NON FINANCE VERSUS FINANCE FACTORS' INFLUENCE ON BANKS' PROFITABILITY : EVIDENCE FROM MALAYSIA

A thesis submitted to the faculty of Finance and Banking in fulfillment of the requirements for the degree of Master of Science Banking,

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By

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ABSTRAK

Desertasi ini adalah bertujuan untuk mengkaji faktor-faktor yang mampu mempengaruhi keuntungan sesebuah bank di Malaysia. Disertasi ini juga meliputi tempoh dari tahun 2006 sehingga 2010 dengan enam (6) bank yang dipilih iaitu CIMB Bank Berhad, Maybank Berhad, Public Bank Berhad, RHB Bank Berhad, Hong Leong Bank Berhad dan Affin Bank Berhad. Objektif utama kajian ialah untuk mengenalpasti faktor bukan kewangan dan faktor kewangan yang boleh mempengaruhi keuntungan sesebuah bank. Objektif kedua, mengkaji perbezaan di antara kepentingan faktor bukan kewangan dan faktor kewangan yang telah dikenalpasti dan objektif ketiga adalah mengkaji penyumbang signifikan setiap pembolehubah ke atas keuntungan bank-bank yang dipilih. Desertasi ini menggunakan (ROE) pulangan atas ekuiti sebagai satu pembolehubah bersandar dalam menganggar keuntungan sesebuah bank. Manakala, sebelas (11) pembolehubah tidak bersandar juga turut digunakan dalam kajian ini di antaranya ialah nisbah kecukupan modal (CAR), modal kepada nisbah aset (CR), nisbah leveraj (LEV), saiz bank (SIZE), deposit pinjaman (LD), peruntukan atas kerugian pinjaman (LLP), keamatan pelaburan modal (CII), aset mudah tunai (LIQ), kadar pemberian pinjaman asas (BLR), kadar inflasi (IFL) dan keluaran dalam negeri kasar (GDP). Analisis regresi berganda telah digunakan dalam mengenalpasti kepentingan setiap pembolehubah dan keputusan kajian telah menunjukkan hanya dua pembolehubah iaitu (SIZE) dan (LIQ) sebagai penyumbang signifikan terhadap keuntungan sesebuah bank dengan mengambikira 10% tahap keyakinan.

ABSTRACT

The purpose of this study is to investigates the factors that influence the profitability determinants on banks in Malaysia. This study covers six (6) anchor banks in Malaysia i.e. CIMB Bank Berhad, Maybank Berhad, Public Bank Berhad, Hong Leong Bank Berhad, RHB Bank Berhad and Affin Bank Berhad during the period of 2006-2010. The objective of this study are firstly to find out the non finance factor and finance factor influence the banks' profitability in Malaysia. Second objective is to identify the non finance versus finance factors influence on the profitability and third objective is to differentiate the significant profitability of finance and non finance factors. The study used ROE as a dependent variable to estimate the bank's profit. The independent variables used in the study consisted of 11 variables namely capital adequacy ratio (CAR), capital to asset ratio (CR), leverage (LEV), bank size (SIZE), loan deposits (LD), loan loss provision (LLP), capital investment intensity (CII), liquidity assets (LIQ), Base Lending Rate (BLR), inflation rate (IFL), and gross domestic product (GDP). Multiple regression analysis has applied to examine the significance contribution of these variables in the bank's profitability. The results however show that only SIZE and LIQ are significant at the 10% confidence level.

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LIST OF ABBREVIATIONS

BNM	**:**	**Bank Negara Malaysia**
CIMB	**:**	**CIMB Bank Berhad**
MBB	**:**	**Maybank Berhad**
RHB	**:**	**RHB Bank Berhad**
AFFIN	**:**	**AFFIN Bank Berhad**
HLB	**:**	**Hong Leong Bank Berhad**
PBB	**:**	**Public Bank Berhad**
SIZE	**:**	**Firm size**
ROE	**:**	**Return on Equity**
LEV	**:**	**Leverage**
LLP	**:**	**Loans Loss Provision**
LIQ	**:**	**Liquidity Asset**
CII	**:**	**Capital Investment Intensity**
IFL	**:**	**Inflation**
BLR	**:**	**Base Lending Rate**

CAR	**:**	**Capital Adequacy Ratio**
LD	**:**	**Loan Deposit**
CR	**:**	**Capital Ratio**
GDP	**:**	**Growth Domestic Product**
VIF	**:**	**Variance Inflation Factor**
GEOG	**:**	**Geographical**
POLT	**:**	**Political**
TECH	**:**	**Technology**
ECON	**:**	**Economic**
REGL	**:**	**Regulation**
ROA	**:**	**Return on Assets**
CPI	**:**	**Consumer Price Index**
LNTA	**:**	**Logrithm natural of total assets**
NPAT	**:**	**Net profit after tax**
TE	**:**	**Total equit**

CHAPTER 1
INTRODUCTION

1.1 Introduction

The Banking sector acts as the life blood of modern trade and commerce to provide them with a major source of finance. Banks, as the critical part of financial system, play an important role in contributing to a country's economic development. If the bank industry does not perform well, the effect to the economy could be huge and broad.

From their empirical findings, Demirguc-Kunt and Detragiache (1999) suggested that bank profitability is an important predictor of financial crises. Therefore, the study of the determinants of the bank profitability becomes an important issue which could help banks understand the current conditions of the banking industry they are involved in and the critical factors they should consider in making decisions and creating new policies either for recovery or improvement. Within the banking system, the commercial banks are the major players that accounted for about 42% of the total assets of the financial system as at the end of 2007 (IBBM 2007).

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