FINANCIAL PERFORMANCE OF ISLAMIC BANKS AND
CONVENTIONAL BANKS IN MALAYSIA: A COMPARATIVE STUDY

By
NOR BAAYAH IDRIS

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ABSTRACT

This paper has analyzed and compared the financial performance of Islamic banks and conventional banks in Malaysia. This study is useful for depositors, bank managers, shareholders, investors, regulators and researchers in order to provide a true picture of Islamic banks and conventional banks financial condition. Study has been conducted in term of profitability, liquidity, risk and solvency and efficiency for five years period from 2008 to 2012. Study was taken only for five years period due to some of Islamic banks chosen was just started the operation e.g. CIMB Islamic (2003), Maybank Islamic (2008) and AmIslamic (2006). Data had been generated from income statement, balance sheet and notes to the accounts of the banks’ annual reports. The sources of banks’ annual reports are from the websites of the banks and also Bloomberg. This study had selected six Islamic banks and six conventional banks established in Malaysia, which includes Bank Islam (M) Berhad, Bank Muamalat (M) Berhad, Bank Kerjasama Rakyat (M) Berhad, Maybank Islamic Berhad, CIMB Islamic Bank Berhad, AmIslamic Bank Berhad, Affin Bank Berhad, CIMB Bank Berhad, Malayan Banking Berhad, Ambank (M) Berhad, HSBC Bank (M) Berhad and Hong Leong Bank Berhad. The list of conventional banks and Islamic banks is obtained from Bank Negara Malaysia’s (BNM) website. The significant of data has been determined using independent sample t-test and one-way ANOVA analysis. Study has concluded that Islamic banks are less profitable, less liquid, more risky but more efficient in managing the operating expenses to generate revenue as compared conventional banks.

Keywords: islamic banks, conventional banks, comparative study, financial performance, profitability, liquidity, risk and solvency, efficiency, malaysia

Kata kunci: bank islam, bank konvensional, kajian perbandingan, pencapaian kewangan, keuntungan, kecairan, risiko dan kesolvenan, keefisienan, malaysia
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### TABLE OF CONTENT

<table>
<thead>
<tr>
<th>Certification of Thesis Work</th>
<th>ii</th>
</tr>
</thead>
<tbody>
<tr>
<td>Permission to Use</td>
<td>iii</td>
</tr>
<tr>
<td>Abstract</td>
<td>iv</td>
</tr>
<tr>
<td>Abstrak</td>
<td>v</td>
</tr>
<tr>
<td>Acknowledgement</td>
<td>vi</td>
</tr>
<tr>
<td>Table of Content</td>
<td>vii</td>
</tr>
<tr>
<td>List of Tables</td>
<td>viii</td>
</tr>
<tr>
<td>List of Figures</td>
<td>ix</td>
</tr>
<tr>
<td>List of Abbreviation</td>
<td>ix</td>
</tr>
</tbody>
</table>

#### CHAPTER

### ONE  INTRODUCTION

1.1 Background 1
1.2 Overview of Malaysia’s Islamic Banking 2
1.3 Overview of Islamic and Conventional Banking 4
1.4 Problem Statement 7
1.5 Research Questions 8
1.6 Research Objectives 8
1.7 Scope and Limitations of the Study 8
1.8 Significance of Study 9
1.9 Organization of the Study 10
1.10 Chapter Summary 11

### TWO  LITERATURE REVIEW

2.0 Introduction 12
2.1 The Bank Performance 12
   2.1.1 Profitability and performance 14
   2.1.2 Liquidity and performance 22
   2.1.3 Risk and solvency and performance 27
   2.1.4 Efficiency and performance 29
# THREE DATA AND METHODOLOGY

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.0 Introduction</td>
<td>33</td>
</tr>
<tr>
<td>3.1 Framework of study</td>
<td>34</td>
</tr>
<tr>
<td>3.2 Hypothesis Development</td>
<td>34</td>
</tr>
<tr>
<td>3.3 Research Design</td>
<td>41</td>
</tr>
<tr>
<td>3.4 Operational Term</td>
<td>42</td>
</tr>
<tr>
<td>3.5 Measurement of Variables/Instrumentation</td>
<td>43</td>
</tr>
<tr>
<td>3.6 Data Collection and Sample of the Study</td>
<td>47</td>
</tr>
<tr>
<td>3.7 Techniques of Data Analysis</td>
<td>52</td>
</tr>
<tr>
<td>3.8 Chapter Summary</td>
<td>53</td>
</tr>
</tbody>
</table>

# FOUR FINDINGS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.0 Introduction</td>
<td>54</td>
</tr>
<tr>
<td>4.1 Overall Performance of Islamic banks and conventional banks</td>
<td>54</td>
</tr>
<tr>
<td>4.2 Independent Sample T-Test</td>
<td>62</td>
</tr>
<tr>
<td>4.3 ANOVA Analysis</td>
<td>67</td>
</tr>
<tr>
<td>4.4 Chapter Summary</td>
<td>78</td>
</tr>
</tbody>
</table>

# FIVE CONCLUSION AND RECOMMENDATION

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.0 Introduction</td>
<td>81</td>
</tr>
<tr>
<td>5.1 Findings on Demographic</td>
<td>81</td>
</tr>
<tr>
<td>5.2 Findings on Independent Variables and Dependent Variables</td>
<td>83</td>
</tr>
<tr>
<td>5.3 Limitation of Study</td>
<td>86</td>
</tr>
<tr>
<td>5.4 Theoretical and Practical Contribution of the Study</td>
<td>86</td>
</tr>
<tr>
<td>5.5 Recommendations for Future Research</td>
<td>87</td>
</tr>
<tr>
<td>5.6 Conclusion</td>
<td>88</td>
</tr>
</tbody>
</table>

# REFERENCES

<table>
<thead>
<tr>
<th>List of Tables</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1 Features of Islamic and conventional banks</td>
<td>5</td>
</tr>
<tr>
<td>3.1 Background of selected banks</td>
<td>48</td>
</tr>
<tr>
<td>4.1 Independent Sample T-test for profitability ratio of Islamic banks</td>
<td>78</td>
</tr>
</tbody>
</table>
and conventional banks

4.2 Independent Sample T-test for liquidity ratio of Islamic banks and conventional banks

4.3 Independent Sample T-test for risk and solvency ratio of Islamic banks and conventional banks

4.4 Independent Sample T-test for efficiency ratio of Islamic banks and conventional banks

4.5 One-way ANOVA for profitability ratio of Islamic and conventional banks

4.6 One-way ANOVA for liquidity ratio of Islamic and conventional banks

4.7 One-way ANOVA for risk and solvency ratio of Islamic and conventional banks

4.8 One-way ANOVA for efficiency ratio of Islamic and conventional banks

4.9 Independent Sample T-test of Islamic banks and conventional banks

4.10 ANOVA analysis of Islamic banks and conventional banks

LIST OF FIGURES

3.1 Framework of Study

4.1 Comparison between Islamic banks and conventional banks in term of profitability

4.2 Comparison between Islamic banks and conventional banks in term of liquidity

4.3 Comparison between Islamic banks and conventional banks in term of risk and solvency

4.4 Comparison between Islamic banks and conventional banks in term of efficiency

LIST OF ABBREVIATION

NPM Net Profit Margin

ROAE Return on Average Equity

ROAA Return on Average Assets

ROIC Return on Invested Capital

CR Current Ratio

CAR Cash Ratio

LDR Loan Deposit Ratio

LTA Loan to Assets Ratio
DER  Debt Equity Ratio
DTAR  Debt to Total Asset Ratio
EM  Equity Multiplier
AU  Asset Utilization
ET  Equity Turnover
OE  Operating Efficiency
ANOVA  Analysis of Variance
GDP  Gross domestic product
LAR  Loan asset ratio
CIR  Cost income ratio
HI  Herfindahl Index
CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Islamic banking in Malaysia has been set up in 1983 and had regulated under Islamic Banking Act 1983. However, Islamic banking in other countries had started the business from 1963 which mainly in Middle East and Asian regions. Islamic banking aims to provide products and services approved by Islam. In Malaysia, Islamic banking hand-in-hand with conventional banking but the Islamic banking products offered are not restricted only to Muslims. Thus, this had created a bigger opportunity for Islamic banking to grow. In order to ensure Islamic bank in Malaysia operate under Shariah principles, the bank is compulsory to appoint Shariah Advisory to monitor the whole banking system. Gradual development of Islamic banking had created a competition among Islamic and conventional banks. Since Islamic banks offered products under Islamic principles, most of Muslim preferred Islamic banks rather than conventional banks. Currently, even non-Muslim prefer Islamic banking as the banks starting to offer an attractive products and services. However, some people still in doubt and argued on Islamic banks’ performance as compared to performance of conventional banks. Therefore, the performance comparison between Islamic and conventional banks is aim to shows in this study.
The contents of the thesis is for internal user only
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Conventional Banks in Malaysia”, *Journal of Islamic Economics, Banking and Finance*, 9(3), 131-149.


