

PERFORMANCE OF ISLAMIC BANKING PRODUCT

By

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**Thesis Submitted to the College of Business,
Universiti Utara Malaysia, in Fulfillment of the
Requirement for the Degree of Master of Science**

May 2008

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ABSTRAK

Penulisan ini mengkaji prestasi produk pembiayaan perbankan Islam dan sumbangannya kepada keuntungan bank-bank Islam. Pengurusan risiko kredit dianalisa untuk mengenal pasti perbezaan prestasi antara bank-bank Islam dan bank konvensional. Pemerhatian statistik dan regresi linear digunakan untuk menyukat prestasi utama kewangan bank dan kontrak-kontrak pembiayaan. Data-data dalaman ini juga akan meramalkan perhubungan antara factor-faktor kewangan dan pembiayaan dengan keuntungan bank-bank Islam. Empat nisbah kewangan digunakan untuk mengukur prestasi efisiensi risiko kredit dengan menggunakan "t-test" ke atas nisbah-nisbah kewangan bank-bank Islam dan konvensional. Kesimpulannya ialah kontrak *bai' bithaman ajil* (BBA) dan *alijarah thumma albai'* (AITAB) adalah antara kontrak-kontrak pembiayaan yang paling banyak digunakan untuk produk-produk kewangan. Oleh itu, pembiayaan perumahan dan pembiayaan sewa-beli adalah antara produk-produk kewangan yang paling banyak dilanggni oleh pelanggan-pelanggan bank. Kontrak BBA adalah penyumbang utama kepada aset kewangan sekim perbankan Islam Maybank (IBS), manakala kontrak AITAB adalah penyumbang utama kepada aset kewangan sekim perbankan Islam AMMB (IBS) dan sekim perbankan Islam Public Bank (IBS). Ini juga mencadangkan bahawa Maybank IBS lebih fokus kepada pembiayaan perumahan, manakala AMMB IBS dan PBB IBS lebih fokus kepada pembiayaan sewa-beli. Secara kesuluruhannya, bank-bank Islam mempunyai tahap ekuiti yang rendah dan tahap pembiayaan tidak progresif yang lebih baik berbanding bank konvensional. Ekuiti dan BLR telah dikenal pasti sebagai penyumbang kepada keuntungan bank-bank Islam. Walau bagaimanapun, jumlah pembiayaan dan kontrak-kontrak pembiayaan tidak mempunyai perbezaan dari segi statistik untuk menyukat sumbangannya kepada keuntungan bank-bank Islam. Oleh itu, kajian ini juga tidak dapat mengenal pasti jenis produk kewangan yang menyumbang kepada keuntungan bank.

ABSTRACT

This thesis examines the performance of Islamic banking financing product and its contribution to the Islamic bank's profits. Credit risk management is also analyzed to determine the comparative performance of Islamic banking and its conventional banks. Statistical observations and linear regression are used to measure the performance of key financial variables and financing contracts. These internal variables would predict its relationship with bank's profitability. Four financial ratios are used to measure the credit risk efficiency by applying t-test to financial ratios for Islamic and conventional banks. This thesis concludes that *bai' bithaman ajil* (BBA) and *alijarah thumma albai'* (AITAB) are the most financing contracts apply to the financial products. Thus, this would suggest that house financings and hire-purchase financings are the most financial products consumed by the banks consumers. BBA contract contributes most to the Maybank IBS's financial assets, while AITAB contributes most to the AMMB IBS's and Public Bank IBS's financial assets. This would also suggest that Maybank IBS focuses on house financings, while AMMB IBS and PBB IBS focuses on hire-purchase financings. Overall Islamic banks maintain lower equity and better non-performing financings compare to mainstream banks. Equity and Base Lending Rate (BLR) are the determinants to the Islamic banks profitability. However, financing volume and financing contracts are not significantly difference to predict profitability. Thus, this study could not determine the financing products that contribute to the banks' earnings.

ACKNOWLEDGEMENT

Bismillahirrahmaanirrahim

A highly note of thanks and appreciation to Dr. Asmadi Mohamed Naim, senior lecturer of College of Business, for his guidance and encouragement, and the opportunity given to me in realizing the topic discussion as part of my MSc Finance dissertation.

Special thanks to Dr Kamarun Nisham Taufil Mohd, senior lecturer of College of Business, for his assistance and guidance to complete my regression and findings.

I greatly appreciate my parents who raised me and gave me the opportunity to have a good education. Not to forget to my wife and my children who have patience and give me a full support in my studies. They are my inspiration to complete my Master program.

Thank you.

Jazaakumullahu khairan kathira

TABLE OF CONTENT

	Page
CERTIFICATION OF THESIS WORK	i
PERMISSION TO USE	ii
ABSTRAK	iii
ABSTRACT	iv
ACKNOWLEDGEMENT	v
TABLE OF CONTENTS	vi
LIST OF TABLES	viii
LIST OF ABBREVIATIONS	ix

CHAPTER 1

1.0	Introduction	1
1.1	Problem Statement	3
1.2	Research Objectives	4
1.3	Definition	4

CHAPTER 2

2.0	Literature Review	8
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CHAPTER 3

3.0	Methodology	12
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3.1	Sample	12
3.2	Limitation	12
3.3	Analysis Framework	13
 CHAPTER 4		
4.0	Development of Islamic Banking in Malaysia	19
4.1	The Success of Islamic Banking in Malaysia	23
 CHAPTER 5		
5.0	Empirical Results	26
5.1	Key Financial Performance	26
5.2	Credit Risk Ratios	31
5.3	Linear Regression	33
 CHAPTER 6		
6.0	Conclusion	39
6.1	Recommendation	41
REFERENCES		42
APPENDIXES		44

LIST OF TABLES

	Page
Table 3.1: Variables Definitions	17
Table 5.1: Key Financial Performance, Maybank IBS	27
Table 5.2: Performance of Financing Contracts, Maybank IBS	28
Table 5.3: Key Financial Performance, AMMB IBS	28
Table 5.4: Performance of Financing Contracts, AMMB IBS	29
Table 5.5: Key Financial Performance, Public Bank IBS	30
Table 5.6: Performance of Financing Contracts, Public Bank IBS	31
Table 5.7: Credit Risk Ratios of Islamic Banking (IB) and Conventional Banks	32
Table 5.8: Regression on Islamic Banking and Mainstream Banks	33
Table 5.9: Regression on Islamic Banking Only	35
Table 5.10: Regression on Islamic Banking and Financing Contracts	37

LIST OF ABBREVIATIONS

AITAB	<i>Alijarah thumma albai'</i>
AITABTA	<i>Alijarah thumma albai'</i> to total assets
AMMB	Formerly known as Arab Malaysian Merchant Bank
ATM	Automated teller machine
BBA	<i>Bai' bithaman ajil</i>
BBATA	<i>Bai' bithaman ajil</i> to total assets
BLR	Base Lending Rate
BNM	Bank Negara Malaysia
CSTFTA	Consumer short-term funds to total assets
EQTA	Equity to total assets
GII	Government Investment Issue
IB	Islamic banking
IBS	Islamic banking scheme
LOANTA	Gross financing to total assets
OTHRTA	Other financing to total assets
PBB	Public Bank Berhad
ROA	Return on assets

CHAPTER 1

1.0 Introduction

Islamic banks in Malaysia offer various financial products and services to the consumers. Different financial products apply different types of Islamic contracts. Islamic banks have five product categories which are deposit, investment, financing, trade finance and card services. (http://www.mifc.com/060104_ibprodserv.htm)

The deposit products such as the current and savings account apply concept of *wadi'ah yad dhamanah*, *mudharabah* and *qard*. Other deposit product is commodity *murabahah* account which uses *murabahah* or *tawarruq* contract. The investment account applies *mudharabah* or *qirad* contract. (Mohamed Ariff, 1988)

The financing products are divided into fund-based and fee-based product line. The fund based product line consist of various types of financing such as asset financing, bridging financing, property financing, personal financing, term financing and others. Most common concepts are *murabahah*, *mudharabah*, *musyarakah*, *ijarah*, *istisna'*, *bai' dayn*, *bai' bithaman ajil*, *bai' inah*, *rahnu* and *hiwalah*. The fee-based product line applies to trade financing services. The most common contracts are *murabahah*, *bai' dayn*, *kafalah*, *wakalah*, *ijarah* and *bai' bithaman ajil*. (Mohammed Obaidullah, 2005)

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Regression analysis shows equity and BLR are the determinants of Islamic banking profits. Higher equity would create cheaper access to funding financings compare to consumer short term funds. Savings and current accounts can be liquidated at any time by customers, thus they are not suitable to funding long term financings. Higher BLR would produce higher profits to Islamic banking. This indicates most financing contracts charge higher profit rates than BLR. Regression shows BBA contract has very low coefficient to profits, while AITAB and other financing contracts have negative correlations to profits. However, all financing contracts are insignificant and therefore this study could not determine the contribution of financial products to the banks' earnings.

6.1 Recommendations

Islamic banking industry reveals financing contracts of BBA and AITAB are preferable contracts applied by the Islamic banks. Previous studies confirm that sales of deposit and lending products as one of critical factors to success. However, this research could not prove Islamic banking financings and its contracts as one of the contributor to the Islamic banking earnings. Thus, future research is recommended to add more Islamic banks as the study's sample, and more financial variables to regress in linear regression.

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