



**DETERMINANTS THAT INFLUENCE THE PERFORMANCE
OF BANKS IN MALAYSIA**

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ABSTRACT

Generally, banks are very important in the economy by maintaining and motivating the development of economic sectors. They refocus the resources from those who have surplus to those which have a deficit. Consequently, the banks' performance is preferable and it is important to know what the main factors that influence this objective are. Hence, this paper examines the factors that affecting banks' performance based on 5 financial institutions for the 10 year period from 2005 to 2014. The performance is measured by return on equity. The independent variables used are liquidity risk, asset quality and capital adequacy. The objectives of this study are to identify the factors that influence the performance of banks and to examine which factor should banks focus on to optimize their performance. The data is collected from DataStream and BankScope of 5 listed Malaysian banks from the year 2005-2014. To achieve the objectives of this study, multiple linear regression analysis will be used. The result of this study is useful for banks to know the relationship of each independent variable towards the dependent variable.

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CHAPTER 1

INTRODUCTION

1.1 Introduction

Bank is an institution which carried out the processes of credit and lending operations, accepting deposits and also making advances. It also allows for the issuance of money and facilitates payment processing in all forms of electronic banking services such as automatic payment by Idiab, Haron and Ahmad (2011). Banks are important entities in the economy as they simplify the process of forwarding the resources by those who have a surplus to those who have a deficit. So, it becomes important to know what the determinants that influence how well banks' are (Gutu, 2015). The importance of adequately measuring the performance of banks has been recognized for a long time (Ramanathan, 2007). Stable banking systems unable to maintain efficiency in unforeseen situations and to generate incentives for all participants (Chan Choi Quin, 2012).

Currently, the Malaysian banking system, which comprises of the commercial banks, Islamic banks, international Islamic banks, investment banks and other financial institutions. As of March 2016, there were 27 commercial banks (of which 19 are locally incorporated fully foreign-owned), 16 Islamic banks (of which six are foreign-owned), three International Islamic banks, 11 investment banks, and two other financial institutions. This research will be discussed on commercial banks. Hence, the main functions of them are to provide retail banking services, such as acceptance of deposit and granting of loans and advances.