EVALUATION OF THE FINANCIAL PERFORMANCES OF DOMESTIC COMMERCIAL BANKS: AN EMPIRICAL STUDY IN MALAYSIA

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DECLARATION

I hereby declare that the dissertation is based on my original work except for the quotations and citations that have been duly acknowledged.

I also certify that the substance of this dissertation has never been submitted for any degree and is not currently being submitted for any qualifications.

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ABSTRACT

The aim of this study is to evaluate the financial performances of domestic commercial banks in Malaysia over the period from 2001 to 2011.The sample consist of eight domestic commercial banks; CIMB, Public Bank, Maybank, Affin Bank, AmBank, RHB Bank, Hong Leong Bank and Alliance Bank all listed in the Malaysian Stock Market (Bursa Malaysia). The study uses secondary data, which were mainly taken from the annual reports of the banks extracted from the DataStream of Thomson Reuters. Financial ratios, descriptive statistics, correlation and multiple regression as well as DEA efficiency scores were used in the bank performance analysis. Bank size, asset management and operational efficiency served as the independent variables while financial performance measured by return on asset and interest income as dependent variables. The data envelopment analysis (DEA) through its intermediation approach used interest expense and non-interest expense as the input variables and advances, loans and investments as the output variables in the efficiency score analysis. The descriptive statistics shows an increase in the financial ratios of the domestic banks with the mean value of ROA moving from 0.31% in 2001 to 1.12% in 2011, there was also an increase in the mean value of the interest income moving from RM3215287.13 to RM6567244.25 in the same period. Multiple Regressions was used to test the predictor variables on ROA and interest income, it was found out that the predictor variables affect both ROA and interest income. DEA results shows that the overall mean scale efficiency score (92.98%) is found to be higher than that of technical efficiency score (71.33%) implying that during the period of study, domestic banks have been inefficient in controlling their costs rather than efficiently operating by optimizing the economies of scale due to their size.

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CHAPTER ONE

1.0   INTRODUCTION

1.1   BACKGROUND OF THE STUDY

Banks are considered the mainstay of the global economy, providing capital fund for governance, innovation, job creation, infrastructure, and overall prosperity of the economy (Alkhatib, 2012). There have been wide and extensive studies in the last few decades on the evaluation of financial performance of financial institutions around the globe. This global attention can be attributed to the increasing globalization and competitive nature of the financial industry and international financial markets.

The era preceding the Asian financial crisis of 1997 witnessed the fragmentation of the Malaysian banking system with 77 domestic banking institutions comprising among others 22 domestic commercial banks and 16 foreign commercial banks. However, in 2000 Bank Negara Malaysia (BNM) which is the central bank of the country initiated and carried out a holistic restructuring, consolidation and rationalization in the banking industry in Malaysia. Today there are 27 commercial banking institutions in Malaysia with 8 domestic and 19 foreign commercial banks. Beginning from 2001, the financial sector has recorded an expansion of 7.3% at an average annual rate to account for 11.7% of real GDP in 2010 compared to 9.7% in 2001. Domestic banks have now accumulated strong capital base and loan loss buffers, with great improvements in underwriting and risk management practices, as well as strengthened governance structures and discipline.

The contents of the thesis is for internal user only

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