

FACTORS INFLUENCING COMMERCIAL BANK
PERFORMANCE: A CASE STUDY ON COMMERCIAL
BANKS IN CHINA

By

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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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ABSTRACT

A steady bank system is important cornerstones which can help modern economies maintain stability and healthy development. In order to achieve this goal, China's banking industry has experienced a long-term reformed process. The purpose of this study is to research some vital factors which influence performance of the commercial banks industry in China. This study takes 4 state-owned and 2 joint-stock commercial banks of China as the research sample, by analyzing the impact of the economic variables and bank specific variables on bank performance. The variables are real growth rate, inflation rate, exchange rate, global finance crisis (for economic variables) and bank's risk management-loan to deposit and equity ratio, bank's size, property sector, net interest margin factors, interest income ratio and deposit-assets ratio (for bank specific variables). The bank performance is measured by ROE. The findings show that all variables contribute 85.8% to the commercial bank performance in China. Seven factors namely exchange rate, bank's risk management- equity ratio, bank's size, net interest margin factors, interest income ratio and deposit-assets ratio are significant determinants of bank performance in China.

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LIST OF ABBREVIATIONS

SOCBs-- state-owned commercial Banks

JSCBs-- joint-stock commercial banks

CCBs-- city commercial banks

UCCs-- urban credit cooperatives

ICBC--Industrial and Industrial and commercial bank of china,

ABC--Agricultural Bank of China,

BOC--Bank of China

CCB--China Construction Bank

BCM--Bank of Communications

CMB--China Merchants Bank

GDP-- real growth rate

INF--inflation rate

FX--exchange rate

GFC--global financial crisis

MRISK(ER)--bank's risk management factors of equity ratio

MRISK (LTD)--bank's risk management factors of loan to deposit

SIZE--size of bank

SPROP--property sector

NIM--net interest margin

IIR-- interest income ratio

DAR--deposit-asset ratio

Chapter One

Introduction

1.1 Introduction

This thesis intends to study the factors influencing commercial banks performance in China. The study gives special attention to China in new of the growing importance of banks to China's economy. This study combine economic and bank specific variables to analyze how they influence commercial bank performance in China.

At present China banking system include four big state-owned commercial banks, 11 share-holding commercial banks. Many of the commercial banks and credit cooperatives have competitors from China foreign financial institutions. In addition, there are policy banks in specific fields established with special functions. According to China accession to WTO commitments, China opened its banking system to global market domestic in 2006. China banking financial institutions' total asset is RMB31.59 trillion, more than 14.0% growth compared to the corresponding period last year. Total debt is RMB 30.32 trillion, more than 13.8% growth than the corresponding period last year. Among them, the state-owned commercial banks' total assets accounted for 53.6% of the total assets of banking industry, total liabilities accounts is 53.5% of that of the banking financial institutions in China.

China banking is the most important part of the financial system (66% of the total

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correlation analysis and linear regression analysis, hopefully future research can apply such Data envelopment analysis (DEA) or CAMEL evaluation system. Because they are also highly used assess the bank performance by the researchers.

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