THE BANK-SPECIFIC DETERMINANTS OF BANK PROFITABILITY IN MALAYSIA

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ABSTRACT

The main purpose of this research is to find out the profitability determinants of commercial banks in Malaysia. 8 local commercial banks have been chosen to represent the commercial banks in Malaysia during the time line from 2005 to 2014.

Return on asset (ROA) was chosen as a dependent variable to estimate the commercial banks' profit and 4 variables which are bank size, capital adequacy, liquidity and asset quality were selected as the independent variables.

After running these data on the data analysis software, it is found that only bank size, capital adequacy and asset quality are significant variables hence, are the determinants of bank profitability. Meanwhile liquidity is insignificant variable in which it is not a useful predictor of profitability commercial banks in Malaysia.

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<div align="center">**INTRODUCTION**</div>

1.0   INTRODUCTION

This chapter will discuss about the view on bank profitability of local commercial banks operating in Malaysia. In addition, some other things such as the background of study, problem statement, research objectives, significance of study and the scope of study will be discussed under this chapter.

1.1   BACKGROUND OF STUDY

The main role of a financial system is to assist the flow of funds from savers to borrowers. If a financial system is efficient, then it should show profitability improvements, increasing volume of funds flowing from savers to borrowers, and better quality services for consumers. The financial system in Malaysia can be broadly classified into Financial Institutions and Non-Financial Institutions. The former consists of the banking system and non-banking intermediaries, of which the banking system is the largest component in the financial system accounting for approximately 70 per cent of the total assets of the financial system. The banking system can be further divided into three main groups namely the commercial banks, finance companies, and the merchant banks. The latter comprises money and foreign exchange markets, capital markets and offshore market.

Commercial banks, under the supervision of Bank Negara Malaysia as the sole authority that oversee the operation of the financial system, are operating under the regulation of Banking and Financial Institutions Act, 1989 (BAFIA).The main function of commercial banks is to provide facilities for savings through current,