CIMB Bank Performance: Relationship between GDP, Leverage Ratio and Operating Efficiency Ratio to Profitability

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ABSTRACT

The purpose of this study is to examine the overall performance of CIMB Bank with specific factor such as GDP, leverage performance and operating performance that impact the profitability performance CIMB Bank. The data obtained from the annual report and the financial report of CIMB Bank starting from 2011 to 2015. The measurement such as leverage ratio and operating efficiency ratio is used to see the overall performance of CIMB Bank in five years. Data was analysed by utilizing regression and bivariate correlation. The regression analysis and bivariate correlation shows that the operating performance which measured by operating efficiency ratio with the P highest impact on the profitability of CIMB Bank. While the two variables which is GDP and leverage performance has no significant and low impact to the CIMB Bank Profitability.

Keywords: Operational Risk, Leverage Ratio, Operating Efficiency Ratio, Profitability

1.0 INTRODUCTION

These days, banks assume the essential part in our general public as a delegate to associate all the player in the bank segment. Bank additionally has an immense obligation to help in monetary and money related headway in the nation. If the monetary business does not perform well, the effect to the economy could be expensive and costly. Because of the Malaysia Ringgit drop and the ascending in the US dollar against the other currencies prompt to the slowdown in the economy execution and it additionally influences the banking sector. Other than that, it also affects the Malaysia exchange rate and gives the banking industry pressure to maintain its performance and gain profit to continue its business.

This study seeks to see the profitability of CIMB bank and determines its performance as one of the banking sectors in Malaysia. CIMB bank is Malaysian all-inclusive bank headquartered in Kuala Lumpur and working in high development economies in ASEAN. CIMB bank is an indigenous ASEAN venture bank, the biggest Asia-Pacific based speculation bank and one of the world's biggest Islamic banks.

The centre markets for CIMB bank business is in Malaysia, Indonesia, Singapore and Thailand. CIMB Islamic works in parallel with these organization, in accordance with the bank double managing a banking modal. This banks has more than 40,000 representatives situated in 18 nations, covering ASEAN and major worldwide financial related focuses, and nations in which its clients have a huge business and venture dealings.

CIMB banks provide its customer services such as consumer banking, commercial banking, investment banking, Islamic banking and asset management products and services. CIMB Group Holdings Berhad has been recorded on the Main Market of Bursa Malaysia since 1987 with a market capitalisation of RM 38.7 billion. This Group total asset at the end of 2015 were RM 461.6 billion, with total shareholders' funds of RM 41.1 billion and total Islamic assets of RM 70.7 billion. Major shareholders towards at the end of 2015 were Khazanah Nasional with 29.71%, Employees Provident Fund (EPF) with 17.36%, Kumpulan Wang Persaraan (KWAP) with 3.69% and Mitsubishi UFJ Financial Group with 4.62%. (CIMB annual report, 2015)

The key success of CIMB group is this group and its representatives hold to Bank Negara Malaysia's code of Ethics BNM/GP7, which encourages appropriate standard of conduct and sound and judicious business practises among financial institutions. This group work as an intermediaries to manage the public funds, so it has the duty to defend its honesty and validity. The main success of any banking sector is its customer confidence and trust to put their money and be manage by the expertise. Thus, the management should direct their business with the highest level of moral behaviour and follow the standard that has being provided by the Bank Negara Malaysia.

Other than that, the achievement of CIMB bank is because of it maintain thegood relationship with the society or in other hand their stakeholders. As we can see from the annual report, this group have doing many Corporate Social Responsibility (CSR) to help the society such as the CIMB Foundation with the help of Malaysian Red Crescent clean up eight houses in Temerloh and repair "Sekolah Pondok" in Kampung Pantai and Kampung Tebing Tembah during the flood in 2015.

Moreover, this group also organized Hari Sukan Negara at Kuching Sarawak to supporting nation and celebrate fitness and a healthy lifestyle. There many programme and activities that being sponsored by this group such as the Tottenham Hotspur Tour 2015 that held at Stadium Shah Alam, Selangor. CIMB was one of the Official Partners of the AIA Cup Kuala Lumpur 2015. Such collaboration is good to maintain the company reputation as well affect the performance of the company by gaining more investor from the outsider to see this company potential as one of a good banking industry established in Malaysia.

In current rapid business condition, banks are presented to a couple sorts of dangers such as credit risk, liquidity risk, market risk, operational risk and so forth. Because of such different dangers, effective risk committee is needed. To mitigate the exposure and uncertainty, CIMB bank also have their own risk management committee to manage any risk that will affect their business performance.

Since July 2010, Bank Negara Malaysia has accepted CIMB bank movement to International Rating Based Approach for credit risk. This bank Basel Task Force which is led by the Group Chief Risk Officer gives oversight on the operation over the Group with the help of sub-advisory groups. According to Waeibrorheam Waemustafa and Suriani Sukri (2015) on their study state that, there are the several factor for conventional banks that will lead the banks to have the credit risk. Thus, this study will analyses the factor such as risk and also CIMB corporate governance practises that will influence performance of CIMB bank as one of the conventional banks in Malaysia.

2.0 LITERATURE REVIEW

There a various study on the determinants of bank performance. The bank performance may depend on a good corporate governance practises and how efficient the bank risk management committee manage the bank risk.

Corporate governance is the wide term defines the procedures, tradition, arrangements, laws and establishment of the associations and companies in the way they act, manage and control their actions. It attempts to accomplish the objectives of the association and deals with the relationship among the partners including the governing body and the stakeholders. (Humera Khan, 2011)

In addition, according to Humera Khan (2011), corporate governance also manages the responsibility of the people through a component which diminishes the agency problem issue in the association. Good corporate governance is a fundamental standard for building up the striking investment situation which is required by the organization to increase solid position in financial market. Great corporate governance is principal to the economics with broad business foundation and furthermore encourages the accomplishment for enterprise.

Financial risk such as credit risk add to the instability of the bank performance. Credit risk is the fundamental financial risk that prevents the execution of the banks. This risk is differing net worth of the asset due to disappointment of the legally binding obligation of the counter party to meet the commitment.

Conversely, Bowman (1980) finds that the correlation among risk and return could be negative when accounting measures are utilized as measures of return. Bowman (1980) tried his theory that prosperous firms will maintain a strategic distance from high risk investment in light of the fact that the result of disappointment will influence their notoriety while ineffectively performing firms will seek after high risk investment in the expectation that significant yield will turn around their poor execution. Bowman tried this theory by analysing yearly report over a nine year span for more than 1,500 organization in 85 distinctive industry, and found that higher return (ROE) conveyed bring lower risk and lower return (ROE) conveyed higher risk.

Study conduct by Waebroheem and Sukri (2015) to see the determinants of credit risk which employed a sample of 15 Conventional and 13 Islamic banks in Malaysia based on the financial information from the annual report. One of the determinants represented by liquidity indicates negatives significant relation to credit risk for conventional bank meanwhile the Islamic bank shows positive value. However, this study opined that there is no significant relation even positive value to credit risk of Islamic bank. The negative relation credit risk and liquidity risk for the conventional banks derived from risk taking behaviour which said that the higher liquidity the lower the credit risk exposure.

Another study conduct to compare the liquidity risk between Islamic banks and Conventional banks in Malaysia conduct by Waebroheem (2016), showed that the Islamic bank dominates the liquidity performance result compared to Conventional banks which represented with the mean percentage. The calculation of liquid variable measured by cash plus short term market securities to total bank asset. The factor denomination is due to the lack of lender last resort and interbank money market and the asset and liability structure of Islamic bank. With the limited option for Islamic bank to obtain external financing which sourced from interbank money market and lender of last resort, this condition forced the Islamic bank to maintain adequate liquidity provision to fulfil the expected loss from Islamic bank's financing activities.

Bank profitability described by Rose (2002) as the net after-tax income or net earnings of a bank (normally isolated by a measure of the bank size). There a different approaches to gauge the bank profitability. Financial ratios are observed to be the most commonly technique to measure the bank profitability. This study analysed the determinants of the CIMB bank performance and determined the financial ratio in clarifying the bank profitability.

Financial ratio let us to dissect and translate the bank financial information and accounting information which give us a more profound comprehension on the bank financial condition and help us to assess the bank performance. Besides that, financial ratio let us to make correlation among various sized banks and dill in as an industry's benchmark where we can contrast the individual bank ratio with the industry average (Vasiliou and Frangouli, 2000; Guru, et al., 2002).

There are numerous financial ratio that can be utilized to evaluate bank profitability performance. The past study recommended financial ratio, for example, Return on Assets (ROA), Return on Equity (ROE) and Net Interest Margins (NIM) are the regular utilized gauge to measures the profitability of the banks.

According to Waebroheem and Abdullah,. A (2015) on their study to examined whether there is any significant influence between Shariah supervisory boards and their remuneration toward Islamic banks choices in financing mode. The study used 18 Islamic banks from the year 2012 to 2013 which operates in Malaysia. This study show that the Shariah supervisory board may determine the mode preference of financing towards BBA and Murabahah. However, the Shariah supervisory board effectiveness does not have significant relationship into the financing mode where the notion lead to "cosmetic reason".

3.0 DESCRIPTIVE FINDING

Before the overview trend analysis for all ratios, the formula for all the ratio from 2011 to 2015 can be calculated as following:

Return on Asset (ROA) = Net Profit after Tax/Total Asset

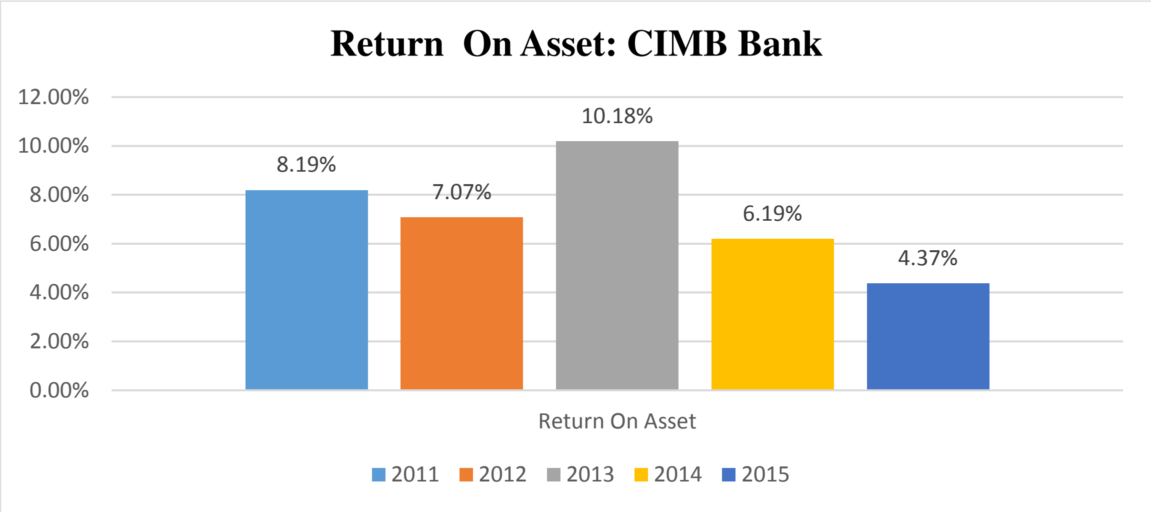
Leverage Ratio = Total Liabilities/Equity

Operating Efficiency Ratio = Operating Expanses/Net Profit after Tax

Year	Net Profit After Tax	Total Asset	Total Liabilities	Equity	Operation cost	ROA	LR	OER
2011	1,504,611	18,380,429	5,417,235	12,963,194	15,115	8.19%	41.79%	1.00%
2012	1,354,655	19,159,301	5,956,370	13,202,931	9,890	7.07%	45.11%	0.73%
2013	2,126,943	20,896,369	5,972,504	14,923,865	16,310	10.18%	40.02%	0.77%
2014	1,619,544	26,145,541	6,450,926	19,694,615	11,681	6.19%	32.75%	0.72%
2015	1,289,467	29,515,360	8,672,365	20,842,995	15,493	4.37%	41.61%	1.20%

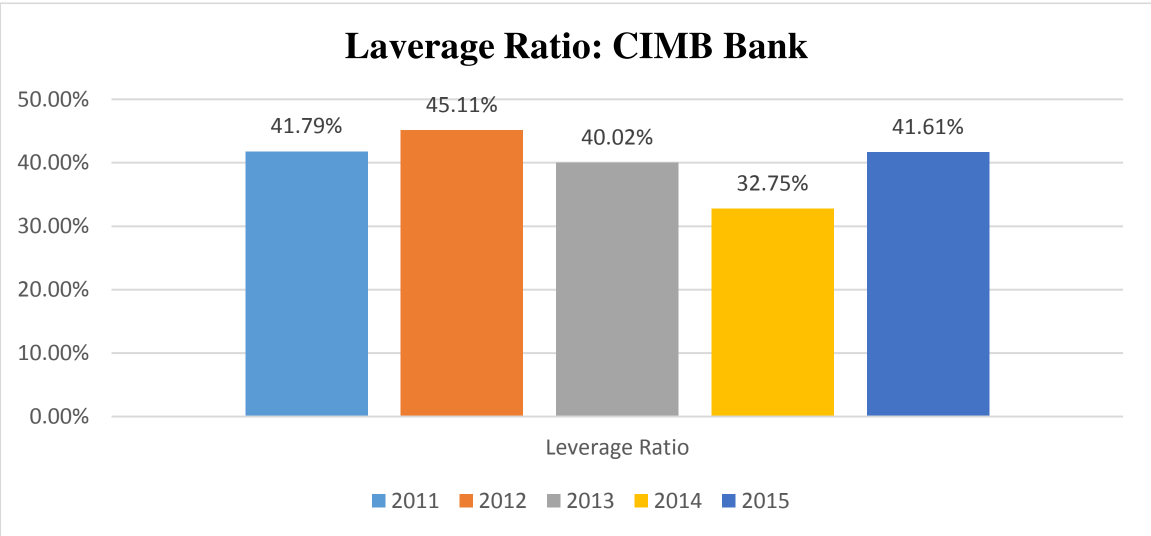
Table Result 1: Descriptive Results

3.1 Profitability Performance



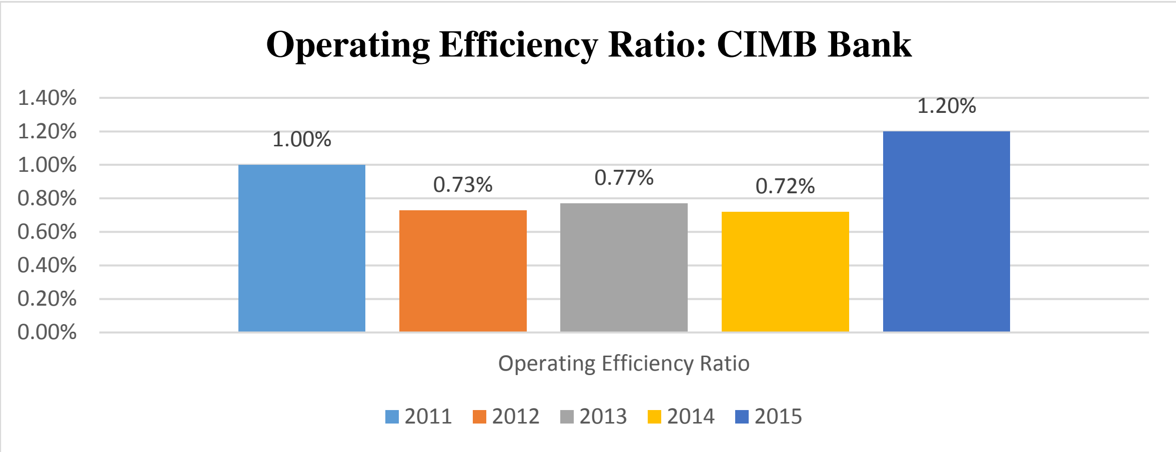
Overall, CIMB bank profitability can be measured by calculating their Return on Asset (ROA). Return on asset can be measured by divided the net income after tax with the total asset. Thus, the return on asset measures how effectively an organization can deal with its asset for to get profits amid a period. As we can see from the table above, CIMB bank have a good profitability for the past five year. The highest return on asset is in 2013 with 10.18%. Then it start to reduce in 2014 and the lowest return on asset is in 2015 which is 4.37%. It is because CIMB have a lowest income on this year and have the highest total asset compare to other year.

3.2 Leverage Performance



Leverage ratio measures how utilized an organization is, and degree of leverage is regularly a measure of risk. At the point when the debt ratio is high. Its show that the organization has a great deal of obligation with respect to its benefits. In any case, a low debt ratio may likewise demonstrate that the organization has a chance to utilize use as a methods for capably developing the business. As we can see from the table above, CIMB bank has a leverage ratio from 32% to 45%. The highest leverage ratio is in 2012 with 45.11%. This highest leverage ratio is maybe because of this bank cannot properly managed their liabilities on that year during to the lower equity and net profit compare to other year. While the lowest leverage ratio is on 2014 with 32.75%.

3.3 Operational Performance



The operating efficiency ratio demonstrates the productivity of an organization's management by contrasting operating cost with net profit. The littler the proportion, the more noteworthy the organization capacity to create benefit if income diminish. As we can see from the operating efficiency ratio graph above, the highest operational efficiency ratio is in 2015 with 1.20%. That mean, CIMB Bank use 1.20% of their net profit to finance their operating activities. While the lowest operating efficiency ratio is on 2014 with 0.72%. Overall, CIMB Bank operating efficiency ratio for the past four years is good because the ratio is still not more than 1 except for 2015.

3.4 Relationship of GDP, Leverage ratio and Operational efficiency ratio to the Profitability (ROA)

Table 2: Correlation Matrix CIMB Bank to Determine the Profitability

Correlations

		ROA	GDP	Operation Efficiency Ratio	Leverage ratio
ROA	Pearson Correlation	1	-.388	-.514	.098
	Sig. (2-tailed)		.519	.376	.876
	N	5	5	5	5
GDP	Pearson Correlation	-.388	1	-.405	-.500
	Sig. (2-tailed)	.519		.499	.391
	N	5	5	5	5
Operation Efficiency Ratio	Pearson Correlation	-.514	-.405	1	.287
	Sig. (2-tailed)	.376	.499		.639
	N	5	5	5	5
Leverage ratio	Pearson Correlation	.098	-.500	.287	1
	Sig. (2-tailed)	.876	.391	.639	
	N	5	5	5	5

Table 3: Coefficient Stepwise Regression analysis for CIMB Bank to Determine the Profitability

Coefficients

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.322	.254		1.266	.426
	GDP	-.032	.030	-.730	-1.076	.477
	Operation Efficiency Ratio	-8.194	6.293	-.798	-1.302	.417
	Leverage ratio	-.018	.307	-.038	-.059	.962

a. Dependent Variable: ROA

3.4.1 GDP to Profitability

As a part of microeconomic factor, the GDP variables tested with P value > 0.10 indicates insignificant relation to profitability. From the correlation matrix table, it show the all the variables is have negative value which indicate that grow in GDP has no significant relation to CIMB Bank profitability. It tell us that the profitability of CIMB Bank is not related to the GDP performance. This bank still can produce profit even the GDP is increasing. This result is support by study conduct by Simiyu, C.N & Lessah Ngile., (2015). They state that the GDP is not the main factor to determine the profitability of a bank. The more important factor is greater respect for laws and contracts because it affect the companies thrives. Moreover, the impact on GDP to profitability is quit high with the t value -1.076 compared to leverage ratio.

3.4.2 Operation performance to Profitability

Operation performance is measured by the operation efficiency ratio where the operation expanses will be dividend with net profit after tax. P > 0.10 indicate that operation performance have a negative and insignificant relation to profitability. 1 out of 3 variables of profitability (leverage ratio) show positive insignificant relation that indicates the operation performance will affect the profitability performance. This positive relationship show that the profitability of bank will affect if the bank cannot managed it operation well. It is because if the bank is mismanaged this ratio, it indicated the bank will face the operation risk. According to Robert M.O., (2016) on his study, efficiency the capability to bring products and services cost effectively without forgoing quality. The impact of operation performance is the highest compare to other variables with t value -1.302.

Table 3: Regression Analysis for CIMB Bank to determine the profitability

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics: R Square Change	F Change	df1	df2	Sig. F Change	Durbin-Watson
1	.098[a]	.010	-.321	.024971423400000	.010	.029	1	3	.876	1.662

a. Predictors: (Constant), Laverage ratio

b. Dependent Variable: ROA

Table 4: ANOVA regression analysis for CIMB Bank to determine the profitability

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.000	1	.000	.029	.876[b]
	Residual	.002	3	.001		
	Total	.002	4			

a. Dependent Variable: ROA

b. Predictors: (Constant), Laverage ratio

3.4.2 Leverage performance to Profitability

After the test conduct and all the variables added, the stepwise method show that R value for leverage performance is has the highest degree of correlation between variables highest with value 0.98. In term of relationship between the profitability, the leverage performance is measure by the leverage ratio. Leverage ratio is measured to know the ability of organization to manage it liabilities. This ratio also tell if the organization do not managed it leverage well it will cause risk to the organization. $P > 0.10$ indicate that leverage performance have a negative and insignificant relation to the profitability. 2 out of 3 variables of profitability (ROA and operation efficiency ratio) show a positive insignificant relation. This indicates that the leverage performance will affect the profitability performance.

4.0 DISCUSSION AND RECOMMENDATION

4.1 Discussion

During the year 2011 to 2015, overall performance of CIMB Banks was showing a positive and excellent performance result for measurement of operating performance and the impact of GDP to the profitability of the bank. The management of this bank is very effective to produce profit even the GDP in the country is increasing in 2015. Other than that, CIMB Bank has an excellent performance in managing their liabilities and lead to continuity of their business. However, since the operating efficiency ratio has the highest t value = -1.302, it indicates that the variables impact the most to profitability measurement of CIMB Bank. With the highest impact of operation to profitability and only one variable that have a positive significant relationship with the operation performance (Leverage Ratio), CIMB Bank should pay attention to the operation performance on 2015 onwards besides the GDP and leverage to enhance the continuity of the bank profitability.

4.2 Recommendation for Improvement

4.2.1 Technology and automation

The part of technology has been specified a few times as of now, but since it is expansive, enterprise wide impact, the utilization of technology and automation additionally justifies singular consideration as a component of the general proficiency improvement effort.

For instance, automation work process handling gives manager more prominent visibility into the activities being performed, permitting them to monitor work lines, distinguish issue and reallocate work to react to evolving conditions. One progressively imperative practice is to take part in electronic imaging documents as ahead of schedule as conceivable in an exchange as opposed to utilizing electronic images as a last stride for document storage after the transaction.

Beyond helping to automate core process, technology likewise has a conspicuous part to play in a bank's channel advancements effort. It influences how clients cooperate with the bank as well as how banks impart essential data inside and how they deal with their sales and customer relationship activities.

For more improvement in the operation performance and reduce the operating expenses, CIMB Banks should upgrade their service follow the technology advancement nowadays. Even though it will causes high expenses in the beginning of the technology implementation, but it will cause a greater profit for a long term and cause the operation performance of this bank better in the future.

4.2.2 Have a good corporate governance practice

According to Choi and Hassan (2005), the impact of ownership and corporate governance on Korean bank's performance during 1998 – 2002 by utilizing a simple ordinary least squared modal detailing that the presence of one foreign director on the board enhance bank performances essentially, however various foreign director on the board don't enhance bank performance.

The researcher presumed that the directors of the banks in the higher moral hazard have more noteworthy motivating forces to collimate their interest to those of stockholders by going for broke as managerial ownership rises, contrasted with the bank in the lower moral hazard group.

As for CIMB Bank, having a good corporate governance such as having an appropriate composition and mix of skills for director in the organization is good for the operating performance of this banks. It is because good corporate governance will lead to have a good operating performance and reduce the risk to attach with the operational risk in the bank sector. Moreover, having a mix of skill in the management will give more accurate or accountability decision for the performance of the bank.

5.0 CONCLUSION

In a conclusion, it is clear that every bank sector will face financial risk such as credit risk, liquidity risk, operational risk, legal risk and market risk. As we can see from this study, CIMB Bank is able to manage their performance based on the variable that being test, GDP and leverage performance. The GDP and leverage performance show that, this bank still can generate profit even the GDP in this country, Malaysia is increasing in 2015. While for the leverage performance, the leverage ratio show that this bank can manage their liabilities well to keep the continuity of their business. In addition, to maintain the performance of this bank on 2015 onwards, based on the finding this bank should focus on the operating performance because this variable impact the profitability of the bank compared to other variables.

Therefore, CIMB Bank should concern to have a good corporate governance practice in their organization to avoid the manager from doing a moral hazard that will affect the bank profitability. The implementation of technology and automation also will help this bank to generate more profit in the future and help reduce the operating expenses that could reduce the bank profitability.

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