

**A STUDY ON THE PERFORMANCE OF
MALAYSIAN COMMERCIAL BANKS**

**A Thesis submitted to the Graduate School in partial
fulfilment of the requirements for the degree
Master in Business Administration
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**by
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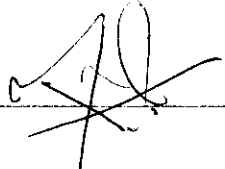
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ABSTRACT (BAHASA MALAYSIA)

Penilaian prestasi bank adalah penting dalam mana-mana pasaran kewangan yang kompetitif. Prestasi bank dapat memberi isyarat kepada penyimpan/pelabur samada untuk melabur atau mengeluarkan wang dari bank. Pada masa yang sama, ia dapat memberi petunjuk kepada pengurus bank samada untuk menyediakan perkhidmatan deposit atau pinjaman supaya prestasi bank dapat dipertingkatkan.

Kajian ini telah menganalisa prestasi bank-bank perdagangan di Malaysia untuk satu jangka masa selama 13 tahun dari 1985 sehingga 1997. Perbandingan prestasi bank-bank perdagangan tersebut telah buat di antara dua jangka waktu: 1985 sehingga 1990 dan 1991 sehingga 1997. Penyata kewangan gabungan telah diperolehi untuk tujuan ini. Enam dimensi prestasi telah diberi perhatian, iaitu perolehan, kecairan, risiko, solvensi, kecekapan dan keuntungan, yang mana telah diukur menggunakan nisbah-nisbah kewangan. Ujian-T diguna untuk menguji sama ada terdapat perubahan yang signifikan dalam setiap aspek prestasi ini di antara dua tempoh tersebut.

Perbandingan analisis kewangan menunjukkan bahawa terdapat peningkatan yang signifikan dalam prestasi pendapatan serta kecekapan dan keuntungan bagi bank-bank perdagangan tersebut di antara tahun 1991 sehingga 1997. Kecekapan pengurusan bank dalam aspek aset dan tanggungan telah meningkat dan telah menyumbang kepada prestasi dalam tempoh kedua. Pendapatan bukan faedah, peruntukan pinjaman ragu, margin faedah bersih dan nisbah kecekapan telah dikenalpasti sebagai komponen-komponen penting yang telah menyumbang kepada prestasi pendapatan bank.

ABSTRACT (ENGLISH)

Evaluation of bank performance is important in any competitive financial market. Bank performance provides signal to depositors-investors whether to invest or withdraw funds from the bank. Similarly, it gives directions to bank managers whether to provide deposit or loan services in order to improve the performance of the bank.

This study has analysed the performance of the Malaysian commercial banks for a 13 years period from 1985 to 1997. Comparison of the performances of the commercial banks was carried out between two periods; 1985 to 1990 and 1991 to 1997. Consolidated financial statements of the commercial banks have been gathered for this purpose. Six dimensions of performance were emphasized, namely earning, liquidity, risk, solvency, efficiency and profitability, of which are measured by financial ratios. T-test was used to test the significance of changes in each of these aspects of performance between the two periods.

Comparative financial analysis indicates that there were significant improvements in the earning, efficiency and productivity performances of the commercial banks during 1991 to 1997. The bank's managerial efficiency in assets and liabilities has improved and has contributed to the performance during the second period. Non-interest income, loan loss provision, net interest margin and efficiency ratio have been identified as the important components that contributed to the banks' earning performance.

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LIST OF ABBREVIATIONS

AAPE	: Average Asset per Employee
BNM	: Bank Negara Malaysia
CA	: Current Asset
CR	: Current Ratio
CTD	: Cash to Deposit
DEA	: Data Envelopment Analysis
DPE	: Deposit per Employee
DTE	: Debt to Equity
DTTA	: Debt to Total Asset
EAC	: Earning Asset Cost
EM	: Equity Multiplier
ER	: Efficiency Ratio
ETA	: Equity to Asset
IIFE	: Interest Income per Employee
LLPTAA	: Loan Loss Provision to Average Asset
LPE	: Loan per Employee
LTD	: Loan to Deposit
LTD	: Loan to Deposit
NIEPE	: Non-Interest Expenses per Employee
NIETAA	: Non-Interest Expenses to Average Asset
NIIFE	: Non-Interest Income per Employee
NIITAA	: Non-Interest Income to Average Asset
NIITTR	: Non-Interest Income to Total Revenue
NIM	: Net Interest Margin
NLLTAL	: Net Loan Loss to Average Loan
OPTTR	: Operating Profit to Total Revenue
PTITAA	: Pre-Tax Income to Average Asset
PTPPE	: Pre-Tax Profit per Employee
PTPTTR	: Pre-Tax Profit to Total Revenue
ROAA	: Return on Average Asset
ROAE	: Return on Average Equity

US : United States
YOEA : Yield on Earning Asset

CHAPTER 1

INTRODUCTION

The commercial banks are the main players in the banking system. They are the largest and the most significant providers of funds in the banking system and the most active sector in the economy as well playing an active role in the economic development. The total amount of loans and total amount of deposits as at middle of 1999 amounted to RM285.1 billion and RM287.6 billion respectively, representing approximately 76% and 71% of banking system's total amount of loans and deposits. There are 38 commercial banks (excluding Bank Islam Malaysia Berhad) of which 13 are locally incorporate foreign banks in Malaysia as at June 1999 and operating with a total of 1,735 branches with 63,889 staff employed.

In the past 15 years, the banking industry has faced growing competition in financial services, economics downturn as well as economics growth, at same time has undergone substantial deregulation and changes. Information technology also has played an important role, where bigger size commercial bank has invest in information technology more in order to provide better services as well as product innovations.

Over the past two decades, substantial research by researchers and economists from over the world has gone into evaluating the efficiencies of financial institutions. The majority of the studies were published in the 1990s, highlighting the importance and greater frequency of this research in recent years.

Evaluation of bank performance is important for all parties such as depositors, bank managers and regulators. In a competitive financial market, bank performance provides signal to depositor-investors whether to invest or withdraw

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