

**PERFORMANCE DETERMINANTS:
PANEL EVIDENCE FROM THE ISLAMIC BANKS IN
MALAYSIA**

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UNIVERSITI UTARA MALAYSIA

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BY

**NOR SHAHIDA BT SAAD @ MAT HASHIM
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ABSTRAK

Objektif kajian ini adalah untuk mengkaji prestasi dan mengenalpasti faktor-faktor penentu terhadap prestasi bank-bank Islam. Kajian terhadap prestasi memberi sedikit gambaran berkenaan bank-bank Islam *full-fledge* (IB) dan bank-bank komersial yang menawarkan khidmat jendela atau skim perbankan Islam (IBS). Kajian ini menggunakan data panel 14 tahun yang terdiri daripada 11 sampel IB dan IBS. Terdapat enam faktor-faktor penentu yang diuji dalam kajian ini. Ia terdiri daripada Pinjaman kepada Jumlah Aset (LTA), Pendapatan sebelum Faedah dan Cukai (EBIT), Kadar Pinjaman Asas (BLR), Pinjaman tidak Berbayar (NPL), Nisbah Kecukupan Modal (CAR) dan Jumlah Asset (TA). Secara keseluruhannya, kajian menunjukkan prestasi IB dan IBS berada dalam keadaan agak baik. Walaubagaimanapun, secara perbandingan, jurang prestasi adalah agak kecil antara sampel IBS dengan IB. Bagi kajian faktor-faktor penentu, terdapat empat pembolehubah yang signifikan dalam menentukan kadar prestasi bank iaitu BLR, EBIT, NPL dan CAR. BLR dan EBIT berhubungan secara positif manakala NPL dan CAR berhubungan secara negatif dengan prestasi bank. LTA dan TA didapati tidak signifikan. Dapatan kajian memberi sedikit gambaran dan pengetahuan terhadap kajian prestasi bank dan faktor-faktor yang mempengaruhi prestasi bank-bank Islam di Malaysia.

ABSTRACT

The objective of this study is to examine the performance and to identify the determinants of the performance of Islamic banks. The study on performance provides several insights on full-fledged Islamic banks (IB) and commercial banks offering Islamic window or Islamic banking scheme (IBS) that operate in the Malaysian Islamic banking industry. This study used a 14-year panel data that comprises of 11 samples of IB and IBS. There are six factors tested in this study. They are Loan to Total Asset (LTA), Base Lending Rate (BLR), Earning before Interest and Tax (EBIT), Non-Performing Loan (NPL), Capital Adequacy Ratio (CAR) and Total Asset (TA). The findings on the performance of IB and IBS show that both IB and IBS performed reasonably well. However, IBS performances were found to be comparably lower with smaller deviation range between samples compared to IB samples. With regard to determinants factors, findings indicated that four variables significantly determined Islamic banks' performance. The variables are BLR, EBIT, NPL and CAR. BLR and EBIT positively determined performance whereas NPL and CAR negatively determined performance. The other two variables LTA and TA are found to be not significant. The results at least provide some knowledge on the performance and factors affecting the performance of Islamic banks in Malaysia.

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LIST OF ABBREVIATIONS

BLR	Base Lending Rate
BNM	Bank Negara Malaysia
CAR	Capital Adequacy Ratio
DEA	Data envelopment analysis
EBIT	Earnings before Interest and Tax
GLS	Generalised least square
IB	Full-fledge Islamic banks
IBS	Islamic Banking Scheme
IIAB	International Arab bank
JIBFI	Jordon Islamic Bank of Finance and Investment
LSDV	Least-square-dummy-variables
LTA	Loan to Total Asset
NPL	Non-Performing Loans
OLS	Ordinary least square
RI	Real Interest Rate
ROA	Return on Asset
ROE	Return on Equity
SF	Shareholder Funds
TA	Total Asset
TL	Total Loan
VIF	Variance Inflation Factor

CHAPTER ONE

INTRODUCTION

1.1 Introduction

The Islamic banking industry in Malaysia has undergone rapid development since the 1980s. The industry has evolved tremendously during which the total assets growth has been at an average rate of 18 percent per annum since year 2000. There were two full-fledged Islamic banks (IB), and 17 commercial banks offering Islamic window or Islamic banking scheme (IBS) during that year. By 2007, the number of IB swelled to 11 and there were 8 IBS.

The full-fledged Islamic banks (IB) include Islamic banking subsidiaries which are upgraded from the existing local and foreign IB and IBS. The IBS high point started in 1993 and its encouraging growth began when in 2005, the Bank Negara Malaysia (BNM) introduced the concept of Islamic banking subsidiary. Such initiative marked a new milestone in the achievement of Islamic banking, receiving significantly positive response among conventional banks.

Nowadays, the Islamic windows concept has become more established. Among the first IBS that were upgraded to become Islamic bank subsidiaries are RHB Islamic Bank, Hong Leong Islamic Bank Berhad and CIMB Islamic

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