



UNIVERSITI TEKNOLOGI MARA

**BANK FRAGILITY OF ASEAN COUNTRIES IN 21ST
CENTURY: MALAYSIA, INDONESIA, THAILAND AND
PHILIPPINES**

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ABSTRACT

The purpose of this research is to identify the factors significant in explaining the bank fragility in ASEAN countries in 21st Century. Does the independent variable capital adequacy (Tier 1, Total capital ratio and Capital fund to total asset), asset quality (Loan losses to gross loan, Loan loss provision to Net interest revenue), leverage (Equity to total asset, Equity to liabilities and Capital fund to total liabilities), liquidity (Total loan to total assets, Net loans to total deposits and borrowing and liquid assets to total deposits and borrowing) and profitability (Return on asset, Return on equity and Net interest margin) has a significant effect on the banks fragility. This study has categorized the independent factors into financial ratio factors. This study obtained secondary data from Banksopes and UiTM Online Databases from year 2010 until year 2015. This study concludes the results based on panel data by using logistic regression analysis method. The factors that has a significant effect on the bank fragility are capital adequacy (Tier 1 and Capital fund to total asset ratio), asset quality (Loan losses to gross loan and Loan loss provision to Net interest revenue), leverage (equity to total asset ,equity to liabilities and capital fund to total liabilities), liquidity (total loan to total assets and net loans to total deposits and borrowing) and profitability (return on asset and return on equity) On the other hand, factors to bring negative effect to bank fragility are capital adequacy (total capital ratio, profitability (net interest margin)

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CHAPTER ONE

INTRODUCTION

1.0 INTRODUCTION

In the past years, many developed and developing countries have experienced banking crises. It has affected the developing areas a lot in terms of fiscal costs. Much prevention has been taken to prevent bank crisis. For example in Japan, they have established a sound banking system. They implemented the capital adequacy requirement in 1993 and the prompt corrective action rules in 1998. It is interesting to examine the bank fragility as it enables us to manage and regulate the banking system (Kuroda, 2014). However, the world financial crisis of 2007-2009 caused a liquidity shortfall in the banking system and caused many large financial institutions and banks around the world to collapse.

A small shock of bank fragility can have large effects on the banking system. There are many reasons to determine the banking fragility of ASEAN countries. This is due to the ASEAN Trade Free Area (AFTA) agreement. AFTA agreement could affect the international rate of a country (Ramasamy, 1995). ASEAN suffered more from the negative economic shocks that come from the crisis in the West. For ASEAN countries to recover from the economic crisis, they are engaged in quantitative easing, an unconventional monetary policy that decreases the long-term interest rates via large-scale central bank asset purchases.

The main purpose of this paper is to identify the determinants of bank fragility, to understand which financial indicators are significant in the forecasting of bank default and to check which ratios drive the banks to default. The independent variable of this research consists of capital adequacy, asset quality, bank's leverage, bank's liquidity and bank's profitability.