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**BANK-SPECIFIC AND MACROECONOMIC DETERMINANTS OF BANK
PERFORMANCE: A COMPARATIVE ANALYSIS BETWEEN ISLAMIC
AND CONVENTIONAL BANKS IN MALAYSIA**

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Thesis submitted to

Othman Yeop Abdullah Graduate School of Business,

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**Pusat Pengajian Ekonomi,
Kewangan dan Perbankan**

SCHOOL OF POSTGRADUATE FINANCE AND BANKING

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ABSTRACT

The aim of this study is to examine the determinants of conventional and Islamic bank performance in Malaysia. A panel data sample of 23 conventional banks and 16 Islamic banks for the period 2008 to 2015 was used. The independent variables were categorised into bank-specific factors and macroeconomic factors. The bank-specific factors were capital adequacy, operating efficiency, asset quality, bank-size, and liquidity whereby GDP and inflation used as macroeconomic variables. The Generalized Least Square (GLS) was used for testing the hypotheses of the study. The regression results show that asset quality, operational efficiency, liquidity, bank size, GDP and inflation are significant determinants of conventional bank performance, while, capital adequacy, asset quality, operational efficiency, bank size, and GDP are significant with Islamic bank performance. It is worth to mention that asset quality is the only factor that bring the same effect to the performance of conventional and Islamic banks, which is found to be positive and statistically significant using either ROA or ROE. This study concludes that there are differences in the direction of the effects of the selected variables on the conventional and Islamic bank performance. Also, the study concludes that factors that affect conventional bank performance are not necessarily to affect Islamic bank performance.

Key words: bank-specific factors, macroeconomic factors, Malaysia, ROA, ROE.

ABSTRAK

Tujuan kajian ini adalah untuk mengkaji penentu prestasi bank konvensional dan bank Islam di Malaysia. Sampel yang terdiri daripada 23 bank konvensional dan 16 bank Islam dalam bentuk panel data bagi tempoh 2008-2015 telah digunakan. Pembolehubah penerangan kajian ini dikategorikan kepada faktor khusus bank dan faktor-faktor makroekonomi. Faktor khusus bank yang digunakan termasuk kecukupan modal, kecekapan operasi, kualiti aset, saiz bank, dan kecairan manakala KDNK dan inflasi digunakan sebagai pembolehubah makroekonomi. 'General Least Square' (GLS) telah digunakan untuk menguji hipotesis kajian. Keputusan regresi menunjukkan bahawa kualiti aset, kecekapan operasi, kecairan, saiz bank, KDNK dan inflasi adalah signifikan penentu prestasi bank konvensional. Manakala, kecukupan modal, kualiti aset, kecekapan operasi, saiz bank, dan KDNK adalah signifikan dengan bank Islam. Kualiti aset adalah satu-satunya faktor yang membawa kesan yang sama terhadap prestasi bank konvensional dan bank Islam, iaitu positif dan signifikan secara statistik menggunakan sama ada ROA atau ROE. Kajian ini menyimpulkan bahawa terdapat perbezaan ke arah kesan pembolehubah yang dipilih pada prestasi bank konvensional dan Islam. Juga kajian membuat kesimpulan bahawa faktor-faktor yang mempengaruhi prestasi bank konvensional tidak semestinya memberi kesan juga kepada prestasi bank Islam.

Kata kunci: Faktor bank khusus, faktor-faktor makroekonomi, Malaysia, ROA, ROE.

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LIST OF ACRONYM AND ABBREVIATION

BNM	Bank Negara Malaysia
CDS	Credit Default Swap
EVA	Economic Value Added
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GLS	Generalised Least Square
IMF	International Monetary Fund
MENA	The Middle East and North Africa
NIM	Net Interest Margin
OLS	Ordinary Least Square
P/B	Price to Book Value
P/E	Price Earnings Ratio
ROA	Return on Asset
ROE	Return on Equity
RAROC	Risk-Adjusted Return on Capital.

CHAPTER ONE

RESEARCH OVERVIEW

1.0 Introduction

This chapter explains the overview of the study, including roles of the banks in the economy and the importance of evaluating bank performance to the customer, investor, regulators, etc. Next, the chapter explains the Malaysian banking institution, problem statement, study objectives and questions. Furthermore, significance and scope of the study are explained in this chapter. Lastly, this chapter explains the organization and summary of chapter.

1.1 Background of the Study

Banks play significant roles in the improvement of the economy and become key financial intermediaries in most economies (Alper & Anbar, 2011). The main roles of banks are accepting deposits, lend out money, receiving money on deposit, credit provision, liquidity provision and managing risk (Abel, 2013). Not only that, but also banks provide a tool for payment, match the supply and demand in financial markets, and deals with the complex financial instruments and markets, as well as provided markets transparency (Alper & Anbar, 2011). Banks absorb a major risk due to the storage, monitoring and also protect people saving. Without banks, it will be hard for people, corporation, government, and also companies to be able to borrow money or capital or equipment for the construction of a house, start-up a business, and also to make an investment.

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APPENDIX I.

LIST OF SELECTED ISLAMIC BANKS

No .	Name	Ownership
1	Affin Islamic Bank Berhad	L
2	Al Rajhi Banking & Investment Corporation (Malaysia) Berhad	F
3	Alliance Islamic Bank Berhad	L
4	AmBank Islamic Berhad	L
5	Asian Finance Bank Berhad	F
6	Bank Islam Malaysia Berhad	L
7	Bank Muamalat Malaysia Berhad	L
8	CIMB Islamic Bank Berhad	L
9	HSBC Amanah Malaysia Berhad	F
10	Hong Leong Islamic Bank Berhad	L
11	Kuwait Finance House (Malaysia) Berhad	F
12	Maybank Islamic Berhad	L
13	OCBC Al-Amin Bank Berhad	F
14	Public Islamic Bank Berhad	L
15	RHB Islamic Bank Berhad	L
16	Standard Chartered Saadiq Berhad	F

APPENDIX II.

LIST OF SELECTED COMMERCIAL BANKS

No.	Name	Ownership
1	Affin Bank Berhad	L
2	Alliance Bank Malaysia Berhad	L
3	AmBank (M) Berhad	L
4	BNP Paribas Malaysia Berhad	F
5	Bangkok Bank Berhad	F
6	Bank of America Malaysia Berhad	F
7	Bank of China (Malaysia) Berhad	F
8	Bank of Tokyo-Mitsubishi UFJ (Malaysia) Berhad	F
9	CIMB Bank Berhad	L
10	Citibank Berhad	F
11	Deutsche Bank (Malaysia) Berhad	F
12	HSBC Bank Malaysia Berhad	F
13	Hong Leong Bank Berhad	L
14	India International Bank (Malaysia) Berhad	F
15	Industrial and Commercial Bank of China (Malaysia) Berhad	F
16	J.P. Morgan Chase Bank Berhad	F
17	Malayan Banking Berhad	L
18	OCBC Bank (Malaysia) Berhad	F
19	Public Bank Berhad	L
20	RHB Bank Berhad	L
21	Standard Chartered Bank Malaysia Berhad	F
22	The Bank of Nova Scotia Berhad	F
23	United Overseas Bank (Malaysia) Bhd.	F