EXAMINING THE RELATIONSHIP BETWEEN OPERATIONAL RISK, CREDIT RISK AND LIQUIDITY RISK WITH PERFORMANCE OF MALAYSIA BANKS

BY

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In Fulfillment of the Requirement for the Degree of Master of Science (Banking)
DECLARATION

I declare that the substance of this project paper has never been submitted for any degree or postgraduate program and qualifications.

I certify that all the support and assistance received in preparing this project paper and the entire source abstracted have been acknowledged in this stated project paper.

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ABSTRAK


Kata Kunci: risiko operasi, risiko kredit, risiko kecairan, ROA, ROE.
ABSTRACT

This study examines the impact of risk management on bank performance in Malaysia. The data of this study are retrieved from DataStream and annual reports of all conventional banks in the country. The sample of the study comprises of 27 conventional commercial banks in Malaysia and the period of study is confined to 2005-2013; making up to 208 observations. The dependent variable of this study is bank performance and is proxy by ROA and ROE, while risk management is the independent variable and is proxy by operational risk, credit risk, and liquidity risk. A regression analysis with GLS estimation is run to test the hypotheses of the study and the results show that operational risk, credit risk and liquidity risk have significant influence on ROE. However, the regression results show that only operational risk and credit risk are significant to ROA while liquidity risk is found to have insignificant relationship with ROA. Hence, the hypotheses of the significant relationship of operational risk and credit risk with bank performance are supported while the hypothesis of significant relationship of liquidity risk and bank performance is not supported.

Keywords: Operational risk, Credit risk, Liquidity risk, ROA, ROE.
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CHAPTER ONE

BACKGROUND OF THE STUDY

1.0 INTRODUCTION

This chapter begins with the introduction to the study. Section 1.1 deals with the definition of risk in real term. Section 1.2 deliberates on the definition of risk management practices in banking sector. Definitions and explanations of the risk factors used for this study are stated in section 1.3, 1.4, and 1.5. Meanwhile, the problem statement of this study is explained in section 1.6. The research questions of this study are highlighted in section 1.7; followed by the research objectives in section 1.8. The significance of this study is revealed in section 1.9. Meanwhile, scope of this study is expressed in section 1.10. Finally, organization of the study is highlighted in section 1.11.

1.1 DEFINITION OF RISK

Risk can be regarded as the possibility of something occurring and the level of losing, which happens from an activity or situation (Partnerships BC, 2005). Losses can occur directly or indirectly. An instance is when an earthquake causes direct loss of buildings; meanwhile, indirect losses occur when there is reputation loss, loss of customers’ confidence, and increase in operational costs in the time of recovery. The possibility of something to occur will influence achieving objectives (News Straits Times, 2004). According to the State Bank of Pakistan (2003), “Risks are usually defined by the adverse impact on profitability of several distinct sources of uncertainty”. Meanwhile,
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