



PERFORMANCE AND FINANCIAL RATIOS OF
COMMERCIAL BANKS IN MALAYSIA

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Table of Content

ACKNOWLEDGEMENT	iv
LIST OF FIGURES	viii
LIST OF ABBREVIATIONS.....	ix
ABSTRACT.....	x
CHAPTER 1 : INTRODUCTION	1
1.1 BACKGROUND OF STUDY	1
1.2 PROBLEM STATEMENT	4
1.3 RESEARCH OBJECTIVE.....	7
1.4 RESEARCH QUESTION	7
1.5 SIGNIFICANT OF STUDY	8
1.5.1 Researcher.....	8
1.5.2 Commercial Bank	8
1.5.3 Study	8
1.5.4 Public	9
1.5.5 Government.....	9
1.6 SCOPE OF STUDY.....	10
1.7 CONCLUSION	11
CHAPTER 2 : LITERATURE REVIEW	12
2.1 INTRODUCTION.....	12
2.2 LITERATURE REVIEW ON TOPIC	12
2.2.1 Bank Profitability.....	12
2.3 LITERATURE REVIEW ON EACH VARIABLE.....	13
2.3.1 Return on Average Assets (ROAA).....	13
2.3.2 Operating Expenses	13
2.3.3 Liquidity.....	14
2.3.4 Credit Risk	15
2.3.5 Capital.....	16
2.4 CONCLUSION	17
CHAPTER 3 : RESEARCH METHODOLOGY	18
3.1 INTRODUCTION.....	18

ABSTRACT

Commercial banks performance a vital role in the economic resource allocation of countries. They channel funds from depositors to investors continuously. They can do so, if they generate necessary income to cover their operational cost they incur in the due course. In other words for sustainable intermediation function, banks need to be profitable. Beyond the intermediation function, the financial performance of banks has critical implications for economic growth of countries. On the other hand, poor banking performance can lead to banking failure and crisis which have negative repercussions on the economic growth.

This paper aims to investigate the impact of bank-specific factors which include the liquidity, credit, capital, and operating expenses of commercial banks on their performance, which is measured by return on average assets (ROAA) and return on average equity (ROAE). As for this sample of this study, it comprises of 45 observations each for the independent variable and dependent variables on a yearly basis years period from 2011 to 2015. A software package called Stata 11 will be used in finding and analyzing the data. The research result is about to found the relationship between bank profitability towards the bank-specific factors. Other than that, looked at different side others countries how they do performance towards their commercial bank. This research has done with nine types of commercial banks which Hong Leong Bank Berhad, Affin bank Berhad, CIMB Bank Berhad, Malayan Banking Berhad, Public Bank Berhad, RHB Bank Berhad, OCBC Bank (Malaysia) Berhad, Bank of America Malaysia Berhad and CitiBank. The data that researcher analyzed from Osiris.

CHAPTER 1 : INTRODUCTION

1.1 BACKGROUND OF STUDY

Ongore (2013) stated that commercial banks are the important role towards the economic resource allocation of the countries. The commercial banks channel funds of depositors to investors constantly. Other than that, they can do so, if they can make required income to cover their operational cost they earn in due course. In addition, in order banks need to be profitable for reasonable intermediate function. Meanwhile, for intermediate function, the financial performance of commercial banks has a serious effect for the economic growth of countries. Financial performance provides a good performance to reward shareholders for their investment.

Datuk Seri NajibTunRazak as the Prime Minister of Malaysia has emphasized the importance of developing country in terms of intellectual capital in order to produce a form of intellects. The rapid economic changes in global market today are the signs of the high competition among nations. Datuk Seri NajibTunRazak in year 2012 has definedimportant change, good governance and setting the performance target approach to transform banking sector especially Conventional Commercial Banks (CCBs) and Islamic Commercial Banks (ICBs) into a large and whole sector by invested knowledge capital to lead the economic growth. The Prime Minister of Malaysia stated that a strong banking sector that is more effectiveto be more innovative to make decision that can be further enhanced competitiveness.

Current trends in financial innovation and technology also the new challenges of globalization must pretend to market participants in the financial sector in Malaysia. In