



**THE FACTOR AFFECTING ON PROFITABILITY BETWEEN
CONVENTIONAL BANKS & ISLAMIC BANKS IN
MALAYSIA**

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ABSTRACT

Profitability is one of the most important objectives of financial management because the main aim is to maximize owner's wealth. Profitability related with the net profit of an organization in accordance of different variables. The objective of this paper is to make a comparison for the profitability of 10 banks, both Islamic banks and conventional banks for 2006 until 2015. This paper examined the effects of bank specific factors (liquidity ratios, capital ratio and asset quality) on profitability measured by Return on Assets (ROA). Profitability performance for both Islamic and conventional banks is the dependent variable while liquidity ratios, capital adequacy ratios and asset quality ratios are independent variables. From the Multiple Linear Regression model results, the variables will be identified to determine either Islamic banks or conventional banks show the better performance.

CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION

In the traditional definition of banking, banks act as intermediaries in the allocation of financial resources and gathering deposits from savers and offering loans to consumers, businesses and governments. Meanwhile, based on the modern definition banking, banks are seen as factories engaged in information processing, looking into all aspects of deal for example investment, corporation finance, insurance, trusts and retirement services.

Malaysia is the first country implement dual banking system which is Islamic banking system that operates side-by-side with the conventional banking system (Issues, Muda, Shahrudin, & Embaya, 2013). Conventional banking system is an interest-based banking system and Islamic banking system is an interest-free banking system Ramlan & Sharrizat, (2016). Malaysia is the first country that has been emerged to implement a dual banking system where Islamic banking system operates side-by-side with the conventional banking system. Both Islamic banks and conventional banks create competition among themselves to fulfil customer's satisfaction and expectations for long term benefits in the economy.

Islamic banking is a comprehensive and value-based system that aims to respect and enhance the moral and material wellbeing of individuals and society in general under the Malaysian Islamic Banking Act 1983 Yahya et al., (2012) ;Fah & Hassani, (2014). The first Islamic bank in Malaysia is Bank Islam Malaysia Berhad (BIMB) that has been setup on 1 July 1983. There were 16 of Islamic banking institution, 10 local banks and 6 foreign banks.