



**ASSESSING THE PERFORMANCE OF ISLAMIC
AND CONVENTIONAL BANK IN MALAYSIA IN
THE YEAR BETWEEN 2009 UNTIL 2015
A COMPARATIVE STUDY**

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“IN THE NAME OF ALLAH, THE MOST GRACIOUS AND MERCIFUL”

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ABSTRACT

Banks play an important role in determining on the economy of all countries. Malaysia is one of the countries that have a good banking system in the world which offered conventional and Islamic banking systems. This study is conducted to measure the financial performance between these two different banking systems in Malaysia. In order to make a comparison on these two banking systems, about 10 Islamic and 10 Conventional banks are chosen among the players in banking sector in Malaysia. The selection of the banks is based to the bank size which is from middle and small asset size. The data of the banks is collected from the annual financial reports in the Bankscope for the period of 2009 until 2015. A regression analysis was conducted to identify which factors had giving impact to return on asset (ROA) of the banks including bank asset size (BAS), capital adequacy (CAR), loan to deposit (LDR), debt to equity (DER) and Dummy. According to the empirical analysis in this study has found that conventional banks performed better than Islamic banks in terms of profitability.

Keyword: *Islamic banking, Conventional banking, Profitability, Bank Size, Capital Adequacy, Loan to Deposit, Debt to Equity.*

CHAPTER 1: INTRODUCTION

1.1 Introduction

Banks play an important role in economic growth of all countries. The stability of economy of one country is not only depends on its import and export industry, but also on its financial sector. Nowadays, banks grew rapidly due to high demand from the customers and its vital role in resource mobilization, resource allocation as well as provide a lot of services to the customers around the world. Furthermore, banks also play its role in offering job opportunity to the community. This could benefit to the country as it reduce the unemployment rate and at the same time, it increase the number of expertise to help for economic growth. In general, banks are very important as it provide variety of services to the customers. If the country is affected from the world crisis such as involved in war, it will give a major turmoil to their economy. According to Hamedian (2013), millions of people have lost their jobs and houses resulted from a great recession which is the Global Financial Crisis in 2008. However, not all countries are affected from this recession. Malaysia is one of the countries that affected from this global crisis but recovered rapidly.

Malaysia is a developing country with the fast growing economy in the world compared to other East Asia countries. The Commission on Growth and Development in its 2008 Growth Report identified Malaysia as one of 13 countries to have average growth more than 7 percent per year for 25 years according to World Bank (2016). In a challenging external environment, such as world economic recession with the increasing number of competitor over the past few years, the Malaysian economy has succeeded to expand its growth. It has been stated by Department of Statistic Malaysia (2016), where Malaysia Growth Domestic Product (GDP) grew 4.1 percent with a value of RM536.4 billion at constant and RM589.5 billion at current price for the first half of 2016.