STUDY ON MALAYSIAN ISLAMIC BANKS PERFORMANCE

FATIMAH BINTI MOHD YUNOS

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FATIMAH BINTI MOHD YUNOS

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Universiti Utara Malaysia
06010 UUM Sintok
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ABSTRAK

Prestasi sistem kewangan mempunyai pengaruh besar terhadap pertumbuhan perbankan Islam kerana ia akan membawa kepercayaan dan keyakinan orang ramai terhadap keseluruhan sistem dan pada masa yang sama menyumbang kepada ekonomi yang sihat dan berfungsi dengan baik dalam sesebuah negara. Justeru, institusi kewangan termasuk bank perlu mengekalkan kekukuhan dan kestabilan kewangan mereka kerana mereka memainkan peranan penting dalam ekonomi. Oleh itu, kajian ini dijalankan untuk mengkaji pengaruh pembolehubah penunjuk kualiti aset dan faktor makroekonomi seperti Nisbah Pinjaman Kepada Deposit (LTDR), Jumlah Pinjaman kepada Jumlah Aset (TLTA), Pinjaman Tidak Berbayar (NPL), Keluaran Dalam Negara Kasar (KDNK), Inflasi (INF) dan Bekalan Wang (M3) ke atas Prestasi Kewangan Bank Islam di Malaysia. Dengan menggunakan perisian E-Views 12 dan SPSS 21, data yang diperolehi dari tahun 2012 hingga 2021 kemudiannya dinilai dan ditafsir. Analisis Regresi Berganda telah dijalankan bagi mengkaji faktor-faktor yang mempengaruhi Prestasi Kewangan Bank Islam di Malaysia. Dapatan daripada kajian ini mendedahkan hanya dua pembolehubah didapati tidak signifikan dengan Prestasi Kewangan Bank Islam di Malaysia iaitu LDTR dan TLTA. Manakala terdapat empat pembolehubah didapati signifikan dengan Prestasi Kewangan Bank Islam Malaysia iaitu NPL, KDNK, INF dan M3. Hasil kajian ini diharapkan dapat digunakan sebagai rujukan dalam kajian lanjutan kerana ia membantu penyelidik lain untuk lebih memahami penentu prestasi bank Islam. Tambahan pula, pengurus bank boleh menggunakan kajian ini sebagai garis panduan dalam mengurus dan merancang perniagaan mereka untuk mencapai keuntungan yang lebih tinggi. Kajian ini juga memberi pengetahuan mengenai sektor perbankan Islam dan gambaran yang lebih jelas mengenai Prestasi Kewangan Bank Islam di Malaysia kepada pembaca.

Kata kunci: Bank Islam, Prestasi Kewangan, Bekalan Wang, Kualiti Aset, Jumlah Pinjaman kepada Jumlah Aset, Nisbah Pinjaman kepada Deposit, Analisis Regresi Berganda

ABSTRACT

The performance of the financial system has big influences on the growth of Islamic banking as it will bring public trust and confidence in the whole system and at the same time contribute for a healthy and well-functioning economy of a country. Hence, financial institutions including banks need to maintain their financial soundness and stability as they play an important role in the economy. Thus, this study was conducted to examine the influence of asset quality indicators variables and macroeconomic factors such as Loan to Deposit Ratio (LTDR), Total Loan to Total Asset (TLTA), Non-Performing Loan (NPL), Gross Domestic Product (GDP), Inflation (INF) and Money Supply (M3) on the Financial Performance of Malaysian Islamic banks. By using E-Views 12 software and SPSS 21, the data obtained from the year 2012 until 2021 then is evaluated and interpreted. The Multiple Regression Analysis was conducted in order to examine the factors that influencing the financial performance of Malaysian Islamic banks. The findings from this study revealed that two variables were found to be insignificant with the financial performance of Malaysian Islamic banks which are LDTR and TLTA. While four variables were found to be significant with the financial performance of Malaysian Islamic banks which are NPL, GDP, INF and M3. The result of this study is expected to be used as reference in further researches as it helps other researchers to better understand the Islamic bank performance determinants. Furthermore, bank managers could use this study as a guideline in managing and planning their business to achieve higher profit. This study also provides knowledge regarding the Islamic banking sector and clearer picture on Malaysian financial performance of Islamic banks to the readers.

Keyword: Islamic Banks, Financial Performance, Money Supply, Asset Quality, Total Loan to Total Asset, Loan to Deposit Ratio, Multiple Regression Analysis

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AIBIM	Association of Islamic Banking Institution Malaysia
BIMB	Bank Islam Malaysia Berhad
BMMB	Bank Muamalat Malaysia Berhad
BNM	Bank Negara Malaysia
CIMB	Commerce International Merchant Bankers
CPI	Consumer Price Index
FEM	Fixed Effect Model
FP	Financial Performance
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
IFSB	Islamic Financial Services Board
LTDR	Loan-to-Deposit-Ratio
TLTA	Total Loan to Total Asset
NPL	Non-Performing Loans
INF	Inflation
M3	Money Supply
GDP	Gross Domestic Product
MENA	Middle East and North America

NEAC	The National Economic Action Council Ministry of Finance
OLS	Ordinary Least Square
PLS	Profit-Loss Sharing
ROA	Return on Asset
REM	Random Effect Model
ROA	Return on Asset
FSR	Financial Stability Review
DFIs	Development Financial Institutions
SEA	South East Asia
VIF	Variance Inflation Factor

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This study examines how asset quality metrics and external factors affect Malaysian Islamic banks' financial performance. The issue statement and research background are covered in this section. Reviewing the study's research question, objective, importance, and limits. The inaugural subsection will furnish the necessary contextual information, while subsection 1.2 will address the issue. Subsections 1.3 and 1.4 will explain the research topic and objectives.

1.1 Background of Study

The efficacy of the financial system affects Islamic financial performance. According to Samail, Zaidi, Mohamed, and Kamaruzaman (2018), a nation's financial performance affects its economy. Financial performance is the act of engaging in economic activity. Abu Bakar and Aduda (2017) define financial performance as meeting financial objectives. It is how a company's operations and policies are valued. It is used in the process of determining how a company has fared financially over some time. It may compare comparable businesses across industries or sectors.

In July 1983, Bank Islam Malaysia Berhad (BIMB) was founded, launching Malaysia's Islamic financial sector. BIMB conducts banking operations similarly to other commercial institutions with Islamic laws as guidance. Bank Muamalat Malaysia

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APPENDIX I

AVERAGE OF FINANCIAL PERFORMANCE (ROA OF MALAYSIAN ISLAMIC BANKS)

NO.	BANKS	2012 (%)	2013 (%)	2014 (%)	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)	2020 (%)	2021 (%)	AVERAGE
1	AFFIN ISLAMIC	0.67	0.53	0.58	0.66	0.78	0.51	0.49	0.26	0.23	0.71	0.542
2	AL RAJHI	0.22	0.04	0.07	0.16	0.09	0.12	0.14	0.42	-0.95	0.15	0.046
3	ALLIANCE ISLAMIC	0.82	0.76	0.72	0.55	0.78	0.82	0.99	0.57	0.05	0.87	0.644
4	AM ISLAMIC	0.89	0.72	0.67	0.6	0.71	0.63	0.78	0.79	0.25	0.36	0.64
5	BIMB	1.23	1.19	1.18	1.07	1.05	1.03	1	0.97	0.82	0.71	1.018
6	BMMB	0.87	0.76	0.42	0.6	0.66	0.79	0.77	0.57	0.71	0.61	0.676
7	CIMB ISLAMIC	0.86	0.71	0.79	0.74	0.9	0.86	0.9	0.76	0.45	0.72	0.769

8	HSBC AMANAH	8.56	8.08	8.05	7.51	9.33	9.09	8.96	9.28	11	10.34	9.017
9	HONG LEONG ISLAMIC	1.08	1.07	0.88	0.82	0.84	0.96	1.01	0.94	0.92	0.62	0.914
10	KFH	0.67	1.09	0.94	-0.36	-0.27	0.05	0.22	-0.84	-0.15	0.92	0.227
11	MBSB	-0.27	0.28	0.51	0.02	0.14	-0.15	1.15	0.97	0.5	0.88	0.403
12	MAYBANK ISLAMIC	1.09	0.99	0.86	0.8	0.79	0.92	0.94	1.07	0.6	1.16	0.922
13	OCBC ALAMIN	0.69	1.25	0.58	0.93	1	1.23	0.83	0.99	0.43	0.52	0.845
14	PUBLIC ISLAMIC	1.4	1.12	0.98	0.81	0.83	0.76	0.79	0.75	0.5	0.76	0.87
15	RHB ISLAMIC	0.64	0.61	0.72	0.64	0.69	0.69	0.73	0.83	0.43	0.85	0.683
16	STAND CHART SAADIQ	0.73	0.63	0.11	0.13	0.32	0.27	0.54	0.61	0.12	-0.38	0.308

APPENDIX II

DIAGNOSTIC TEST FOR ISLAMIC BANKS IN MALAYSIA

White test for Heteroscedasticity

Heteroskedasticity Test: White
Null hypothesis: Homoskedasticity

F-statistic	1.473535	Prob. F(25,134)	0.0840
Obs*R-squared	34.50126	Prob. Chi-Square(25)	0.0976
Scaled explained SS	192.7315	Prob. Chi-Square(25)	0.0000

Auto-Correlation test

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	241.2227	Prob. F(2,151)	0.0000
Obs*R-squared	121.8594	Prob. Chi-Square(2)	0.0000

Panel Data Test

Redundant Fixed Effects Tests Equation:
Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	297.042032	(15,138)	0.0000
Cross-section Chi-square	560.827561	15	0.0000

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effect

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.000000	6	1.0000

Multiple Regression Analysis for Islamic banks in Malaysia

Dependent Variable: FP
Method: Panel EGLS (Cross-section weights)
Date: 05/13/23 Time: 09:31
Sample: 1 160
Periods included: 10
Cross-sections included: 16
Total panel (balanced) observations: 160
Linear estimation after one-step weighting matrix

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.093673	0.601569	0.155714	0.8765
LTDR	-0.001440	0.001033	-1.394448	0.1654
TLTA	0.516913	0.573908	0.900688	0.3693
NPL	-0.048104	0.021152	-2.274185	0.0245
GDP	0.030790	0.007102	4.335562	0.0000
INF	-0.035483	0.015308	-2.317977	0.0219
MS	9.987397	4.135457	2.415065	0.0170

Effects Specification

Cross-section fixed (dummy variables)

Weighted Statistics

R-squared	0.885046	Mean dependent var	1.516391
Adjusted R-squared	0.867553	S.D. dependent var	1.046884
S.E. of regression	0.336163	Sum squared resid	15.59478
F-statistic	50.59423	Durbin-Watson stat	1.636934
Prob(F-statistic)	0.000000		

Unweighted Statistics

R-squared	0.966595	Mean dependent var	1.161437
Sum squared resid	23.11234	Durbin-Watson stat	1.032334