Untuk mengenalpasti penentu kepada prestasi bank-bank tempatan di Malaysia dari tahun 2005-2011, kajian ini telah memilih analisa prestasi pelbagai (*multiple regression analysis*). Analisa deskriptif menunjukkan bahawa purata pulangan ke atas asset (ROA) bagi bank-bank perdagangan di Malaysia bagi tempoh yang dikaji adalah sekitar 1%. Keputusan menunjukkan prestasi bank perdagangan (yang dinilai melalui Pulangan ke atas Asset) adalah dipengaruhi oleh nisbah kecukupan modal, nisbah kualiti asset, nisbah kualiti pengurusan, margin faedah bersih, nisbah kecairan dan nisbah kepekaan kepada risiko pasaran. Secara keseluruhan, CAMELS meramalkan 60.6% Pulangan ke atas Asset (ROA). Penentu Pulangan Keatas Asset yang signifikan dari penilaian CAMELS sepanjang kajian adalah Kualiti Pengurusan, Kecairan dan Kepekaan kepada Risiko Pasaran.

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LIST OF ABBREVIATIONS

BNM	Bank Negara Malaysia
CBTTA	Capital Base to Total Risk Weighted Assets
CCB	City commercial banks
CEE	Central and Eastern European
CTD	Cash to Deposit
DEA	Data Envelopment Analysis
EON	EON Bank (Edaran Otomobil Nasional)
EU	European Union
HDFC	Housing Development Finance Corporation Bank
IBS	Islamic banking scheme
ICICI	Industrial Credit and Investment Corporation of India
IDBI	Industrial Development Bank of India
IETTL	Interest Expense to Total Loans
LATTA	Liquid Assets to Total Assets
LLATTL	Loan and Lease Allowance to Total Loans
LTD	Loan to Deposit
PE	Market Price per Ordinary Equity Share to Earning per Share
NIM	Net Interest Margin
NPL	Non-Performing Loans
NPLTTL	NPL to Total Loans
OLS	Ordinary Least Squares
RHB	Rashid Hussein Bank
ROA	Return on Assets
ROE	Return on Equity
TLTTA	Total Loans to Total Assets
TOPTTR	Total Operating Profit to Total Revenue
UK	United Kingdom
UTI	Unit Trust of India
VIF	Variance Inflation Factor

CHAPTER 1

INTRODUCTION

1.1 Introduction

Banks, as the critical institutions of financial system, play an important role in contributing to a country's economic development. If the banking industry does not perform well, the adverse effect to the economy could be huge and broad. Therefore, the study of the determinants of the bank performance becomes an important issue which could help banks understand the current conditions of the banking industry they are involved in and the critical factors they should consider in making decisions and creating new policies either for recovery or improvement.

Commercial banks as the main players in the banking system were the largest and most significant providers of fund in the banking system in Malaysia. Commercial banks were initially brought under supervisory control of BNM in 1959. Prior to the inception of BNM, the commercial banks had only to comply to the Companies' Ordinance 1948. The Banking Act 1973 was subsequently replaced in 1989 with the Banking and Financial Institution Act 1989 (BAFIA), which combines the Banking Act 1973 and the Finance Companies Act 1969 under a single legislation (BNM, 1999).

The main function of commercial banks is to provide facilities for savings through current, savings and fixed/time deposits accounts and other financial instruments, facilities to effect payments on behalf of its customers, providing loans and credit facilities, both to individual borrowers and corporations, financing the government through the purchase of government securities and treasury bills and providing a wide

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