



اَوْنِيُوْرَسِيْتِي تِيْكْنُوْلُوْجِي مَارَا

UNIVERSITI TEKNOLOGI MARA
KAMPUS KOTA BHARU, KELANTAN

**THE RELATIVE EFFICIENCY OF ISLAMIC BANKS IN
MALAYSIA USING DATA ENVELOPMENT ANALYSIS
(DEA) APPROACH.**

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**Thesis submitted in fulfillment of the requirements for the degree of
Bachelor of Business Administration (Honors) Finance**

BM 222

Faculty of Business Management

JANUARY 2012

LETTER OF TRANSMITTAL

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Dear Sir,

SUBMISSION OF PROJECT PAPER (FIN 667)

Attached is the project paper titled “THE RELATIVE EFFICIENCY OF ISLAMIC BANKS IN MALAYSIA USING DATA ENVELOPMENT ANALYSIS (DEA) APPROACH” to fulfill the requirement as needed by the Faculty of Business Management, Universiti Teknologi MARA.

Your valuation for this project paper is highly appreciated.

Thank you.

Yours sincerely,

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ACKNOWLEDGEMENT

Assalamualaikum.....

“In the name of Allah, The most Gracious and Merciful”

Firstly and foremost, I want to thank God because at last I had finished my project paper. I am also would like to say thank you to my advisor SIR SAHSUZAN BIN ZAKARIA for taking time and effort to comment on this project paper, considerable help and responsibility ask all of my questions with properly in doing and so on. Without him, I may be not able to complete this task, which is to fulfill the requirement of the subject’s (FIN 667) project paper. Not forgetting to PM DR HJ NIK MUHAMMAD NAZIMAN ABD RAHMAN as my second advisor for his consideration to accept my late submission of proposal. Thank you for being supportive, patience and so understanding with the situation faced by me.

My special thanks also to my families for putting up with me during the preparation of this project paper, because of their moral and financially support to me. Beside that, I want to thank to my friends and anyone that was helped and give me a lot of moral support and advice in doing this project paper. My beloved classmates for their ideas, helps and supports me in completing this project paper before the due date for its submission. Also thanks to the all researchers and the writers of DEA journals for able to me to get the secondary data, to take as a guideline in making this project paper.

Lastly, I am glad because I can complete this project paper. When I do this, my knowledge about the relative efficiency of Islamic banks in Malaysia using data envelopment analysis (DEA) approach was added. In addition, it also teaches me to be more discipline and also teach me to be punctual when I needed to send my work at that time. Hopefully with doing this, I will be more excellent in making a project paper. Last but not least, I hope my project paper will be useful for other students to be more understood about data envelopment analysis (DEA). The supports and co-operation from all of you are much appreciated.

Thank you.

Abstract

The purpose of this paper is to investigate or measuring the relative efficiency of 12 Islamic banks in Malaysia. The purpose of this study is to investigate the efficiency or performance level of Islamic banks in Malaysia. This objective requires the calculations of efficiency scores of each bank over the selected period. The objectives of this study are to determine input and output of Islamic banks in Malaysia, to rank the Islamic banks base on efficiency score and to recommend the solution to the inefficient bank. Data envelopment analysis (DEA) method was applied to set of data for evaluate or to measure the relative efficiency of 12 Islamic banks in Malaysia using annual report data. The period covered by the study was from the year 2006 until year 2010. The use of DEA to measure Islamic banks' efficiency appears especially appropriate since this method does not require the specification of particular production or cost functions. From the findings, we get the results such as the descriptive analysis for input and output, the correlation between input and output, the slacks between input and output, and the input and output orientation projections of each banks. The results indicate that the performance of several banks is sub-optimal, suggesting the potential for significant improvements. The efficiency banks can be the benchmark for those inefficient banks as this will help and make the inefficient banks become efficient. The Originality or the value of this study is from a policy perspective, the paper highlights the importance of encouraging increased efficiency throughout the Islamic banking industry. The study is also of particular value in the Malaysia context where there have a lot of Islamic banks and historically all of the Islamic banks growth quite well in this country and be accepted by all of the Malaysians even though have a different religion. It also makes use of to know the score, slacks and projection of the banks based DEA approach, which has not yet been widely used in the banking literature.

TABLE OF CONTENTS

Title page	i
Letter of transmittal	ii
Declaration of original work	iii
Acknowledgement	iv
Abstract	v
Abstrak	vi
Table of contents	vii
List of table	ix
Chapter 1: Introduction	1
1.0 Introduction	
1.1 overview	1
1.2 Problem statement	3
1.3 Research objectives	7
1.4 Research questions	7
1.5 Intended contributors	7
Chapter 2 : Background Of Study	11
2.0 Background of Study	11
2.1 Islamic Banking in Malaysia	11
2.2 Acceptances and Performance Of Islamic Banks In Malaysia	16
Chapter 3 : Literature Review	19
3.0 Literature Review	19
3.1 Introduction	19
3.2 Non Parametric Approach	19
3.3 Data Envelopment Analysis (DEA)	20
3.4 Free Disposal Hull (FDH)	22
3.5 Bank Efficiency	22
3.6 Islamic Bank Efficiency	24
3.7 Loans	27
3.8 Approach – Intermediate Approach in Banking Sector	28
3.9 Determine the Input and Output	29