



UNIVERSITI TEKNOLOGI MARA

**FACTORS THAT INFLUENCE THE PERFORMANCE OF
CONVENTIONAL AND ISLAMIC BANKS**

**NUR IZZATUR FATIHAH BINTI MUHAMMAD TAHIR
2020974755**

Final Year Project submitted in fulfillment of
the requirements for degree of
Bachelor of Business Administration (Hons)
Investment Management

Faculty of Business and Management

AUGUST 2022

ABSTRACT

This research intends to closely examine factors that influence conventional and Islamic banks based on their profitability in Malaysia. Money is treated as a commodity in conventional banks, who lend it against interest as recompense. On the other hand, the products of Islamic banking usually are asset-backed and comprise asset rental, asset trading, also profit-and-loss participation. Despite this, it is also thought that customers and banks have a relationship of creditor and debtor. Having said that, the secondary data was drawn from five conventional banks which is Maybank, Public Bank, Affin Bank, CIMB Bank and Hong Leong Bank while for Islamic banks are Bank Islam, Bank Muamalat, MBSB Bank, Hong Leong Islamic Bank and CIMB Islamic Bank retrace from the year 2010 to 2021 consisting of 120 set of data. This study seeks to examine whether the cost of funds, cost of labour, cost of capital and interbank lending influences the profitability of the Islamic and conventional bank. Then again, how this may vary between Islamic and conventional banks in Malaysia. Our findings indicate that cost of funds from Islamic banks has significant relationship with the dependent variable, profitability in overall results.

Keywords: Malaysia, Islamic Bank, Conventional Bank, Banking, Profitability, Cost of Fund, Cost of Labour, Cost of Capital, Interbank Lending.

ACKNOWLEDGMENT

Firstly, I wish to thank God and celebrate it with Alhamdulillah since I am very thankful for every process taken for this research study. It is challenging but nothing is impossible with the help of others in my life. Therefore, I would like to thank my advisor, Puan Yuslizawati Mohd Yusoff for giving me guidance, knowledge and constant supervision.

Not to forget, this research paper would not be accomplished without the help and support from my family, friends and educators. Their support whether by lending a hand or checking up on me with the work that I have done is a small gesture that is really appreciated.

Lastly, I would like to thank all of the researchers involved in this study because they have poured all their blood, sweat and tears into completing their studies. It is educational and informative to me as students. Therefore, I hope this research is helpful for people who wish to know about the competitive aspect between conventional and Islamic banks in Malaysia.

TABLE OF CONTENTS

	Page
AUTHOR'S DECLARATION	i
ABSTRACT	ii
ACKNOWLEDGEMENT	iii
TABLE OF CONTENTS	iv
CHAPTER ONE: INTRODUCTION	
1.1 INTRODUCTION	1
1.2 BACKGROUND OF STUDY	2
1.3 PROBLEM STATEMENT	3
1.4 RESEARCH QUESTIONS	4
1.5 RESEARCH OBJECTIVES	4
1.6 SIGNIFICANCE OF STUDY	4
1.7 SCOPE OF STUDY	5
1.8 LIMITATION OF STUDY	5
1.9 DEFINITION OF TERMS	6
1.10 SUMMARY	7
CHAPTER TWO: LITERATURE REVIEW	
2.1 INTRODUCTION	8
2.2 PROFITABILITY CONCEPT AND THEORIES	8
2.3 COST OF FUNDS	10
2.4 COST OF LABOUR	12
2.5 COST OF CAPITAL	14
2.6 INTERBANK LENDING	15
2.7 RESEARCH FRAMEWORK	17
2.8 SUMMARY	17

CHAPTER ONE: INTRODUCTION

1.1 INTRODUCTION

One of the countries with two banking systems (conventional and Islamic) is Malaysia. Although the regulations and principles of these two banks are different, similar factors are likely to have an impact on their profitability. The purpose of this study is to determine whether the same factors are affecting the profitability of both banks.

Conventional bank is a bank that does business of lending and borrowing the money based on the interest. The major objective of conventional banks is to collect deposits and issue loans to the borrower.

Meanwhile, Islamic bank is a bank that does business activities based on shariah and Islamic law. In Islamic banking, there is only profit and loss and no interest charge to the lenders and borrowers. Besides, the purpose of Islamic banking is to avoid riba, encouraging economic growth while sustaining the Islamic moral value. Also, to serve as a financial intermediary.

However, this study focuses on identifying the factors that have the greatest influence on the performance of each bank separately, in addition to determining if the profitability of both banks is influenced by the same causes. The data has been collected using secondary data from Eikon database for the period 2010 to 2021.