



**UNIVERSITI TEKNOLOGI MARA**

**THE FACTORS THAT AFFECT THE  
PROFITABILITY OF ISLAMIC AND  
CONVENTIONAL BANKS IN MALAYSIA**

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## **ABSTRACT**

This research will demonstrate the profitability of Islamic banks in Malaysia to that of conventional banks in order to illustrate the superiority of Islamic banks. In traditional banks, money is treated as a commodity, and the money is loaned out at a profit to generate revenue. Islamic banking products, on the other hand, are often backed by assets and include asset renting, asset trading, and profit-and-loss participation, among other features. Despite this, clients and banks are expected to have a creditor-debtor relationship. Malaysia's banking sector includes 27 commercial banks and 18 Islamic banks, for a total of 58 institutions. Once this has been established, the secondary data was acquired from two conventional banks (Maybank and Public Bank), as well as two Islamic banks (Bank Islam and Bank Muamalat), which retraced data from 2009 to 2019 and resulted in a total of 40 sets of information. To determine whether or not the cost of funds, the cost of labour, the cost of capital, and interbank lending have an impact on the profitability of Islamic and conventional banks, this study was conducted. Furthermore, the subject of how this differs between Islamic and conventional banks in Malaysia must be addressed as well.

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## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 INTRODUCTION**

The financial institution's history is comparable to that of money, yet trade began long before money was invented. As a result, the initial type of transaction was the deposit of grain, merchandise, and precious metals such as gold, which had to be maintained in Temples and other places deemed suitable for retaining valuables. Malaysia is one of the countries that has developed a dual banking system, consisting of Islamic and conventional banking. Malaysia's Islamic financial system has matured into a sustainable and competitive component of the larger financial system, acting as a driver of economic growth and development. Malaysia has established extensive Islamic banking infrastructure, such as Islamic Banking (1983), Islamic Insurance (1984), Islamic Inter-bank Money Market (1994), Kuala Lumpur Stock Exchange (KLSE) Shariah Index (1988), and Central Bank of Malaysia (1994), which established the financial sector master plan, which included a 10-year plan for Islamic banking and takaful in March 2001, with the goal of developing an effective, innovative, and comprehensive Islamic financial system while promoting Islamic finance.

In the last several years, Islamic banking (IB) has grown at a breakneck pace, more than doubling in size between 2009 and 2014. Islamic banks, as opposed to conventional banks, use the Profit-Loss-Sharing (PLS) system, which is based on Islamic law, also known as Shariah, which forbids the payment of interest (Abdullah, Sidek, & Adnan, 2012). According to the Malaysian Central Bank's Financial Sector Master Plan, Islamic banking will account for 20% of the banking market share in 2010. (BNM Annual Report, 2003). The fast growth of the Islamic financial system in the United States has opened the path for its globalization. Malaysia's Islamic finance development activities have now been stepped up in order to position the country as a worldwide Islamic financial centre that will play a larger role in enabling international economic and financial flows. Malaysia issued permits for international Islamic banks