

**THE DETERMINANTS OF ISLAMIC BANK NET
PROFIT MARGIN: EVIDENCE FROM
MALAYSIA**

MAISYARAH BINTI STAPAH @ SALLEH

**DOCTOR OF PHILOSOPHY
UNIVERSITI MALAYSIA TERENGGANU**

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MARGIN: EVIDENCE FROM MALAYSIA**

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**Thesis submitted in Fulfilment of the Requirements for the Degree of Doctor of
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DEDICATION

Dedicated this thesis to:

HIS ALMIGHTY

My beloved late father, Staph @ Salleh bin Abu

My beloved mother, Rahmah binti Khamis and to

My own self for being an optimist and persistent despite challenges and hurdles in
this Ph.D. journey.

Abstract of thesis presented to the Senate of Universiti Malaysia Terengganu in fulfilment of the requirements for the degree of Doctor of Philosophy

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As a higher net profit margin (NPM) is typically connected to higher financing and lower deposit rates, the NPM level established by Islamic banks [following the *maslahah* (benefit) element] should protect the benefits of banks, borrowers, and depositors. As such, this research investigated the NPM determinants in Malaysian Islamic banking between 2008 and 2017. Resultantly, the Malaysian Islamic bank NPM was positively associated with bank-specific variables (risk aversion or RA, operating cost or OC, and liquidity or LQ). On another note, saving deposit or SAV, fixed deposit or FD, gross domestic product growth or GDP Growth, and inflation or INF adversely influenced NPM. Additionally, the effect of several financing contracts on NPM revealed that only the *bai bithaman ajil* (BBA) financing contract was substantially connected to NPM. The second research objective implied that the net interest margin (NIM) of conventional parent banks proved insignificant to the Islamic bank NPM. Objectives 1 and 2 were assessed with static panel data, while the remaining objectives were evaluated using either an independent t-test or the Mann Whitney test. As for objective 3, a difference was identified in the NPM charged by Islamic subsidiary and full-fledged Islamic banks where Islamic subsidiary banks imposed lower NPM (on average) than the full-fledged counterparts. Regarding objective 4, a difference was identified in the NPM charged by foreign Islamic and domestic Islamic banks where foreign Islamic banks imposed a higher (on average) NPM than domestic Islamic counterparts. Summarily, the variables affecting NPM need to be controlled by the Islamic banks in order to attain the *maslahah* (benefit) of

all parties. Bank-specific variables also contributed to the NPM differences offered by the subsidiary, full-fledged, domestic, and foreign Islamic banks. In this vein, Islamic banks needed to develop NPM from an Islamic viewpoint based on the fundamental theory (Contract Theory or CT). This research also outlined how the variables originated from a combination of several theories facilitating the current NPM theory.

Abstrak tesis yang dikemukakan kepada Senat Universiti Malaysia Terengganu sebagai memenuhi keperluan untuk Ijazah Doktor Falsafah

**PENENTU MARGIN UNTUNG BERSIH BAGI PERBANKAN ISLAM:
BUKTI DARI MALAYSIA**

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Disebabkan margin untung bersih (MUB) yang tinggi kebiasaannya dikaitkan dengan kadar pembiayaan yang lebih tinggi dan kadar deposit yang lebih rendah, kadar MUB yang ditetapkan oleh bank-bank Islam [mengikut konsep *maslahah* (manfaat)] harus melindungi kepentingan bank-bank tersebut, para peminjam, dan para pendeposit. Oleh itu, kajian ini meneliti faktor penentu MUB dalam perbankan Islam Malaysia sekitar tahun 2008 dan 2017. Hasilnya, MUB bank Islam di Malaysia secara positifnya berkaitan dengan pemboleh ubah spesifik bank (penghindaran risiko atau PR, kos operasi atau KO, dan kecairan atau K). Manakala, simpanan biasa atau SB, simpanan tetap atau ST, pertumbuhan keluaran dalam negara kasar atau Pertumbuhan KDNK, serta inflasi atau INF, memberi kesan negatif kepada MUB. Selain itu, kesan daripada beberapa kontrak pembiayaan terhadap MUB menunjukkan bahawa hanya kontrak pembiayaan *bai bithaman ajil* (BBA) yang signifikan kepada MUB. Objektif kajian kedua menunjukkan bahawa margin faedah bersih (MFB) bank induk konvensional terbukti tidak signifikan kepada MUB bank Islam. Objektif pertama dan kedua diukur menggunakan data panel statik manakala objektif selanjutnya diukur menggunakan ujian t-tidak bersandar dan ujian Mann Whitney. Bagi objektif ketiga, perbezaan ditunjukkan dalam MUB yang dikenakan oleh bank subsidiari Islam dan bank Islam penuh, di mana bank subsidiari Islam mengenakan MUB yang lebih rendah (secara purata) berbanding bank Islam penuh. Berdasarkan objektif 4, perbezaan direkodkan dalam MUB yang dikenakan oleh bank Islam asing dan tempatan di mana bank Islam asing mengenakan MUB yang lebih tinggi (secara purata) berbanding bank Islam

tempatan. Secara ringkasnya, pemboleh ubah yang mempengaruhi MUB perlu dikawal oleh bank-bank Islam supaya *maslahah* (faedah) semua pihak dapat dicapai. Pembolehubah spesifik bank turut menyumbang kepada perbezaan MUB yang ditawarkan oleh bank subsidiari Islam, bank Islam penuh, bank Islam tempatan serta bank Islam asing. Dalam keadaan ini, bank-bank Islam perlu mengembangkan MUB dari sudut pandangan Islam berdasarkan teori asas (Teori Kontrak atau TK). Penyelidikan ini juga menjelaskan bagaimana pembolehubah yang digunakan terhasil daripada gabungan beberapa teori yang seterusnya menyumbang kepada teori MUB sedia ada.