Risk and performance: empirical evidence from bank of tokyo-mitsubishi ufj

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Risk and Performance: Empirical Evidence from Bank of Tokyo-Mitsubishi UFJ

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Abstract

The aim of the study is to investigate the risk and performance of Bank of Tokyo-Mitsubishi UFJ Bank. The data obtained from annual report of Bank of Tokyo-Mitsubishi UFJ from 2011-2015. Data was analyzed by utilizing regression and correlation. The study use the return on assets (ROA) as the probability indicators to measure the bank's risk and financial performance, the indicators known as the dependent variables. The regression analysis and correlation shows only one factor is significant to ROA which is liquidity.

Keywords: regression analysis, performance, liquidity risk

1.0 Introduction

1.1 Background of the company

In October 1957 at Penisular Malaysia, the Bank of Tokyo Ltd had its first representative. The bank acquiring its banking license in June 1959 and was the first Japanese bank in providing a full range of banking services.

On April 1, 1996, The Bank of Tokyo Ltd. and The Mitsubishi Bank Ltd merged on an equal-term basis to form The Bank of Tokyo-Mitsubishi, Ltd. From the merger, the Bank's name was changed to Bank of Tokyo-Mitsubishi (Malaysia) Berhad. In October 2005, in strengthen its presence globally, the Mitsubishi UFJ Financial Group (MUFG) was formed through the integration of Mitsubishi Tokyo Financial Group (MTFG) and the UFJ Group uniting The Bank of Tokyo-Mitsubishi, Ltd, Mitsubishi UFJ Trust & Banking Corporation and Mitsubishi UFJ Securities under a single financial holding company.

The Bank of Tokyo-Mitsubishi UFJ, Ltd was the largest bank in the world in terms of total assets since their establishment on 1st January 2006 from their merging.SInce the bank establish, the positive team work from management team and economies of scale has progressively kept the bank on the leading edge of new products development and service capabilities for the benefit to their clients worldwidely.

The increase number of customers and its long-term relationship with the existing large number of Japanese investors has strengthen the bank presence in Malaysia especially in the manufacturing, construction and services sectors. The Chairman or Independent non-executive director for MUFG Bank was Y.Bhg Dato Abdul Rahim bin Osman and the CEO was Mr, Naoki Nishida.

2.0 Literature Review

Banking industry plays an important role in the development of an economy. In running of their operation, bank are usually faced with different types of risk that can potentially give negative impact to their business. Bank particularly exposed in managing their business are credit risk, market risk, liquidity risk, investment risk, exposure risk and risk that relate to the country origin that to which bank exposed. The increases in non-performing loans will lead to credit risk and collapse the banking industry.

Gorton and Rosen (1995) focusing on the risk and managerial shareholdings relationship as it is affected by entrenchment and the shifts in the economic conditions of the banking industry. In term of concept, as seeking in protecting the value of firm-specific human capital, the managers with small ownership stakes would be act in risk averse instead than value maximizing way. According to Keeley (1990) thinks that the increases in competition cause the bank value to decline, which will cause the increases in default risk through the increases in asset risk and reduction in capital.

There was an increase in non-performing loans for Bank of Tokyo-Mitsubishi UFJ for the past 5 years. This because of borrower does not paying back their loans even though having enough income that will lead to the increase in credit ratio. According to Vodová (2003) huge loss arises resulting from default loan payment from the borrower contribute to insolvency and bankruptcy that lead to banking crisis. Therefore, it was obviously crucial of knowledge and relevant methods in monitoring, measuring, managing and mitigating credit risk. According to Kolapo et al. (2012) and Kithinji (2010) the formation of credit risk include, irrelevant credit policies, poor lending practice, limited institutional capacity, volatile interest rate, poor management, insuitable laws, direct lending, massive licensing of banks, low capital and liquidity risk, negligence in credit assessment, poor loan underwriting, poor lending practice, insufficient supervision by central banks, government interference and inadequate knowledge

about borrowers. The increases in credit risk continuously leads to liquidity and solvency problems. Waemustafa (2013) and Waemustafa and Sukri (2013) think that there is need in understanding the formation of risk in Islamic and conventional banks considering internal and external factors determinants.

Ali (2004) examined that even though accessing to external liquidity, liquidity still contribute to number of failure in Islamic banks and conventional banks. The liquidity ratio for the MUFG Bank had decreases over the 5 years and expose to the higher credit exposure. Credit risk indirectly relationship with the level of liquidity, the higher liquidity the lower the credit exposure. Bank have to sell their assets with lower value because of liquidity to fulfill its current financial obligations. Therefore, according to Waemustafa and Sukri (2015) understanding the relationship between liquidity and credit risk is important to derive for empirical evidence of interaction between liquidity and credit risk.

Ghousoub and Reed III (2010) found that stability in economic growth will lead to lower liquidity risk until the banks need to hold cash be reduced. By this, banks will lend more to make more return. Thus, the liability needs a long-term maturity to avoiding liquidity risks in financing assets using the equity modes of financing (Sundararajan and Errico, 2002). In conclusion, it was very important in identifying the process of risk formation before proceeding to advance stage in risk management process. (Muljawan, 2005).

3.0 DESCRIPTIVE ANALYSIS

3.1 Trend Analysis

3.1.1 Credit Risk

Year	2011	2012	2013	2014	2015
Credit ratio	0.007805	0.013670	0.010894	0.006940	0.004340

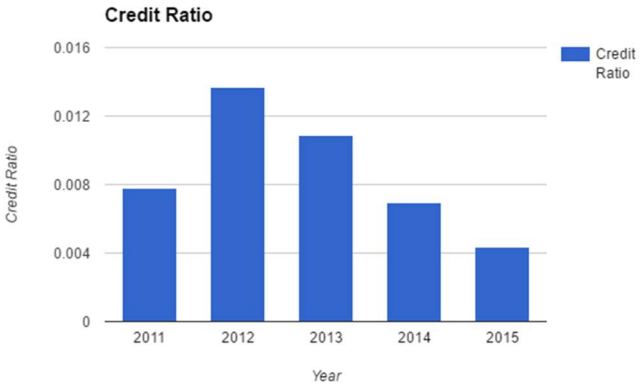

Chart 1

From the chart above, there was increase in credit ratio in from 2011 to 2012 because of high performing loans to the bank. Then, gradually decrease of credit ratio from 2012 to 2013 because of unpaid loan for the bank is also decrease. The bank business will be failure because of default payment from the borrowers.

3.1.2 Liquidity Performance

Year	2011	2012	2013	2014	2015
Liquidity Ratio	1.17906	1.17359	1.15397	1.14027	1.07684

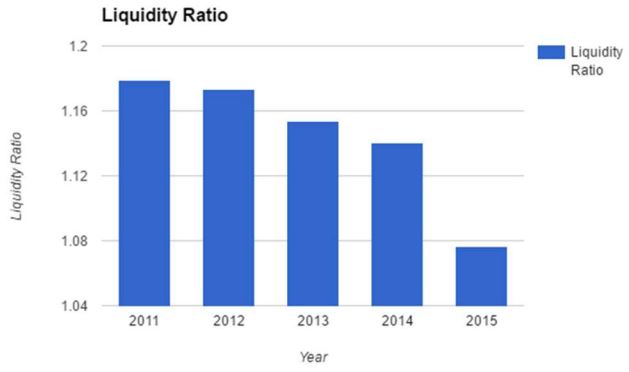

Chart 2

The above chart show that there was decline of liquidity ratio among the 5 years. Even though it was decrease, the liquidity ratio still above 1. The company still can pay all of its liabilities and

still have assets left over. Overall, the company still have a higher liquidity ratio that indicate the company is liquid and has better coverage of outstanding debts.

3.1.3 Operational Risk

Year	2011	2012	2013	2014	2015
Operational Ratio	0.60758	0.46878	0.64538	0.71568	0.69459

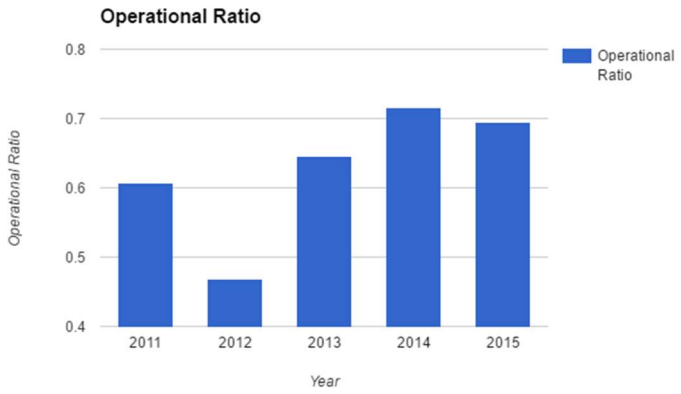

Chart 3

For chart 3 above, there was a decrease in operational ratio from 2011 to 2012. The highest operational ratio was in 2014. This shows that in 2014, the bank activities are not sustainable because of does not making enough revenue from its ongoing operations to pay for its cost. In 2012, the bank had an efficient operating environment in which operating expenses are increasingly a smaller percentage of operating revenue. From 2012-2014 the ratio has increasing significantly which indicate the company is in inefficient operation.

3.1.4 Financial Risk

Year	2011	2012	2013	2014	2015
Financial Ratio	5.68510	5.76072	6.49494	7.12907	13.01404

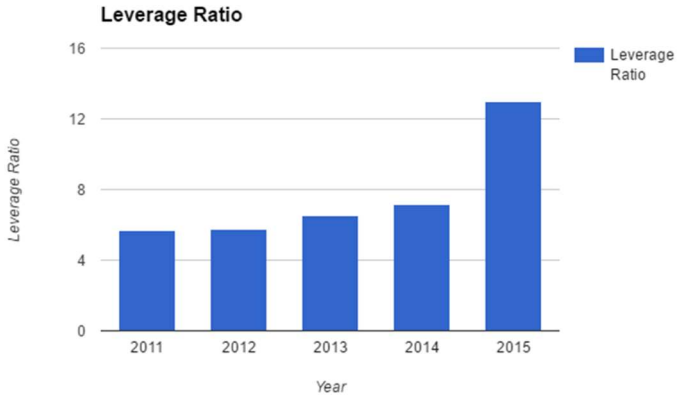

Chart 4

For chart 4 above shows that, the financial ratio for the company have increase over the 5 years. For the first 4 years, the company had a more financially stable business condition. But in 2015, the financial ratio has greater increase from the year 2014. This shows that more creditor financing is used than investor financing.

3.1.5 Return On Assets (ROA)

Year	2011	2012	2013	2014	2015
ROA	0.01336	0.01412	0.01158	0.00971	0.00673

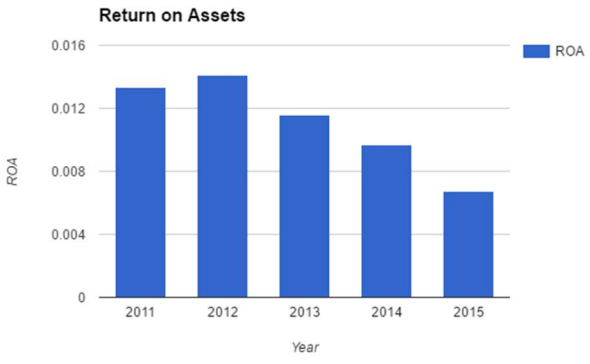

Chart 5

The chart 5 the return on assets for the company had increase from 2011 to 2012. This shows positive trend of ROA. The company capable in converting the money used to purchase assets

into profits. But from 2012 to 2015, the ROA has gradually decrease. This shows that the company does not effectively in managing its assets to produce greater amount of net income.

3.1.6 Return On Equity (ROE)

Year	2011	2012	2013	2014	2015
ROE	0.08931	0.09545	0.08680	0.07895	0.09442

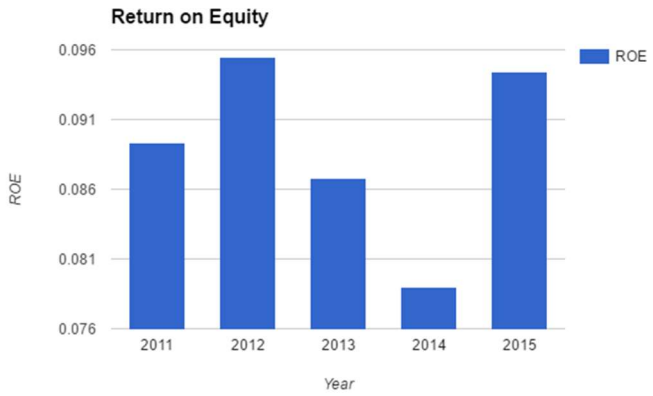

Chart 6

Chart 6 above shows that the decreasing of return on equity from the year 2012 to 2014. This shows that the company does not efficient management in utilizing its equity base. The company is not using its investors fund effectively. But, the ROE have increases in 2015. The company profitable in using shareholder's money in generating profits and grow the company. The increases in values shows that the company valuable in generating income on new investment.

3.2 Descriptive Statistics

Table 1 : Descriptive Results

	Mean	**Std.Deviation**	**N**
ROA	.011101790300000	.002974930060000	5
Index Score	.840	.0548	5

Remuneration	1727000.00	122684.555	5
ROE	72.623280840000000	52.550291390000000	5
Equity	1706402.00	252973.852	5
Liquidity	1.14474554900	.041005303500	5
Leverage	7.616773179000001	3.074214023000000	5
GDP	5.300	.4950	5
Inflation	2.440	.6693	5
Unemployment	3.060	.1342	5
Exchange Rate	3.4600	.49168	5

Table 1 provide the results of descriptive statistics concerning the independent and dependent variables used in the study. As shown in table 1 , the average of return on assets is 0.0111 (1.11%) and the standard deviation is 0.0029 (0.29%). The value is less than 1, which shows that the firm is weak. The mean for index score is 0.840 (84%) and the standard deviation is 0.0548(5.48%). This show that the closer the value to 100, the more better the corporate governance. The mean value for the remuneration is 1727000 and the standard deviation is 122684.55.

3.2.1 Pearson Correlation

Table 2 : Pearson Correlation

	ROA	Index score	Remuneration	ROE	Equity	Liquidity	Leverage	GDP	Inflation	Unemployment	Exchange Rate
ROA	1.000										
Index score	-.140	1.000									

Remuneration	-.776	-.290	1.000								
ROE	-.387	-.627	.547	1.000							
Equity	-.940	.227	.848	.301	1.000						
Liquidity	.966	.053	-.888	-.570	-.936	1.000					
Leverage	-.912	-.239	.897	.697	.855	-.981	1.000				
GDP	.111	.092	-.024	-.720	-.061	.215	-.273	1.000			
Inflation	-.014	.218	-.438	-.482	-.233	.198	-.227	.468	1.000		
Unemployment	-.820	-.408	.879	.806	.748	-.926	.981	-.339	-.284	1.000	
Exchange Rate	-.961	-.130	.856	.596	.882	-.988	.987	-.198	-.090	.944	1.000

Table 2 shows the results of the Pearson Correlation matrix for the independent variables. As indicated in the table, the index score have negative relationship with ROA (0.14). This shows the company earn more profit but low effectivity in managing the corporate governance. The remuneration is found to be negatively related to the ROA (-0.776) that the more profit earned earned, the less salary will be paid. Negative relationship between the ROA and the equity (-0.940) that indicate the higher debt will affect the profit earned. The positive relationship between ROA and GDP (0.111) because of greater in the economic growth.

Table 3 : Model Summary

Model	R	R Square	Adjusted R Square	Std.Error of the Estimate	Durbin-Watson
1	.966a	.934	.911	.000885699969000	2.400

a Predictors: (Constant), Liquidity

b Dependent Variable: ROA

Table 3 shows that the Durbin-Watson statistic in this data was 2.400 and they do not be greater than 3 or less than 1, it means that there was no auto-correlation between independent variables and return on assets (ROA). This result indicating lack of autocorrelation error in model of this study. The model 1 shows the dependence between return on assets and the liquidity obtaining a

correlation of 0.966 and an R square of 0.934, while 93.40% of the variation of return on assets is explained by the change of liquidity.

Table 4 : Coefficient

Model		Unstandardized B	Coefficients Std.Error	Standardized Coefficients	t.	Sig.	Collinearity Statistics Tolerance	VIF
1	(Constant)	-.069	.012		-5.590	.011		
	Liquidity	.070	.011	.966	6.491	.007	1.000	1.000

a Dependent Variable: ROA

Table 4 shows the result of regression coefficient analysis. Result shows that the liquidity is positively related to the return on assets. Regression coefficient of liquidity at 0.070 indicates that when the liquidity increases by 1 percent with the assumption n that other variables remain constant then the return on assets (ROA) will increase by 7 per cent.

4.0 Recommendation

The lower liquidity ratio can be avoided by consistently reviewing account receivable in making sure borrowers pays the loans on time. This because both account receivable and accounts payable can impact liquidity. Delays in borrower paying back their loans will make the bank unable to meet their financial obligations. By having proper in liquidity management, the shows the company is holding enough cash in making business activities and may enhance the company's profit. By applying the liquidity management, the company can surely ensure that the did not suffer from lack of or excess in liquidity to meet its financial obligations. The conversion of assets also can be managed well when the borrower pays in the right time.

5.0 Conclusion

The study examined the risk and performance of Bank of Tokyo-Mitsubishi UFJ Bank. The controlled variables are ROA and other variables used in the study are index score, remuneration, ROE, equity, liquidity, leverage, GDP, inflation, unemployment and exchange rate. Data was gather through the annual reports of the company. Regarding from the financial ratio approach, the study shows that there was high liquidity that makes the company have the capacity to meet its short term financial obligations, while the operational under inefficient conditions. The study also shows that the liquidity is positively significant to the ROA. Overall, the GDP have positive impact to the ROA but not statistically affects the ROA. While, the index score, remuneration, ROE, equity, leverage, inflation, unemployment and exchange rate in negative to ROA**.**

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