



**A STUDY ON THE IMPACT OF BANK-SPECIFIC
FACTOR ON BANK'S PROFITABILITY: AN
INVESTIGATION BETWEEN FOREIGN AND
LOCAL BANKS IN MALAYSIA**

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ABSTRACT

In recent times, the financial sectors become an important tool to the economics growth and stability due to the few reasons such as technology improvement and financial services innovation that will give an implication on the cost and revenues and on the profitability of banks. Thus, the purpose of this research is to determine the bank-specific factors that influence the profitability of foreign and local bank in Malaysia. The data for this study is a secondary data that collected from several sources such as BANKSCOPE. The duration of this study are from 2009 until 2015. This research is only focusing on (10) commercial banks in Malaysia that consists of five (5) foreign banks and five (5) Domestic banks. In this study, researcher applying a Panel Data analysis and various methods in order to test the significant of the variables towards the profitability of both groups of banks. The finding of this study shows that Liquidity Ratio have a significance impact with a positive relationship to the domestic banks profitability. This may be due to the fact that the domestic banks in Malaysia have more opportunities to invest in various short term liquid asset. In contrast with the foreign banks profitability that have a significance impact with negative relationship towards Liquidity Ratio, Asset Quality and Bank Size. This may possibly be due to the fact that the foreign banks in Malaysia have high liquid asset to decrease the liquidity risk of bank. Moreover, Asset Quality are expected to give a positive relationship, but according to the coefficient Asset Quality bad loans are expected to reduce the profitability of foreign banks in Malaysia. Lastly, Bank Size give negative impact towards profitability of foreign banks in Malaysia that possibly due to the larger diseconomies scale and cause a difficulty for management to conduct .

CHAPTER ONE: INTRODUCTION

1.1 BACKGROUND OF STUDY

According to the BAFIA Act 1989, “bank’ is defined as a person which carries on banking business. In addition, “banking business” is defines as the business of receiving deposit on current account, deposit account, saving account or other similar account, paying collecting cheque drawn by or paid in by customers and provision of finance. Banking sectors have become one of the important factors that contribute to the economic growth and stability. It was due to the growing of economic integration and technology advancement.

Currently in Malaysia, there are 16 Islamic, 27 commercials, 11 investments and 3 international Islamic banks with additional of 2 other financial institutions licensed in the Malaysian Banking System (BNM, 2013). Commercial banks in Malaysia are the largest and main players in the banking system that provide saving services, fund and others financing facilities to the customers. Currently, there are 8 domestic commercial banks and another 19 are foreign commercial bank. In addition, foreign bank emerged in the Malaysian Banking scene in the 1970s. The presence of foreign bank to the Malaysia has got a lot of benefits to the country. The benefits are to enhance the cross-border trade and investments, generating high efficient mobilization of funds as well as new business openings and employment opportunities and its create a competitive.

According to the past research (Guerreiro, 2016) and (Ben Khediri Karim, 2010) profitability of the bank is measured by three factors which are internal factor (bank-specific), industry factor and external factor (macroeconomics). This research is to