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**Determinants of Malaysian Banks' Profitability:  
Comparison between Conventional Banks and Islamic Banks**

**BY  
KHOR KANG DING  
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**Thesis Submitted to  
School of Economics, Finance and Banking  
Universiti Utara Malaysia  
In Fulfillment of the Requirement for the Degree of Master of Science (Banking)**

## **DECLARATION**

I declare that the substance of this project has never been submitted for any degree or postgraduate program and qualifications.

I certify that all the support and assistance received in preparing this project paper and the entire source abstracted have been acknowledged in this stated project paper.

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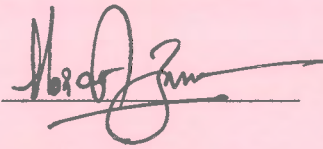
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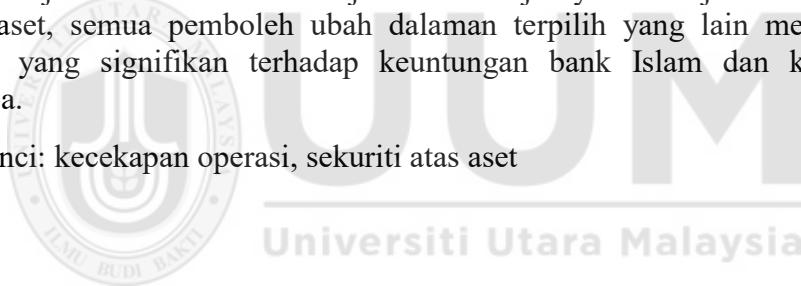
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## ABSTRAK

Kajian ini bertujuan mengkaji kesan penentu keuntungan terhadap keuntungan bank Islam dan bank konvensional di Malaysia. Kajian ini juga membandingkan penentu keuntungan dalaman antara bank Islam dan bank konvensional untuk memahami betapa berbezanya pemilihan faktor penentu mempengaruhi keuntungan dua jenis bank. Kajian ini menggunakan metodologi penyelidikan kuantitatif dan menggunakan matriks korelasi Pearson dan anggaran model regresi kesan rawak untuk menilai dan memahami hubungan antara pemboleh ubah. Kajian ini menggunakan ukuran sampel yang komprehensif yang merangkumi semua empat puluh dua bank yang disenaraikan (dua puluh enam bank konvensional dan enam belas bank Islam) di Malaysia untuk tempoh 2014 hingga 2018. Kajian ini menggunakan pulangan aset (ROA) dan pulangan ekuiti (ROE) sebagai proksi keuntungan bank, dan enam nisbah kecukupan modal penentu dalaman, kualiti aset, sekuriti kepada aset, deposit, saiz bank dan kecekapan operasi dipilih untuk menguji kesannya terhadap keuntungan bank Islam dan konvensional di Malaysia. Hasil kajian menunjukkan bahawa kualiti aset, keberkesanan operasi dan sekuriti terhadap aset mempunyai kesan yang signifikan terhadap pengembalian aset bank Islam, sementara kualiti aset, ukuran bank, kecukupan modal dan deposit didapati mempunyai kesan yang signifikan terhadap pengembalian aset bank konvensional di Malaysia. Ukuran bank dan kecukupan modal didapati mempunyai kesan yang signifikan terhadap pengembalian ekuiti kedua-dua jenis bank tersebut. Kajian ini selanjutnya menunjukkan bahawa kecuali kualiti aset, semua pemboleh ubah dalaman terpilih yang lain mempunyai kesan berbeza yang signifikan terhadap keuntungan bank Islam dan konvensional di Malaysia.

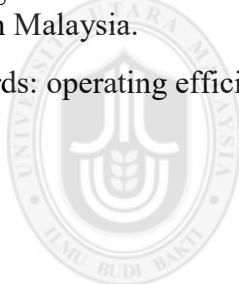
Kata kunci: kecekapan operasi, sekuriti atas aset



## ABSTRACT

This study endeavoured to examine the impact of internal profitability determinants on the profitability of Islamic and conventional banks in Malaysia. This study also aimed to compare the findings to understand how differently the selected determinants affected the profitability of the two types of banks. This study adopted quantitative research methodology and used Pearson's correlation matrix and random effect regression model estimation to evaluate and understand the relationship between the independent and dependent variables. This study used a comprehensive sample size covering all forty-two enlisted banks (twenty-six conventional and sixteen Islamic banks) in Malaysia for the period year 2014 to year 2018. The study used return on assets (ROA) and return on equity (ROE) as the proxy of banks profitability, and six internal determinants: capital adequacy ratio, assets quality, securities to assets, deposits, bank size and operating efficiency were selected to test their impact on the profitability of the Islamic and conventional banks in Malaysia. The finding showed that assets quality, operational efficacy and securities to assets had significant impact on the return on assets of Islamic banks, while assets quality, bank size, capital adequacy and deposits found to have significant impact on the return on asset of conventional banks in Malaysia. Bank size and capital adequacy were found to have significant impact on the return on equity of both Islamic and conventional banks. The study further revealed that except assets quality, all other selected internal variables have significant different impact on the profitability of the Islamic and conventional banks in Malaysia.

Keywords: operating efficiency, securities to assets



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## **CHAPTER ONE**

### **STUDY BACKGROUND**

#### **1.0 INTRODUCTION**

This study endeavoured to examine the determinants of profitability of conventional and Islamic banks in Malaysia. The study compared the findings between the conventional banks and Islamic banks of Malaysia. The introduction starts the outlines by presenting the background and identifies the research problems in the problem statement. Then, based on the research problems, the study develops research questions and research objectives. Chapter one further provides discussions on the significances of the study and structural overview of the study.

#### **1.1 BACKGROUND OF STUDY**

Financial growth and overall development of a country vastly depend upon its financial institutions. The financial institutions, especially banks working as financial intermediation accumulates and gathers resources to fund business and other organizations for establishment and expansion. This role of financial intermediation is significant in economic progress. A proficient financial framework is also essential for proper financial intermediation prompting support to private investment and business development. As such, banks are fundamental for steadiness of the economy. Banks can be categorized and sub-categorized in many forms (Alzoubi *et al.*, 2018). Based on the nature of products and services, banks can be divided into two kinds, conventional or commercial banks and Islamic banks. Conventional banks form the interest-based banking system, where debtor-creditor relationship defines the relationship between borrowers and banks, with interest as the opportunity cost of money (Ramlan & Adnan, 2016). On the other hand, Islamic banks are operated based

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## APPENDIX-A

### CONVENTIONAL OR COMMERCIAL BANKS IN MALAYSIA

CONVENTIONAL OR COMMERCIAL BANKS IN MALAYSIA			
NO.	NAME	OWNERSHIP	WEBSITE
1	Affin Bank Berhad	L	www.affinbank.com.my
2	Alliance Bank Malaysia Berhad	L	www.alliancebank.com.my
3	AmBank (M) Berhad	L	www.ambank.com.my/eng
4	BNP Paribas Malaysia Berhad	F	www.bnpparibas.com.my
5	Bangkok Bank Berhad	F	www.bangkokbank.com.my
6	Bank of America Malaysia Berhad	F	www.bofaml.com
7	Bank of China (Malaysia) Berhad	F	www.bankofchina.com.my
8	CIMB Bank Berhad	L	www.cimbclicks.com.my
9	China Construction Bank (Malaysia) Berhad	F	www.my.ccb.com/malaysia
10	Citibank Berhad	F	www.citibank.com.my
11	Deutsche Bank (Malaysia) Berhad	F	www.db.com
12	HSBC Bank Malaysia Berhad	F	www.hsbc.com.my
13	Hong Leong Bank Berhad	L	www.hlb.com.my
14	India International Bank (Malaysia) Berhad	F	www.indiainternationalbank.com.
15	Industrial and Commercial Bank of China (Malaysia) Berhad	F	www.malaysia.icbc.com
16	J.P. Morgan Chase Bank Berhad	F	www.jpmorgan.com
17	MUFG Bank (Malaysia) Berhad	F	www.bk.mufg.jp
18	Malayan Banking Berhad	L	www.maybank.com
19	Mizuho Bank (Malaysia) Berhad	F	www.mizuhobank.com
20	OCBC Bank (Malaysia) Berhad	F	www.ocbc.com.my
21	Public Bank Berhad	L	www.pbepbank.com
22	RHB Bank Berhad	L	www.rhbgroup.com
23	Standard Chartered Bank Malaysia Berhad	F	www.sc.com/my
24	Sumitomo Mitsui Banking Corporation Malaysia Berhad	F	www.smbc.co.jp
25	The Bank of Nova Scotia Berhad	F	www.scotiabank.com.my
26	United Overseas Bank (Malaysia) Bhd.	F	www.uob.com.my

## APPENDIX-B

### ISLAMIC BANKS IN MALAYSIA

ISLAMIC BANKS			
No.	Name	Ownership	Websites
1	Affin Islamic Bank Berhad	L	<a href="http://www.affinislamic.com">www.affinislamic.com</a>
2	Al Rajhi Banking & Investment Corporation (Malaysia) Berhad	F	<a href="http://www.alrajhibank.com">www.alrajhibank.com</a>
3	Alliance Islamic Bank Berhad	L	<a href="http://www.alliancebank.com.my">www.alliancebank.com.my</a>
4	AmBank Islamic Berhad	L	<a href="http://www.ambankgroup.com">www.ambankgroup.com</a>
5	Bank Islam Malaysia Berhad	L	<a href="http://www.bankislam.com.my">www.bankislam.com.my</a>
6	Bank Muamalat Malaysia Berhad	L	<a href="http://www.muamalat.com.my">www.muamalat.com.my</a>
7	CIMB Islamic Bank Berhad	L	<a href="http://www.cimbislamic.com">www.cimbislamic.com</a>
8	HSBC Amanah Malaysia Berhad	F	<a href="http://www.hsbcamanah.com.my">www.hsbcamanah.com.my</a>
9	Hong Leong Islamic Bank Berhad	L	<a href="http://www.hlisb.com.my">www.hlisb.com.my</a>
10	Kuwait Finance House (Malaysia) Berhad	F	<a href="http://www.kfh.com.my">www.kfh.com.my</a>
11	MBSB Bank Berhad	L	<a href="http://www.mbsbbank.com">www.mbsbbank.com</a>
12	Maybank Islamic Berhad	L	<a href="http://www.maybank2u.com.my">www.maybank2u.com.my</a>
13	OCBC Al-Amin Bank Berhad	F	<a href="http://www.ocbc.com.my">www.ocbc.com.my</a>
14	Public Islamic Bank Berhad	L	<a href="http://www.publicislamicbank.com">www.publicislamicbank.com</a>
15	RHB Islamic Bank Berhad	L	<a href="http://www.rhbgroup.com">www.rhbgroup.com</a>
16	Standard Chartered Saadiq Berhad	F	<a href="http://www.sc.com/my/saadiq">www.sc.com/my/saadiq</a>

