UNIVERSITI TEKNOLOGI MARA

MEASURING BANK PERFORMANCE BASED ON CAMEL APPROACH: A STUDY ON SELECTED COMMERCIAL BANKS IN MALAYSIA

MUHAMMAD ZULKAMAL BIN ISNON ZUFLI
2019695854

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ABSTRACT

This research study primary aims is to measure bank performance of Malaysia's commercial banks based on CAMEL approach or CAMEL rating system. The systematic determinants or independent variables that influence the bank performance of commercial banks in Malaysia can be categorised and identified into five aspects, in which are capital adequacy, asset quality, management, earnings and liquidity. Meanwhile, the dependent variable is bank performance. This research study utilised secondary data collected from the Thomson Reuters data stream as well the annual reports from each commercial sampling banks from the year of 2011 until 2020, with a total of seventy observations. In addition, E-Views 10 integrated program application is used to validate and interpret the overall collected data.

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INTRODUCTION

1.1 Introduction

CAMEL approach or commonly known as CAMEL rating system, is a standardized international rating system introduced by the United States and was used by many of the regulatory bodies today to assess as well rate financial institutions. In accordance with the five factors, which are capital adequacy, asset quality, management, earnings and liquidity.

Since the last and recent occurrence of the 1997-98 Asian Financial Crisis and 2007-08 Subprime Mortgage Crisis, financial institutions in many countries have been adapting to the CAMEL rating system in order to increase the overall strength of their regulatory frameworks. Initially, the strength of this instrumentation was first recognised by researchers in the late 1990s and early 2000s. This actively demonstrate that the CAMEL approach or CAMEL rating system is an essential and effective tool for identifying financial institutions' strength and weaknesses by evaluating the overall financial situation. In this research study, a detail analysis will be conducted on the bank performance of commercial banks in Malaysia.

1.2 Research Background

Financial institutions, otherwise known as banking institutions are type of corporations or companies that provide financial services as intermediaries within the financial markets. Relatively as deposit facilities, credit facilities, remittances and payments as well many more. Thus, financial institutions play a very crucial and vital roles in the economic development of any countries across the globe as they, to a large extent, controlling the demand and supply of money in circulations and are the main stimuli of economic progress. They are the driver of macroeconomic and national progress.

However, financial crisis had an adverse relationship with the current and future development of financial institutions. Evident by the recent financial crisis of 1997-98