PERPUSTAKAAN
KOLEJ UNIVERSITI INSANIAH

FACTORS AFFECTING THE PROFITABILITY OF ISLAMIC BANKS IN GCC COUNTRIES

SAMI MANSOOR MOHAMMED AL-BARQ

[A1020549M04]

MASTER'S DEGREE IN ISLAMIC FINANCE AND BANKING
KULLIYYAH OF MUAMALAT
INSANIAH UNIVERSITY COLLEGE

2013/1434

27 OCT 2013

RUJUKAN SAHAJA

ABSTRACT

This study examines the factors which have an impact on profitability of Islamic banks in Gulf Cooperation Council (GCC) countries within the period from 2006 to 2010. The study identifies four variables which were expected to be affecting on profitability of Islamic banks and in GCC countries. They are bank size (LNTA), management efficiency (MGT), non-performing loan (NPL), and proportion of loan to deposit (L/D). Three of the above variables have an impact on profitability of Islamic banks that is represented by Return on Assets (ROA) and Return on Equity (ROE) as proxies for profitability by using linear regression to run data into two models. This study found that the bank size (LNTA), and management efficiency (MGT) are the factors that have statistically significant and positive relationship with Islamic bank profitability. Non-performing loan (NPL), has also statistically significant but negative relationship with Islamic bank profitability (ROA and ROE). Whereas, the study found that there is insignificant relationship between proportion of loan to deposit (L/D) and profitability of Islamic banks. The findings are similar to the previous studies done by other researchers which indicate that the above independent variables have an impact on profitability of the bank.

ABSTRAK

Penyelidikan ini mengkaji faktor-faktor yang mempunyai impak ke atas keuntungan bank-bank Islam di negara-negara (GCC) dari tahun 2006 hingga ke tahun 2010. Analisa ini telah mengenal pasti empat faktor yang di jangka akan mempengaruhi keuntungan bank-bank Islam di Negara (GCC). Faktor-faktor tersebut adalah saiz bank (LNTA), kecekapan pengurusan (MGT), pinjaman tidak berbayar (NPL) dan nisbah pinjaman kepada deposit (L/D). Tiga daripada faktor diatas memberi impak ke atas keuntungan bank-bank Islam ialah pulangan Aset (ROA) dan pulangan Ekuiti (ROE) sebagai proksi kepada keuntungan melalui penggunaan regresi linear untuk mengkaji data dalam dua model. Analisa ini mendapati bahawa saiz bank (LNTD) dan kecekapan pengurusan (MGT) adalah faktor yang mempunyai statistik yang penting dan hubungan positif dengan keuntungan bank Islam.Pinjaman tidak berbayar (NPL) juga mempunyai statistik yang penting tetapi mempunyai hubungan negatif dengan keuntungan bank Islam (ROA dan ROE). Manakala analisa ini mendapati bahawa terdapat hubungan tidak siknifikan antara nisbah pinjaman kepada deposit (L/D) dan keuntungan bank-bank Islam. Hasil kajian ini adalah sama dengan ya telah dijalankan oleh penyelidik-penyelidik sebelum ini yang menunjukkan bahawa adanya impak terhadap keuntungan daripada faktor-faktor bebas.

TABLE OF CONTENTS

Title Page.....i

Abstract.....ii

Abstrak.....iii

Approval Page.....iv

Declaration.....v

Acknowledgments.....vi

Table of Contents.....vii

CHAPTER 1: INTRODUCTION.....1

1.1 Introduction.....1

1.1.1 Islamic Banks in the GCC Countries.....4

1.1.2 Economic Variables of GCC Countries.....5

1.1.3 GCC's Islamic Banks and their Challenges.....7

1.1.3.1 Challenges of Regulation.....7

1.1.3.2 Challenges of Shariah complaint.....9

1.2 Background of the Study.....10

1.3 Problem Statement.....14

1.4 Research Objectives.....18

1.5 Research Questions.....18

1.6 Significance of the Study.....19

1.7 Scope of the Study.....19

1.8 Research Organization.....20

CHAPTER 2: LITERATURE REVIEW.....22

2.1 Introduction.....22

2.2 Past Studies.....23

2.2.1 Using Bank Performance.....23

2.2.2 Using Bank Profitability.....27

2.3 Summary 33

CHAPTER 3: METHODOLOGY 34

3.1 Introduction.....34

3.2 Hypotheses Development.....35

3.3 Measurement of the Variables.....37

3.3.1 Dependent Variables.....37

3.3.2 Independent Variables.....38

3.4 Data Collection and Sample of the Study.....39

3.4.1 Sampling.....39

3.4.2 Data Collection.....40

3.4.3 Unit of Analysis 40

3.4.4 Time Dimension.....40

3.5 Model of the Study.....41

CHAPTER 4: FINDINGS.....42

4.1 Introduction.....42

4.2 Descriptive Statistics 43

4.2.1 The First Model ROA.....43

4.2.2 The Second Model ROE.....45

4.3 Correlation Analysis Among Variables.....46

4.4 Results of Regression Analysis.....47

4.5 Summary.....52

CHAPTER 5: CONCLUSION AND RECOMMENDATION.....54

5.1 Introduction 54

5.2 Research Hypotheses 54

5.3 Limitations of Study.....58

5.4 Conclusion.....59

5.5 Recommendation and Managerial Implication 60

5.6 Future Research 62

Reference 63

Appendix.....69