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**FACTORS AFFECTING THE FINANCIAL PERFORMANCE OF  
MALAYSIAN BANKS**

**By**

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**UUM**  
**Universiti Utara Malaysia**

**Research Paper Submitted to  
Othman Yeop Abdullah Graduate School of Business,  
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in Partial Fulfilment of the Requirement for the Master of Science  
(International Accounting)**



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# **FACTORS AFFECTING THE FINANCIAL PERFORMANCE OF MALAYSIAN BANKS**

## **ABSTRACT**

This paper aim to study the different factors affecting the financial performance of Malaysian banks by examining the relationship of credit risk, liquidity, operating efficiency and size, to the financial performance. A five-year period study was conducted that is from 2011 to 2015. Data were extracted from the annual reports of banks and included information from the income statement, balance sheet and notes to the accounts published in websites of the banks. The study covered 33 commercial banks including local and foreign owned conventional and Islamic banks. Statistical Package for the Social Sciences were used to analyse the data, and normality tests included the Shapiro-Wilk's test and Kolmogorov-Smirnov test as well as skewness and kurtosis tests. Multiple regression has been used to determine relationship between the variables. The findings of the study shows a significant positive relationship between liquidity, size and operational efficiency and financial performance, whereas credit risk and financial performance shows a positive relationship. The results of this study are useful for depositors, bank managers, shareholders, investors, regulators and academician because its show the current economic situation and the recent financial condition of the banks. In addition, for a tax authority point of view, this study provides a basis for determining cases and issues upon which to focus in the auditing banking industry.

**Keywords:** financial performance, credit risk, liquidity, operating efficiency and size.

# **FAKTOR-FAKTOR YANG MENPENGARUHI PRESTASI KEDUDUKAN KEWANGAN BANK DI MALAYSIA**

## **ABSTRAK**

Kertas kerja ini bertujuan untuk mengkaji faktor-faktor yang memberi kesan kepada prestasi kewangan bank-bank Malaysia dengan memeriksa hubungan risiko kredit, kecairan, kecekapan operasi dan saiz dengan prestasi kewangan. Kajian ini meliputi dari tahun 2011 sehingga 2015. Maklumat ini diambil daripada laporan tahunan bank dan termasuk maklumat daripada penyata pendapatan, kunci kira-kira dan nota kepada akaun yang dipaparkan di laman web bank. Kajian ini meliputi 33 bank perdagangan termasuk bank konvensional dan Islam milik tempatan dan asing. Pakej Statistik untuk Sains Sosial telah digunakan untuk menganalisis data, dan ujian normal termasuk ujian Shapiro-Wilk dan ujian Kolmogorov-Smirnov serta ujian kepencongan dan kurtosis. Regresi berganda telah digunakan untuk menentukan hubungan antara pembolehubah. Dapatan kajian menunjukkan hubungan positif yang signifikan di antara kecairan, saiz dan kecekapan operasi dan prestasi kewangan, manakala risiko kredit dan prestasi kewangan menunjukkan hubungan yang positif. Keputusan kajian ini adalah berguna untuk pendeposit, pengurus bank, pemegang saham, pelabur, pengawal selia dan ahli akademik kerana ia menunjukkan keadaan ekonomi semasa dan keadaan kewangan terkini bank. Di samping itu, dari segi percukaian, kajian ini menyediakan asas untuk menentukan kes-kes dan isu-isu untuk diberikan tumpuan dalam pengauditan industri perbankan.

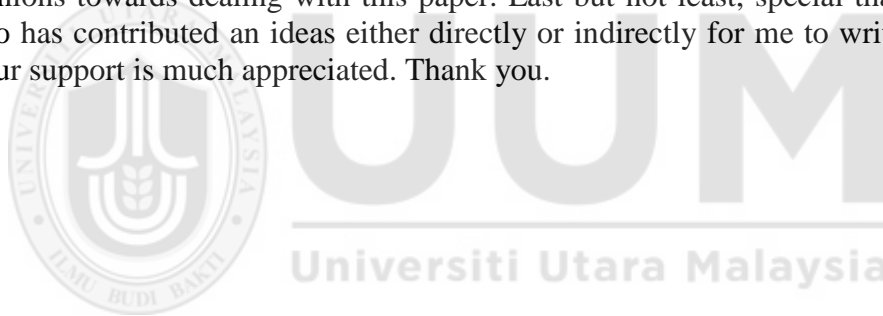
**Kata kunci:** prestasi kewangan, risiko kredit, kecairan, kecekapan operasi dan saiz

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## LIST OF ABBREVIATION

Blueprint	Financial Sector Blueprint
BNM	Bank Negara Malaysia
CA	Current Assets
CL	Current Liability
CR	Current Ratio
CREDITRISK	Credit Risk
FSA	Financial Services Act
GDP	Gross Domestic Product
IFSA	Islamic Financial Services Act
IRBM	Inland Revenue Board of Malaysia
LIQUIDITY	Liquidity
OPERATING	Operational Efficiency
ROA	Return on Assets
SIZE	Bank Size

# CHAPTER ONE: INTRODUCTION

## 1.0 Background of the Study

This chapters comprises seven parts that begins with the background of the study and problem statements. Then it continues by research questions and objectives. It follows by significance, the scope and limitations of study. Finally the assumptions and the organization of the study.

Banking institutions are a principal economic sector contributing to the development of a country, playing a significant and important role in the management and allocation the nation economic resources. Banks take deposits form public who wish to save their money and in return, banks pay interest to savers. Fund deposited are then channelled to investors and borrowers, and banks earn their revenue from interest received. As a result, the public and depositors, investors and borrowers, government and regulators are all parties who are concerned with the financial performance of the banks. The public and depositors are concerned with the amount of returns they will get from their saving, investors and borrowers care about how much interest they must pay for loans, and government and regulators focus on the soundness, efficiency and integrity of banking system as banks must comply with all regulations, requirements, guidelines and restrictions as their operation will affect the country's economic and social environment.

Managing the flow of funds in the system makes banking unique industry. How banks manage funds is reported in their annual financial reporting, and bank performance is

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