PERFORMANCE OF SELECTED ISLAMIC BANKS IN MALAYSIA: A COMPARATIVE STUDY

By

NIK NOR AMALINA BINTI NIK MOHD SUKRI

Research Paper Submitted to
Othman Yeop Abdullah Graduated School of Business
Universiti Utara Malaysia
In Partial Fulfillment of the Requirement for the
Master in Islamic Finance and Banking
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ABSTRACT

The objective of this paper is to examine the performance of selected Islamic banks in Malaysia which are Bank Islam Malaysia Berhad (BIMB), RHB Islamic Bank Berhad (RHB Islamic) and Bank Muamalat Malaysia Berhad (BMMB) in the period between year 2005 until 2012. A comparative study is undertaken based performance indicators such as return on assets (ROA), return on equity (ROE), profit generated by each year and Islamic modes of finance such as mudarabah, musharakah, murabahah, ijarah and istisna. The methodology that use in this study are descriptive analysis, one way ANOVA and Kruskal Wallis for parametric test as well as T-Tests and Wilcoxon for non-parametric test using data from annual reports of the banks. All the analysis are used in determining their significance. The study found that there are no differences in performance and profit of Bank Islam, RHB Islamic and Bank Muamalat. However, the study finds that there are significant differences in Islamic modes of finance except for Istisna contract.

Keywords: Islamic Banking, Return on Assets, Return on Equity, Profit, Islamic Mode of finance.
ABSTRAK


ACKNOWLEDGEMENT

Firstly and foremost, thank you Allah for granted me determination so I can complete my thesis within the timeframe given. I owe a great debt of gratitude to Dr. Mohammad Azmi bin Othman, my supervisor. This thesis would not have been possible without the guidance, assistance and consideration he has given to me. Special thanks to PM Dr. Abu Bakar Bin Hamed for the moral support and his help when we are doing analysis for this thesis.

I would like to dedicate my thankful thought to my loving and supportive family especially my parents, Mr. Nik Mohd Sukrri Bin Abdullah and Mdm. Rokiah @ Habsah bt Awanglah for always be there for me, my brother and sisters for sharing the laughs and the tears, and the rest of the family for providing me an unbreakable strength to go through my long journey as a student.

No journey can be finished without the friends and colleagues for their help, encouragement and suggestion. Special thanks goes to all my friends for their assistance and helps they have given me. Thank You.
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<tr>
<td>AITAB</td>
<td>Al Ijarah Thumma Al Bay’</td>
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<tr>
<td>ATM</td>
<td>Automated Teller Machine</td>
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<td>BIMB</td>
<td>Bank Islam Malaysia Berhad</td>
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<td>BMMB</td>
<td>Bank Muamalat Malaysia Berhad</td>
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<tr>
<td>BNM</td>
<td>Bank Negara Malaysia</td>
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<tr>
<td>IBS</td>
<td>Islamic Banking System</td>
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<td>IBs</td>
<td>Islamic Banks</td>
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<td>IFI</td>
<td>Islamic Financial Institutions</td>
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<td>IFSF</td>
<td>Islamic Financial Stability Forum</td>
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<td>IFSPs</td>
<td>Islamic Financial Service Providers</td>
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<td>KIBOR</td>
<td>Karachi Interbank offered Rate</td>
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<td>KLSE</td>
<td>Kuala Lumpur Stock Exchange</td>
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<tr>
<td>Lebanese SME</td>
<td>Lebanese Small Medium Enterprise</td>
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<tr>
<td>LIBOR</td>
<td>London Interbank offered Rate</td>
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<tr>
<td>LOFSA</td>
<td>Labuan Offshore Financial Services Authority</td>
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<tr>
<td>MIFC</td>
<td>Malaysian Internation Islamic Financial Centre</td>
</tr>
<tr>
<td>OIC</td>
<td>Organization of Islamic Conference</td>
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<tr>
<td>PER</td>
<td>Profit Expenses Ratio</td>
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<td>PLS</td>
<td>Profit Loss Sharing</td>
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<td>ROA</td>
<td>Return on Assets</td>
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<td>ROAA</td>
<td>Return on Average Assets</td>
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<td>ROAE</td>
<td>Return on Average Equity</td>
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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

During the last decades, the financial systems have played undisputed role in the development of the world economic growth (Chapra, 2008). Both of the bank sectors either Islamic or conventional system were the central factor of these economic development. According to Chapra (2008), the ongoing financial crisis is not first of its kind. Based on some estimation, there were around 100 crises over the last four decades. Those crises gave a big impact to all geographical areas and countries. In early 2007, financial institutions all over the world were shaken up by the global crisis and it was getting worse with the collapse of Wall Street Investment Banking giant, Lehman Brothers in September of 2008. This followed with a recession to reach through 2009 before recovery began (Memon, 2013). This global crisis was described as the worse financial crisis and witnessed by financial sectors and countries experienced a severe recession.

While many western banks defaulted during that period, no major Islamic bank default was reported during the crisis (Addawe, 2012). Islamic banking system engaged in the same banking activities with conventional banking system. The main difference between both systems is an element of riba. In Islamic system, an element
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