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# **Monitoring Performance of Maybank Berhad in the Presence of Risk**

Shahardin, Nur'Izzate Iwana

Universiti Utara Malaysia

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# Monitoring Performance of Maybank Berhad in the Presence of Risk

Nur'Izzate Iwana Shahardin

Universiti Utara Malaysia

## ABSTRACT

The main purpose of this study is to examine the relationship between risk and performance of commercial bank in Malaysia. This study aims to investigate the impact of bank-specific factors which include liquidity risk, operational risk, and credit risk (microeconomic factors) and gross domestic product (GDP) and inflation rate (macroeconomic factors) on the performance of Malaysian commercial bank over the period of 2011 to 2015. The bank performance is measured by Return on Assets (ROA). The results imply that ratios employed in this study have different effects on the performance of bank. In this study, the findings show that only GDP has positive relationship with ROA. Four factors namely liquidity risk, operational risk, credit risk, and inflation rate have negative relationship with the ROA.

Keywords: Credit Risk, Liquidity Risk, Profitability Risk, Macroeconomic and ROA

## 1.0 INTRODUCTION

In Malaysia, the largest financial services group is Maybank Berhad. Maybank Berhad was established on 31 May 1960. The head office of Maybank Berhad was in Kuala Lumpur, Malaysia. Maybank Berhad begin the operation on 12 September 1960. Maybank has been aggressively expanding over the years. The founder of Maybank Berhad is Khoo Teck Puat while Datuk Abdul Farid Alias is the current CEO of Maybank Berhad.

On 2 August 2013, Datuk Abdul Farid Alias was assigned as Group President and Chief Executive Officer of Maybank Group. Datuk Abdul Farid Alias graduated from Harvard Business School, Harvard University, USA under Advanced Management Programme. Datuk Abdul Farid experienced in banking, corporate finance and capital markets over 20 years. Besides that, he also having served with various investment and merchant banks. He also experienced working in Maybank Group as a Director of Maybank Investment Bank Berhad. Moreover, he also experienced in other companies such as a Chairman of The Association of Banks in Malaysia and Vice Chairman of Asian Institute of Chartered Bankers. Moreover, he also has experience in past. For example, as a Deputy President and Head, Group Global Banking of Maybank from 1 July 2010. The current Group Chief Risk Officer of Maybank is DR John Lee Hin Hock. Majority qualifications of the Group Executive Committee are business and economics.

Besides that, Maybank listed on Bursa Malaysia in 1962 and become the largest company on the exchange. Maybank provides a comprehensive range of financial services to their customers. Under three key business pillar there are Community Financial Services, Global Banking, and Insurance & Takaful. In addition, Maybank also come together with the international business operation.

Maybank has positioned itself as the fourth largest Southern Asian banking group with a total assets base of RM708.34 billion in 2015. In 2015, net profit of Maybank was RM 6.84 billion. It has been expanded just over 1.5 times from RM 4.45 billion in 2011. Maybank offers various product and services such as commercial banking, investment banking, insurance and takaful, internet banking and others. Internet banking in Malaysia offered for the first time by Maybank Berhad.. Maybank is capable to handle various transactions when it officially entered e-banking community. In addition, Maybank also offers product of Islamic banking. Maybank is facing serious challenges to maintain as its number one position in the highly competitive banking industry in Malaysia.

There are several achievements of Maybank in year 2015. Maybank was recorded as The Asian Banker Financial Award 2015, Putra Brand of the Year Award 2015, Malaysia Investor Relations Association (MIRA) Investor Relation Awards 2015 and Customer Experience Asia Excellent Awards.

## 2.0 LITERATURE REVIEW

There are several of studies to determine risk and performance of the bank. The study by Said and Tumin (2011) found that there is a relationship between credit and capital ratios on the performance of banks in Malaysia. As measured using GDP, Malaysian banking industry is more command compared to other industry. Malaysian banking subsists of commercial banks, investment banks, Islamic banks, and the foreign bank. Said and Tumin (2011) have used inflation, GDP growth and interest rate for the external measure for their study. The effect of inflation on the bank performance is based on how anticipated or unanticipated the inflation.

In line with the study by Waemustafa and Sukri (2015), internal and external aspects should be taken to understand how credit risk is getting happen either in conventional banks nor in Islamic banks. To work out with the bank profitability, liquidity risk is used as a vital indicator. It is because liquidity risk is appropriate to calculate the bank deficiency. Decreasing expenses will increase the efficiency and therefore will increase the profitability (Bourke,1989). It indicates that there is a negative relationship between operating expenses ratio with profitability.

A study by Waemustafa and Sukri (2016) stated that Islamic banks is more risky than conventional bank. A study by Waemustafa and Abdullah (2015) found that there is a no relationship between SSB effectiveness to the choices of Islamic mode of financing by Malaysian Islamic bank. However, there is a relationship between their remuneration. Waemustafa and Abdullah (2015) also stated that there is no relationship between SSBEFF with mode of financing. However, there is relationship between SSBREMU and FGROWTH. Furthermore, Waemustafa and Sukri (2015) also stated that M3 shows negative relationship between credit risk.

Furthermore, a study by Alrawashedh, Sabri, and Ismail (2014) is designed to find the difference between the banking system and to evaluate the performance efficiency of the banking system. In this study, they found that a bank with a higher value of operation ratio is better. It is because operation ratio is a good indicator to evaluate the condition of a bank. Higher operation ratio means that a bank is doing well. Besides that, they also used profitability ratio to evaluate the bank ability in generating their profit.

In addition, Return on Average Assets (ROAA) also one of the good indicator to measure the profitability and the higher the ROAA shows a bank has high financial performance. Moreover, the study by Alrawashedh, Sabri, and Ismail (2014) also using liquidity ratio to measure the ability of a bank to meet their short-term obligation.

### 3.0 DESCRIPTIVE ANALYSIS

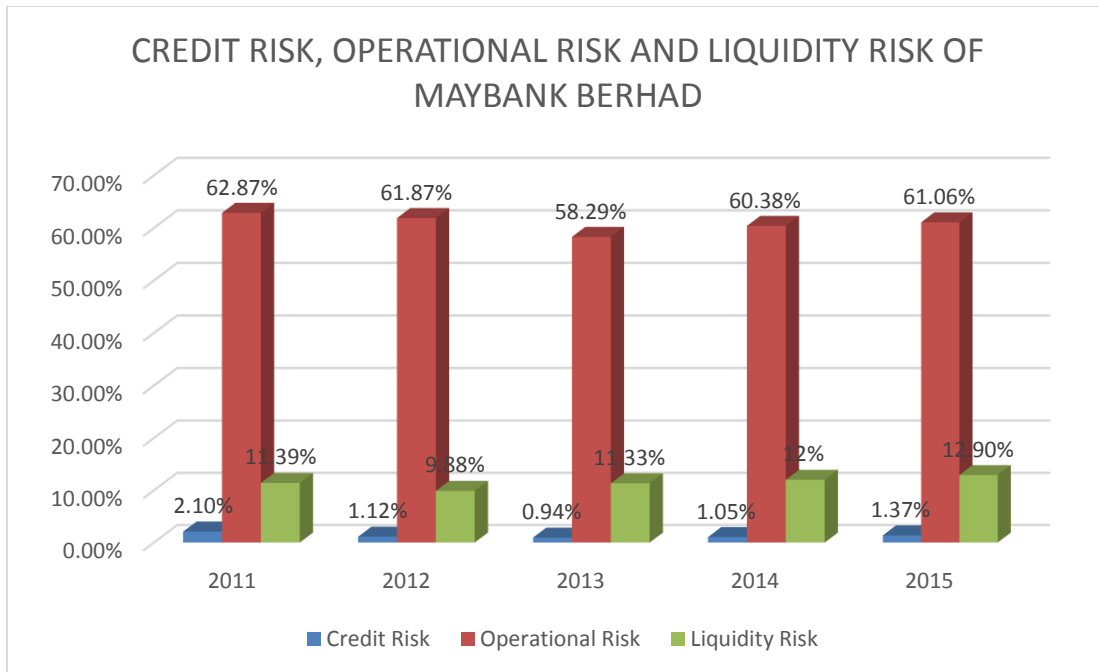


FIGURE 1

Bank can earn profit by giving loans to the borrower. However, banks exposed with credit risk when borrowers default to make repayment of the loan. One of the indicator to measure the credit risk is non-performing loans. The lower the Non-Performing Loans (NPLs) ratio is better for a bank because high NPLs may affected bank in terms of their financial performance. It can be said that NPLs will reduce profit and even the liquidity of banks. As referred to figure 1, it shows the highest credit risk was 2.10 percent in 2011 and the lowest was 0.94 percent in 2013. The credit risk of Maybank shows decreasing in value from 2011 to 2013 and keep on increasing to 2015. The value of credit risk shows a drastic declining with 0.98 percent difference from 2011 to 2012.

Operational risk also is one of the important indicator of bank's profitability. Operational risk is calculating by using the operating expense ratio. An efficiency in managing expenses will increase a bank's profitability. Bank with a lower operating ratio indicates that the bank has a good indicator of operational efficiency. The lower operational cost may help the bank to increase their

profit. The operational risk of Maybank is almost same over the 5 years. The highest was 62.87 percent in 2011 while the lowest was in 2013 with 58.29 percent.

Besides than operational risk, liquidity risks also one of the internal factors that can be used to measure the risk of a bank. Bank expose with liquidity risk when the bank may not be able to meet their short-term financing. The lower the liquidity risk indicates that the bank good in managing their assets. The highest liquidity ratio was in 2015 with 12.90 percent and the lowest was in 2012 with 9.88 percent.

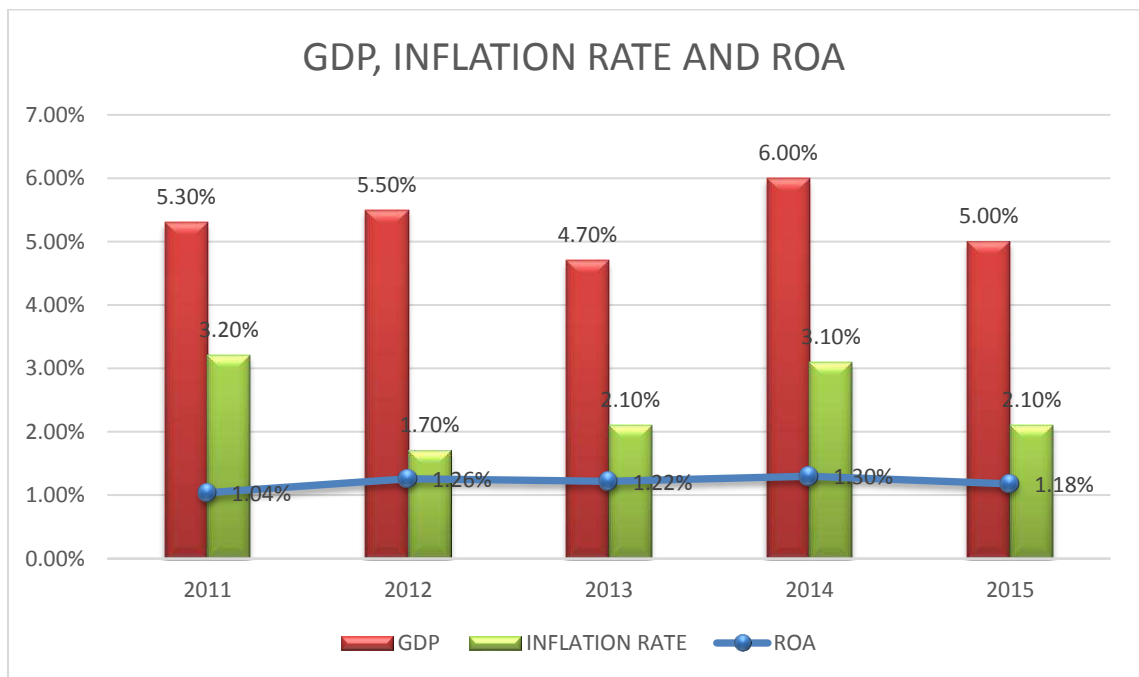


FIGURE 2

Net income over total assets is used to measured ROA. ROA is important to evaluate the bank performance. The bank has better managerial performance when the value of ROA is higher. The higher the ROA is better for a bank. As we can see from the graph above, the ROA of Maybank shows a decreasing and increasing trend over the years. The highest value of ROA was in 2014 and the lowest was in 2011. During 2012, it shows a drastic improvement where the ROA increase



from 1.04 percent in 2011 to 1.26 percent in 2012. However, it starts to decrease to 1.22 percent in 2013 but MBB manage to increase in 2014 to 1.30% and start to decrease again to 1.18 percent in 2015.

Gross domestic product (GDP) is the most commonly used macroeconomic variables. GDP is used to represent as a countries financial health indicator. GDP represent the value of all goods and services produces of a country. GDP can be used to see how the economic cycle is going through out of the year. GDP in Malaysia shows increase and decrease in value over the five years. As we referred to the graph above, the highest GDP was in 2014 with 6.0 percent and the lowest was in 2013 with 4.7 percent.

Inflation rate can be defined as the increase in prices of goods or services over the time. Increasing of inflation will influence the price of goods and services to increase. Increasing in price will decreasing the purchasing power. As referred to the inflation rate graph above, the highest inflation rate in Malaysia within the 5 years was in 2011 with 3.2 percent and the lowest was in 2012 with 1.7 percent. Inflation rate in 2013 and 2015 was share the same value which is 2.10 percent. In 2012, the inflation rate shows a drastic declining from 3.2 percent in 2011 to 1.7 percent in 2012. However, in 2014, the inflation rate shows increasing in value with 1 percent from the previous year.

## 4.0 DISCUSSION AND RECOMMENDATION

### 4.1 DISCUSSION

	Mean	Std. Deviation	N
ROA	.0120222041640	.00102258486022	5
INDEX SCORE	.840	.0548	5
AUDIT REMU	3103.400	330.0255	5
ROE	.118280	.0061479	5
CR	.013160	.0046586	5
LR	.114960	.0110178	5
OR	.608760	.0170151	5
LEVERAGE	8.68228931500	.270217178557	5
INFLATION	.02440	.006693	5
RATE	.05300	.004950	5
GDP	.05300	.004950	5

TABLE 1

Descriptive statistic (mean and standard deviation) are conducted to state the mean differences among the variables within the observed period. Table 1 above shows the descriptive statistic of Maybank Berhad which include all the variables as a measurement. The data summarizes the value of mean and standard deviation of each nine variables and Return on Assets (ROA) for five years taken from Maybank Berhad.

The minimum mean of all variables is between 1.2022 percent for ROA and the maximum mean is 3103.400 which represent the remuneration of audit committee. However, Table 1 also reported standard deviation values for all variables. It observed that the standard deviation falls between a minimum of 0.1023 percent which belongs to ROA and the maximum standard deviation of 330.0255 which belongs to remuneration of audit committee. From the table above, ROE is higher than ROA which 11.83 percent the value of mean and 0.61 percent of the standard deviation. ROA and ROE were the best variables in measuring the profitability and efficiency of the bank. The highest percentage reflects the good sign in bank performance.

The mean leverage is 8.6822 percent which indicates that the debt is 8.7 times more than its equity. The mean of the liquidity ratio is 11.5 percent. Credit risk of MBB in mean from the table 1 is 1.32 percent. This could be explained with the risk appetite of MBB is consider high. Lower level of credit risk shows a good sign for bank and it reflects the quality of assets for the bank. The study also included with two macroeconomic variables which are GDP and inflation rate. Gross Domestic Product mean 5.3 percent and inflation rate mean 2.44 percent.

		Correlations									
		INDEX	AUDIT					LEVE	INFLATION		
		ROA	SCORE	REMU	ROE	CR	LR	OR	RAGE	RATE	GDP
Pearson Correlat ion	ROA	1.000	-.495	.288	.741	-.936	-.111	-.549	-.455	-.372	.356
	INDEX SCORE	-.495	1.000	-.458	-.487	.576	-.713	.777	-.195	.014	.184
	AUDIT REMU	.288	-.458	1.000	.300	-.580	-.112	-.899	.190	-.353	-.612
	ROE	.741	-.487	.300	1.000	-.636	-.004	-.544	.216	.284	.537
	CR	-.936	.576	-.580	-.636	1.000	.118	.761	.412	.541	-.017
	LR	-.111	-.713	-.112	-.004	.118	1.000	-.181	.375	.344	-.140
	OR	-.549	.777	-.899	-.544	.761	-.181	1.000	-.165	.264	.400
	LEVERAGE	-.455	-.195	.190	.216	.412	.375	-.165	1.000	.814	-.069
	INFLATION RATE	-.372	.014	-.353	.284	.541	.344	.264	.814	1.000	.468
	GDP	.356	.184	-.612	.537	-.017	-.140	.400	-.069	.468	1.000

TABLE 2

From the correlation matrix above, the result above shown that the dependent variable ROA has a negative relation between nine independent variables. Which there are negative relationship between ROA (dependent variable) and index score, credit risk, liquidity risk, operational risk, leverage risk, and inflation risk (independent variables). It shows remuneration of audit committee, ROE and GDP have positive relationship with ROA. There is negative correlation between ROA and liquidity risk by -0.111 percent that means if the return on assets increased the liquidity risk

of MBB will decrease. This result supported by the Molyneux and Thorton (1992) which in their study it shows there is negative relationship between ROA and liquidity.

In addition, table 2 also shows there is negative correlation between ROA and credit risk by -0.936 percent that means if the return on assets increase the credit risk will decrease. This is supported by Miller and Noulas (1997) where they also found there is negative relationship between credit risk and bank profitability. Moreover, table above also shows there is a negative relationship between ROA and inflation rate by -0.372 percent where this resulted is supported by Molyneux and Thorton (1992). There is a positive relationship between the variables ROA and GDP by 0.356 percent.

#### 4.2 RECOMMENDATION

Since there is negative relationship between credit risk and ROA, Maybank Berhad should take into the high consideration regarding to the credit enquiring activities. In addition, take a precaution step when giving a loan to the borrower. Besides that, it is important to have a good corporate governance in an organization to make sure there is an effective system. A good corporate governance will ensure the shareholders right. Besides, it can increase the accountability and fairness in the global financial system. Moreover, Maybank Berhad also can implement non-financing activities to increase their profitability.

## 5.0 CONCLUSION

The objective of this study was to identify the impact of risk towards the performance of commercial bank industry in Malaysia. This study is focused with the Maybank Berhad. The internal variables are included ROE, credit risk, liquidity risk, operational risk and leverage with bank profitability. While for the external variables are included Gross Domestic Product (GDP) and inflation rate. The data of Maybank has taken which covering from 2011 to 2016.

As overall, from the output of SPSS, found that there is positive relationship between remuneration of audit committee, ROE, inflation rate and GDP with the ROA. Furthermore, it also found that index score, credit risk, liquidity risk, operational risk, leverage risk, and inflation rate has negative relationship with the ROA. Credit risk and ROA of Maybank Berhad has a negative relationship which indicates that Maybank Berhad must observe the bad loans because it can give effect to the profitability. Besides that, liquidity risk also was negatively related to ROA. This result indicates that Maybank need to sacrifice their liquidity to gain more profitability. Which this kind of action will turn in increasing the liquidity risk of Maybank Berhad.

In brief, this study has reached its objective in finding the impact of risk towards the performance of commercial bank in Malaysia (Maybank Berhad).

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