
**PERFORMANCE OF ISLAMIC BANKS IN COMPARISON
WITH CONVENTIONAL BANKS IN MALAYSIA**

By

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**Thesis Submitted to the Centre for Graduate Studies,
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KOLEJ PERNIAGAAN
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Abstrak

Penulisan ini bertujuan untuk menilai perbandingan prestasi perbankan Islam tanpa faedah (termasuk bank-bank Islam asing) berbanding dengan bank-bank konvensional tempatan yang berasaskan faedah di Malaysia bagi tempoh 2005 – 2008 berdasarkan kedudukan dan prestasi perniagaan. Kajian ini dijalankan untuk menjawab maklumbalas pesimistik berkenaan prestasi perbankan Islam yang bukan sahaja perlu mematuhi undang-undang perniagaan konvensional dan Islam, tetapi perlu melepaskan peluang-peluang perniagaan yang bertentangan dengan undang-undang Islam. Pada masa yang sama, prestasi perniagaan bank-bank tersebut dipertikaikan kerana persaingan pasaran yang cukup sengit.

Di dalam kajian ini, bank-bank Islam dibahagikan kepada tiga (3) kategori iaitu bank-bank Islam tempatan sepenuhnya, bank-bank subsidiari Islam tempatan dan bank-bank Islam asing.

Berdasarkan analisis deskriptif, kajian ini mendapati bank-bank konvensional tempatan secara berkumpulan mempunyai prestasi yang lebih baik daripada semua bank-bank Islam berdasarkan kedudukan perniagaan. Walau bagaimanapun, setelah mengaplikasikan ujian-t terhadap enam nisbah-nisbah kewangan yang dipilih, kajian ini mendapati bank-bank Islam tempatan dan asing mempunyai prestasi yang setanding dan berdaya saing dengan bank-bank konvensional tempatan secara umumnya.

Abstract

This paper explores the comparative performance of Malaysia's interest-free Islamic banks (including foreign players) against the interest-based conventional banks for the period 2005 - 2008 with respect to their business volume and performance. This study is conducted in response to pessimistic feedback about Islamic banks' performances that are not only required to comply both conventional business laws and Islamic laws, but also need to forgo business opportunities that are against with laws of Islam. At the same time, the business performance of these banks is questioned due to stiff competition in the market.

This study divided the Islamic banks into three (3) categories i.e. local Islamic full-fledge banks, local Islamic subsidiary banks and foreign Islamic banks.

Based on descriptive analysis, the study found that local conventional banks in group are relatively performing better than the rest of Islamic banks in terms of business volume. Nevertheless, upon applying t-test analysis to six selected financial ratios, this study revealed that, in general, the performances of both local and foreign Islamic banks are at par and competitive with local conventional banks.

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*Wa shalatu wa salamu 'ala Sayyidina Muhammad wa 'ala alihi wa ashabihi
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LIST OF ABBREVIATIONS

BIMB	Bank Islam Malaysia Berhad
BNM	Bank Negara Malaysia
CDR	Cash Deposit Ratio
CTI	Cost to Income Ratio
EQL	Equity to Net Loan Ratio
LDR	Loan Deposit Ratio
ROA	Return on Assets
ROE	Return on Equity
SPI	“Skim Perbankan Islam” (Islamic Banking Scheme)
SPTF	“Skim Perbankan Tanpa Faedah” (Interest-free Banking Scheme)

CHAPTER 1

BACKGROUND TO THE STUDY

1.1 INTRODUCTION

This preliminary chapter of the thesis gives a general introduction to the research study. The aim of the chapter is to provide a general overview and background of the study, which will serve as the fundamentals for other subsequent chapters, and for the study as a whole. The chapter first provides the research background and elaborates on the subject of the study, that is, the presence of Islamic Banks in our banking industry. The next sub-section highlights the problem statement, followed by the research objectives of this study. Then the rationale for undertaking the research study is explained. The chapter ends with the overall structure of the thesis.

1.2 RESEARCH BACKGROUND

Banking system in Malaysia is unique in the sense that both conventional and Islamic banks are currently operating side-by-side. The first full-fledged Islamic bank established in the country was Bank Islam Malaysia Berhad (BIMB), which commenced its operations on 1 July 1983.

Recognising the increasing demand for Islamic products and services, Bank Negara Malaysia (BNM) has introduced a scheme known as 'Skim

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