

**COMPARATIVE FINANCIAL PERFORMANCE BETWEEN ISLAMIC AND
CONVENTIONAL BANKS**

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**Submitted in Partial Fulfillment of the Requirement for the
Bachelor of Business Administration (Hons) Finance**

**FACULTY OF BUSINESS MANAGEMENT
MARA UNIVERSITY OF TECHNOLOGY
JOHOR**

MAY 2008

DECLARATION OF ORIGINAL WORK



**BACHELOR OF BUSINESS ADMINISTRATION (HONS)
FINANCE FACULTY OF BUSINESS MANAGEMENT
MARA UNIVERSITY OF TECHNOLOGY
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“DECLARATION OF ORIGINAL WORK”

I, NURUHIDA BINTI KAMAR, I/C Number: 850923-01-5798

Hereby, declare that,

- This work has not previously been accepted in substance for any degree, locally or overseas and not being concurrently submitted for this degree or any other degrees.
- This project paper is the result of my independent work and investigation; except where otherwise stated.
- All verbatim extracts have been distinguished by quotation marks and sources of my information have been specifically acknowledged.

Signature:

Date: 1 MAY 2008

LETTER OF TRANSMITTAL

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1 MAY 2008

Rabiatul Alawiyah Bt. Zainal Abidin
The Head of Program
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Dear Madam,

**COMPARATIVE FINANCIAL PERFORMANCE BETWEEN ISLAMIC AND
CONVENTIONAL BANKS**

I'm required to do a project paper on the above topic. I hereby submitted this report and I really hope that this work will fulfill the requirement for the Bachelor of Business Administration (Hons) Finance.

Thank you.

Yours sincerely,

NURUHIDA BINTI KAMAR
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ABSTRACT

Nowadays, Islamic banks getting more attracted rather than non Islamic banks in Malaysia. The study will do the comparison the financial performance of the Islamic banks and conventional banks in Malaysia. It will cover two Islamic banks and three conventional banks in Malaysia. This will do by analyzing the performance and determinants of efficiency and profitability of Islamic and conventional banks. Financial ratios are applied in measuring the performances. The analysis of bank performance concentrates on four financial ratios which are profitability, liquidity, risk and solvency and efficiency.

The study found that Islamic banks are relatively more profitability, less liquid, less risky and more efficient compared than conventional banks. The comparison of financial measures expressed in terms of various financial ratios indicates that there are no major differences in profitability, liquidity, risk and solvency and efficiency ratio between Islamic and conventional banks. The findings also indicate that Islamic banks as newcomers to the financial market are doing as well as conventional banks.

CHAPTER 1

INTRODUCTION

1.0 HISTORY OF ISLAMIC BANKS AND CONVENTIONAL BANKS

Evaluation of bank performance is important for all parties: depositors, bank managers and regulators. In a competitive financial market bank performance provides signal to depositor-investors whether to invest or withdraw funds from the bank. Similarly, it flashes direction to bank managers whether to improve its deposit service or loan service or both to improve its finance.

Bank Islam Malaysia Bhd (BIMB) is a single full-fledged Islamic bank in Malaysia. The important underlying force that led to the establishment of this Islamic bank in Malaysia was the elimination of riba that is used for interest. Bank Islam Malaysia was established in July 1983 to meet these demands and challenges. Since then BIMB introduced and marketed various interest free products such as Wadiah ad Dhamana account, Mudarabah, Musharakah and others. Bank's business has expanded over the years.

In line with its objectives, the banking activities of the bank are based on Shariah principles. After more than a decade in operations, BIMB has proven that Islamic banking has a way forward with its activity expanding rapidly throughout the country. The bank was listed on the Main Board of the Kuala Lumpur Stock Exchange on 17 January 1992.