

## DETERMINANTS DRIVING BANK PERFORMANCE: A COMPARISON OF TWO TYPES OF BANKS IN THE OIC

**Source:** Poi, H. S., Ramadili Mohd, S. M., & Ariff, M. (2017). Determinants driving bank performance: a comparison of two types of banks in the OIC. *Pacific-Basin Finance Journal*, 42, pp. 193-203.

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### MOTIVATION OF THE STUDY



To identify key bank-related determinants affecting bank performance employing a less commonly used bank performance measure, net interest margins (NIM) and net profit margins (NPM).

### INTRODUCTION

According to a current report on banking and development finance, bank lending to corporations and households remains the major traditional activity of banks in Malaysia.

Research question addressed in the paper: how intermediation margins (NIM and NPM) of Islamic banks (IBs) and conventional banks (CBs) in dual banking countries are connected with what determinants.

This paper reports how NIM of CBs and the NPM of IBs in the OIC are found to affect the criterion variables commonly identified as bank-related determinants.

Both types of banks operate in the same banking environment, so their behaviour ought to be comparable to some extent, despite inherent differences in a sub-set of rules that only applies to IBs.

Studying the determinants driving bank performance would be useful to investors to ascribe bank performance as having a signal value for not just banks but also for other financial institutions.



### SAMPLE AND DATA SOURCES

Sample:

**66**  
Conventional Banks



**39**  
Islamic Banks



**15**  
Organisation of Islamic Countries (OIC)



**African Region**  
• Egypt

**Middle East-Turkey Region**

- Bahrain
- Jordan
- Kuwait
- Lebanon
- Qatar
- Saudi Arabia
- Turkey
- United Arab Emirates
- Yemen

**Asian Region**

- Bangladesh
- Brunei
- Indonesia
- Malaysia
- Pakistan

\*Data are collected from the Bankscope Bureau Van Dijk Electronic Publishing for period of 14 years

### TEST MODELS

The data on three categories of bank-related criterion variables are selected:

Bank-Specific Variables	Bank Specialization Variables	Diversification Variables
<ul style="list-style-type: none"> <li>• Capital adequacy</li> <li>• Asset quality</li> <li>• Management efficiency</li> <li>• Liquidity risk</li> <li>• Operating costs</li> <li>• Implicit interest payments</li> <li>• Bank size</li> <li>• Lerner index</li> <li>• Degree of risk aversion</li> <li>• Opportunity costs for required reserves</li> </ul>	<ul style="list-style-type: none"> <li>• Loans-to-total-assets</li> <li>• Deposits-to-total-assets</li> </ul>	<ul style="list-style-type: none"> <li>• Income from trading</li> <li>• Income from fees and commissions</li> </ul>

Generalized Method of Moments (GMM) is applied to assess the effect of past performance of banks, bank-specific, diversification and specialization variables on the current performance of banks.

### CONCLUSION

- 1 The overall finding leads to the perception that IBs are not different in behaviour or dynamics from CBs and that CBs appear to be the benchmark for IBs.
- 2 This study highlights the need for more structured regulatory framework for CBs and IBs and the need of further research to assess the qualitative determinants in the relevant study.

