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**DETERMINANTS OF DOMESTIC  
CONVENTIONAL BANKS  
PROFITABILITY IN MALAYSIA**

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## ABSTRACT

Well known that commercial banks play an intermediary role to aid flow of funds between surplus funds unit and deficit funds unit in an economy besides maintaining the stability of economy in a country. Thus, banks had been widely recognized as the most critical institutions in a financial system. Presently, the banking sector has experienced global major transformation in its operating context. Recent trend in financial technological and financial innovation and globalization are definitely posing new challenges to the market participants in financial sector. Therefore, understanding of determinants captures the interest from government and other parties such as bankers, shareholders and investors to have clearer picture of past and current circumstances of banking industry. Hence, the aim of this study is to investigate the bank specific (internal) and macroeconomic (external) determinants of banks profitability. The proxy of bank's profitability is return on assets (ROA). The specific determinants for bank profitability used in this study are size, capital adequacy, and liquidity, while the macroeconomics determinant is gross domestic product (GDP). This study uses samples of domestic conventional banks in Malaysia namely, Affin Holdings Berhad, Ammb Holdings Berhad, Cimb Group Holdings Berhad, Malayan Banking Berhad, Public Bank Berhad, RHB Bank Berhad and Hong Leong Bank Berhad for the period of 2002 to 2015. The data are analysed using pooled ordinary least square (Pooled OLS) regression. The findings are expected to show that bank size, capital adequacy, liquidity and GDP have positive impacts on bank's profitability. It indicates that the larger bank can maximizes banks profitability and good capital adequacy is preserve higher capital strength to bear losses and dismiss the risk of insolvency.

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# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Introduction**

This chapter will discuss the overview or background of the study, problem statement, research question, research objective, significance of the study, scope of the study, and limitation of the study. This research is focusing on determinants of domestic conventional banks profitability in Malaysia.

### **1.2 Overview/ Background of Study**

Basically, financial system in Malaysia can be divided into banking system and non-banking system. Malaysian banking system consists of commercial banks, Islamic banks and investment banks are the major institutional source of credit to economic sector. As for general, the banking sector comprised licensed institutions namely, commercial banks, Islamic banks, investment banks in which are licensed under the Banking and Financial Institutions Act 1989 (BAFIA) and being supervised by the Bank Negara Malaysia. BAFIA 1989 is an act to provide new laws for the licensing and regulation of institutions with the nature of business are banking, for the regulations carrying on certain other financial business, finance companies and so on. A well-known fact that banks is an important institution in every country.

The transformation of the Malaysian financial sector over this recent decade provides significant platforms that aid the future growth and development of the financial services industry. These days, Malaysian financial sector envisioned to serve domestic, regional and international needs. Domestic financial institutions in Malaysia go over the phase of restructuring, consolidation and rationalisation. An opportunity of domestic financial intermediaries to vastly generate is when there is an institutional development and capacity building initiatives has been taken.