



UNIVERSITI TEKNOLOGI MARA

**DETERMINANTS OF BANK'S PROFITABILITY:
THE CASE OF FOREIGN BANKS IN MALAYSIA**

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ABSTRACT

In accounting theory, profitability shows a surplus of profit over expense for a specified period of time that represent earning of banks that contribute to the Malaysian economic. The foreign bank's profitability also contribute to the Malaysian economic. Besides that, profitability shows the relationship of the absolute amount of the revenue that indicate the ability of a bank to raise its loans to its customers and boost their profit. Although a profit ability is efficiency improvement indicator, there are some number of factors that can affect the profitability of bank. The previous researches have study the determinants of banking sector and commercial bank's profitability but not on the foreign banks. So, this study is to find the determinants that affect the foreign bank's profitability. This study will use a panel data that consist of 10 foreign banks in Malaysia for 6 years from 2010 until 2015. This data will be analyze using the E-views software. Panel data analysis will be used to study the relationship between the internal determinants and foreign banks' profitability. The findings in this study shows that only two variables have a significant relationship with the profitability which are capital adequacy and bank size. The operating efficiency variable is found to not have a significant relationship with the profitability.

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CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

Bank is a financial institution that have license to receive deposit and make loans. The bank also provide the financial services and usually, the banks are regulated by the national government that known as central bank. The development of banks began around 2000 B.C. in Assyria and Babylonia when the first banks merchants' prototype of the ancient world made a loans to the farmers and traders that carried goods between the cities. After that, in ancient Greece, the lenders are based in temples during the Roman Empire. They made loans and added some innovations which are they accepted deposits and they changed money. This innovations are being practiced until now. In ancient China and India also shows some evidence that they are doing the money lending activity.

In Asia, the largest depository are the temple of Artemis in Ephesus. The 600 B.C pot-hoard was found in the British museum after the century. For ancient India, the evidence of loans from the Vedic period, beginning of 1750 B.C. was found. In contrast to India, in ancient China, there is evidence that China introduce the standardization of coin to ease the trader across China and the introduction led to the development of letter of credit starting in the Qin Dynasty which is 221 to 206 B.C. After that, the banking sector begin to develop over the time and across the country. The banking sector was expand until they have various type of bank now.

There was different type of bank such as commercial bank, Islamic banks, investment banks and etc. These bank's ownership are whether local or foreign. Local banks is a bank that owned and operating in the home country while for foreign banks, it is a banks that owned by home country and operating in the host country. In 1995 until 2009, there was a sharp increase in foreign bank ownership that affect large number of countries said (Claessens & Van Horen, 2013). For the past decades, the main trends of international finance development is the intensive foreign bank penetration. The banks were interested in conquering the banking market that freshly