



**THE EFFECT OF FINANCIAL LEVERAGE ON FINANCIAL
PERFORMANCE: EVIDENCE OF BANKING SECTOR IN
MALAYSIA**

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ABSTRACT

This paper is aims to examine the effect of financial leverage on financial performance of banking sector in Malaysia. This study focus on five Commercial banks in Malaysia that registered under Bank Negara Malaysia. The dependent variable in this study is performance of five commercial bank in Malaysia that measure by return on assets (ROA) while the independent variables in this study are debt ratio (DR), debt equity ratio (DER) and interest coverage ratio (ICR). The data from the sample of five commercial Bank in Malaysia extract from data stream database in library UniversitiTeknologi Mara campus Segamat for 10 years (2006-2015). Total number of observation is 50. This study used quantitative secondary data which is panel data and multiple regression model represented by the ordinary least squares (OLS) to look financial leverage that effect on commercial bank`s performance in Malaysia.

CHAPTER 1: INTRODUCTION

1.0 Introduction

In this chapter discuss the background of study, problem statement, research question, research objective, research question, significant of study and scope of study. This paper focuses the effect of financial leverage on financial performance evidence of banking sector in Malaysia. In the background of study, this research discuss about the dependent and independent variables. Dependent variable in this study is Return on Assets (ROA) and the independent variables are debt ratio (DR), debt equity ratio (DER) and interest coverage ratio (ICR). This paper discuss the gap of the research problem in problem statement.

The research question is about the question related to the theoretical framework in the research. The research question is related to the independent variable that it is important to the study. Moreover, research objective is one of the important elements in this study. The research also give the information about the vital of the study for all parties such as the researcher, future researcher and firm. The results assess the real scenario on the relationship of financial performance with financial leverage of the banking sector.

1.1 Background of study

Financial leverage is a how much firms use to measure equity and debt to finance its assets. Financial leverage is measure debt utilization in financing the company. The more debt financing a company use, the higher the financial leverage of the company. If company failed to pay back the debt, the company may lead to bankruptcy. Financial leverage is to use of debts to acquire additional assets and known as trading on equity.