

**UNIVERSITI TEKNOLOGI MARA**

**THE DETERMINANTS OF BANKS' FINANCIAL  
PERFORMANCE IN MALAYSIA**

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Dissertation submitted in partial fulfilment of the requirements  
for the degree of

**Master of Business Administration**

**Arshad Ayub Graduate Business School  
Faculty of Business Management**

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**MASTER OF BUSINESS ADMINISTRATION  
ARSHAD AYUB GRADUATE BUSINESS SCHOOL  
FACULTY OF BUSINESS MANAGEMENT  
UNIVERSITI TEKNOLOGI MARA  
SHAH ALAM**

**DECLARATION OF ORIGINAL WORK**

We hereby, declare that;

- This work has not previously been accepted in substance for any degree, locally or overseas, and is not being concurrently submitted for this degree or any other degrees.
- This project paper is the result of my independent work and investigation, except where otherwise stated.
- All verbatim extract have been distinguished by quotation marks and sources of my information have been specifically acknowledgement.

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## LETTER OF TRANSMITTAL

Master of Business Administration  
Arshad Ayub Graduate Business School  
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11 January 2013

Associate Professor Dr Mazila Binti Md Yusuf  
Arshad Ayub Graduate Business School  
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Dear Dr,

### **SUBMISSION OF APPLIED BUSINESS REPORT (ABR 796)**

Attached herewith is the applied business report entitled “**The Determinants of Banks’ Financial Performance in Malaysia**” to fulfill the requirement as needed by the Arshad Ayub Graduate Business School, Faculty of Business Management, Universiti Teknologi Mara Shah Alam.

Thank you.

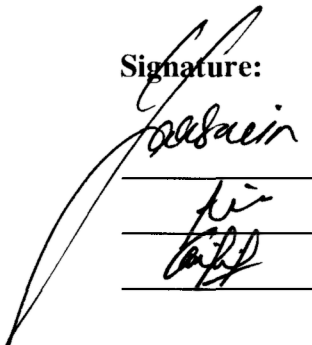
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## ABSTRACT

Bank's financial distress issue is one of the major contributing factors to global financial crisis. Financial distress diagnosis has been a focal point of issue in financial analysis during the past decades due to its severe effects on the operation of the bank and even on the whole economy of a country. The performance of the banks will generate a more sustainable performance and promote a greater health of country's financial performance as a whole.

This study investigates the determinants of banks' financial performance. Six local commercial banks were chosen to represent the local commercial banks in Malaysia during the period of 1990-2010. The study used E-Views software to run multiple linear regression analysis which measure the relationship between Return on Equity (ROE) and its possible determining factors namely financial distress, bank size, gross domestic product (GDP), inflation rate and interest rate.

The overall results reveal that the internal factors which consist of financial distress and bank size have significant impact on banks financial performance while the external factors which consist of gross domestic product (GDP), inflation rate and interest rate did not influence the banks' financial performance. Financial distress, bank size, interest rate and inflation rate are found to have a negative relationship with the banks' financial performance whereas gross domestic product (GDP) has a positive relationship with the banks' financial performance.

## ACKNOWLEDGEMENT



*“In the name of Allah, the Merciful, the Beneficent. Praise be to Allah”*

Glory to Allah S. W. T., the most gracious, the most merciful and peace is upon his messenger Holy Prophet Muhammad S.A.W. All the worship belongs to only Allah. We seek refuge with God from the wickedness within and from the evil deeds. We also praised to Allah S. W. T. for giving us courage, time and knowledge in completing this project paper.

First and foremost, our deepest gratitude and appreciation goes to our respected project advisor Associate Professor Dr Mazila binti Md Yusuf, who has made a significant contribution and provided us with continuous guidance and useful comments at all stages of this project paper.

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Thank you.