



UNIVERSITI TEKNOLOGI MARA

**DETERMINANTS OF COMMERCIAL BANKS
PROFITABILITY IN MALAYSIA**

**AHMAD RASYHDAN SYAZWAN BIN RAHAMAN
2020980291**

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ABSTRACT

This research aims to determine determinants of commercial banks profitability in Malaysia by analysing recent data from 2010 to 2020. The research was performed using Return on Assets (ROA) to examine the relationship between capital adequacy, credit risk, management efficiency and liquidity risk. The data collected are return on asset (ROA), capital adequacy, credit risk, management efficiency and liquidity risk, from Bursa Malaysia and company websites. Additionally, secondary data will be used to gather information and provide evidence for this analysis.

Thus, the investigations intend to evaluate whether determinants such as capital adequacy, credit risk, management efficiency and liquidity risk are the determinants of commercial bank profitability in Malaysia. To examine the factual relationship and evaluate the hypotheses, this paper used Multiple Linear Regression. E-views 2012 Software was used to analyses the results.

Keywords: Determinants, commercial banks, profitability, return on asset, capital adequacy, credit risk, management efficiency, liquidity risk.

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TABLE OF CONTENTS

	Page
AUTHOR DECLARATION	i
ABSTRACT	ii
ACKNOWLEDGEMENT	lii
TABLE OF CONTENT	lv
CHAPTER ONE	
INTRODUCTION	
1.1 Introduction	1
1.2 Background of the study	3
1.3 Problem statement	4
1.4 Research objectives	6
1.5 Research questions	7
1.6 Significance of the study	8
1.7 Scope of the study	11
1.8 Limitations of the study	12
1.9 Definition of key terms	13
1.10 Summary	14
CHAPTER TWO	
LITERATURE REVIEW	
2.1 Introduction	15
2.2 Literature Review on Profitability Theories	16
2.3 Literature review on Return on Asset	17
2.4 Literature review on Capital Adequacy	18
2.5 Literature review on Credit Risk	19
2.6 Literature review on Management Efficiency	20
2.7 Literature on Liquidity Risk	21
2.8 Theoretical Framework	22
2.9 Summary	24

CHAPTER ONE: INTRODUCTION

1.1 Introduction

In this chapter, we will discuss the introduction of our research proposal, background of study, problem statement, research question, research objectives, scope of study, limitation of study, the significance of study and key terms than been used in this research. The allocation of a country's economic resources is greatly influenced by commercial banks (Ongore, 2013). Economic growth may be boosted by making more money accessible for investors to borrow and increasing the country's financial system (Otuori, 2013). The performance of commercial banks can be affected by a wide range of factors, including both internal and macroeconomic ones (Ongore, 2013).

A bank's overall success is heavily influenced by the decisions made by the board of directors and management. As a result of these actions, the bank's unique characteristics are altered significantly. Interest rates and the overall state of the economy have a significant influence on a bank's profitability. In the words of Ongore (2013), " A bank's profitability may be improved by identifying the elements that contribute to it. In order to improve profitability, it must first identify and control the most crucial areas of the business. Long-term viability of the organisation depends on it (Podder, 2012). 27 commercial banks (including 19 licensed foreign banks), 11 investment banking institutions, 18 Islamic banking institutions, and non-bank financial organisations make up Malaysia's banking sector, which is diverse and well-developed (such as insurance companies).

The economy's future course can be predicted by looking at macroeconomic indicators. It is essential for the government to undertake research, evaluate and understand the elements that influence macroeconomic behavior to do a successful job of macro-management. A country's financial system is incomplete without a functioning banking system. A crucial role of financial intermediaries (banks) is to shift funds from economic units that have surplus cash to those who do not.