THE COMPARISON OF PERFORMANCE ISLAMIC AND CONVENTIONAL BANKS BASED ON INTERNAL AND EXTERNAL DETERMINANT FOCUS: EVIDENCE FROM LOCAL BANKS MALAYSIA.

DZAWIN NAJAA BINTI BUNGSU @ AZIZ

2015104051

BACHELOR OF BUSINESS ADMINISTRATION WITH HONOURS

(FINANCE)

FACULTY OF BUSINESS MANAGEMENT

UNIVERSITI TEKNOLOGI MARA

KOTA KINABALU SABAH

DEC 2017

ACKNOWLEDGEMENT

First of all, I would like to express my feeling as one of the luckiest person to be chosen by Universiti Teknologi MARA an opportunity to pursue my degree holder here, with this I have given an opportunity by university to complete my journey as a bachelor student here. Although there are ups and downs in my voyage yet I am glad that I am still standing strong today.

I would like to thank to my advisor of this thesis which is Mr Marius Benedict that couldn't be replaceable as the best advisor he could be. Following the guidelines and support I couldn't be more grateful than this.

Finally, I wouldn't be completing my thesis without the supports from both of my parents, family, friends and to Almighty God. Thank you so much.

TABLE OF CONTENT

		Page
TITLE OF PAGE		I
DECLARATION OF ORIGINAL WORK		II
LETTER OF TRANSMITTAL		III
ACKNOWLEDGEDMENT		IV
TABLE OF CONTENT		V
LIST OF FIGURES		VI
LIST OF TABLES		VII
LIST OF ABBERVIATIONS		VIII
ABSTRACT		
CHAPTER 1	**INTRODUCTION**	
	1.0 BACKGROUND OF STUDY	1-2
	1.1 PROBLEM STATEMENT	2-4
	1.2 SCOPE AND LIMITATION OF STUDY	4
	1.3 OBJECTIVE OF STUDY	5
	1.4 SIGNIFICANT OF STUDY	5-7
	1.5 SUMMARY OF CHAPTER	7
CHAPTER 2	**LITERATURE REVIEW**	
	2.0 INTRODUCTION	8
	2.1 THEORETICAL STUDIES	8-9
	2.2 ECONOMIC SCALE THEORIES	9-10
	2.3 MARKET POWER THEORIES	10
	2.4 EXPENSES PREFERENCE THEORIES	10-11

2.5 EMPERICAL REVIEW 11
2.6 RETURN ON ASSET 11-13
2.7 BANK SIZE 13-14
2.8 GROSS DOMESTIC PRODUCT 15-16
2.9 INFLATION 17-18
2.10 EXPENSES 18-19
2.11 CAPITAL ADEQUACY 19-20
2.12 SUMMARY OF CHAPTER 20

CHAPTER 3 RESEARCH METHODOLOGY

3.0 INTRODUCTION 21
3.1 DATA COLLECTION METHOD 21-22
3.2 VARIABLES AND MEASUREMENT 22-23
3.2.1 RETURN ON ASSET 23
3.2.2 BANK SIZE 23
3.2.3 OPERATING EXPENSES 23
3.2.4 CAPITAL ADEQUACY 24
3.2.5 GROSS DOMESTIC PRODUCT 24
3.2.6 INFLATION 24
3.3 THEORETICAL FRAMEWORK 25
3.4 RESEARCH HYPOTHESIS 26-27
3.5 EMPIRICAL ANALYSIS FRAMEWORK 27
3.6 PANEL REGRESSION MODEL PROCEDURE 28
3.7 FLOW CHART 29
3.8 SUMMARY OF CHAPTER 30

CHAPTER 4 RESULTS AND FINDINGS ANALYSIS

4.0 INTRODUCTION 31

ABSTRACT

The investigation is to figure out the gaps that exist between two contradict banking system that can be trace in their profitability which are the performance of Islamic banking system and Conventional banking system within Malaysia. The aim of this study is to determine the different level of efficiency based on the selected variables. The aggregate resource have been obtained from DataStream of 8 Islamic banks and 8 Conventional banks from Malaysia as well as the yearly annual report of each bank, both banking system have been filtered to only focusing on local banks in Malaysia from 2007 until 2016. Return On Asset is chosen as a proxy to utilized as an intermediary in measuring the Islamic banks' productivity. The interior factors that also be counted as independent variables are bank size, capital adequacy, operating expenses, whereas the external factors that act as an intermediaries are inflation but using Consumer Price Index as a proxy and Gross Domestic Product (GDP). The observational discoveries recommend that all the determinant factors have a measurably altogether affect on bank’s earning. The overall finding reveal that Islamic banking system performance is more better as compared to conventional banks.

Keywords: conventional, islamic, performance, internal and external