



UNIVERSITI TEKNOLOGI MARA

**FACTORS AFFECTING THE PROFITABILITY OF
MALAYSIAN COMMERCIAL BANKS: AN EMPIRICAL
EVIDENCE FROM THE TOP THREE MALAYSIAN BANKS**

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ABSTRACT

First of most, banking sector is the backbone for a country's economy as banks performance can generate spill over impacts on different sectors (UNDP, 2009). The commercial banking industry of Malaysia is developing rapidly and has been acted as one of the critical driving forces of economy growth of the country. According to Abdul Jamal, Abdul Karim & Hamidi (2012), until 2011, commercial banks account the bulk of RM1, 7138.3 trillion assets and they represent the largest segment of all financial institutions in Malaysia. Therefore, this research is only focused on commercial banks since they are the largest fund provider in a country.

The purpose of this research paper is to investigate the factors that influence bank profitability (ROA). The three factors are the cost-to-income ratio, consumer price index, and GDP growth. Three Malaysian commercial banks have been chosen to represent the country's commercial banks. This project runs from 2011 to 2020 and data is collected on an annual basis. The data has been statistically analysed using descriptive statistics and multiple regression analysis. The results stated that bank size, liquidity and deposit ratio had a significant and positive relation with return on asset (ROA) except for GDP is significant but negative relationship. Although there were relationships among bank size, liquidity and deposit ratio but inflation rate did not have a significant influence on the profitability of the banks. The importance of the study is to improve the financial performance of Malaysian banking for investment and finance and to improve the Malaysia banks' operations.

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CHAPTER 1 - INTRODUCTION

1.1 Introduction

Historically, the main functions of commercial bank are accepting demand deposits and making commercial loans. Nowadays, commercial banks have grown stronger and strives to offer a wide range of products and services such as checking accounts, savings accounts and safe deposit boxes. The three Malaysia's local commercial banks with largest asset size and market capitalization in year 2020 are CIMB Bank, MayBank, and Public Bank. Banks need to know the types and levels of risk that they are exposing to and try to minimize the uncertainty. Knowledge on risk is important as it enable the bank officers to decide whether it is worth to loan out the funds. Inappropriate level of risk taking by the banks will lead to bankruptcy. Therefore, a proper evaluation on the risks which faced by the banks is needed.

Commercial bank profitability in Malaysia has been declining in recent years, from 2007 to 2019. It could be because the bank's performance has declined. As a result, bank profitability has been a source of concern for Malaysian banks in the banking sector. According to Tanin, T. I., Ahmad, A. U. F., & Farooq, M. O. (2021) research, there are two ways to measure a bank's profitability: return on assets (ROA) and return on equity (ROE) (ROE). ROA is typically used to assess a bank's ability to produce revenue from its assets, whereas ROE is used to assess the overall net return to shareholders on their equity.

Many researchers, including Tanin, T. I., Ahmad, A. U. F., & Farooq, M. O. (2021), Alfadli, A., & Rjoub, H. (2020), Odusanya, I. A., Yinusa, O. G., & Ilo, B. M. (2018), have investigated the determinants and discovered that credit risk, bank size, capital adequacy, non-interest income margin, liquidity, inflation rate and gross domestic product. Because there are numerous elements that will have a big impact on a bank's profitability, it is necessary to identify and investigate the determinants that will affect the bank's profitability. As a result, there is a need to conduct this research to see whether there are any discrepancies based on past investigations.

Return on Asset (ROA) was chosen as the dependent variable in this study since it is the most relevant variable for measuring the bank's profitability. Furthermore, one firm-level variable and