



THE PERFORMANCE OF ISLAMIC AND CONVENTIONAL BANKS IN MALAYSIA CONSIDERING CRISIS PERIOD

BEN MBAREK Hassene

University of Tunis, ESSEC Business School

BEN MBAREK Kais

University of Jendouba, Faculty of Economic Sciences and Law of Jendouba

Abstract

The aim of this paper is to make comparative study on the level of efficiency between Islamic and conventional banking systems in Malaysia following with extension the research of Yahya et al. (2012). We estimate models using a within estimator (Fixed effect) and a generalized least square random effect (GLS RE) following Baltagi and Wu (1999) technique. For robustness tests, we estimate the same models using Generalized Method of Moments in system (GMM in system). Empirical analysis results show that Islamic banks are more profitable than conventional banks.

Keywords: Bank profitability, Islamic banks, conventional banks, GMM.

JEL Classifications: E44, G 21, G32

1. Introduction

Islamic finance has experienced remarkable growth in the world with the advent of many banking institutions in Islamic character. These institutions are known for flexible integration into the global economic system, a rapid development and a large number of customers. These financial institutions are gaining ground in Muslim countries but also in non-Muslim countries. For this reason, some countries have allowed their conventional banks to open Islamic windows such as the United States, Europe, Great Britain and France. In terms of the performance of the banking system, Islamic finance in Malaysia has been on a gradual upward trend, registering an average annual growth of 48.5% in terms of assets over the period 2006-2009. The Islamic banking sector has continued to register strong growth in assets of 12.8% in November 2010 to 256.6 billion in deposits and funding. Unlike conventional banks, Islamic banks act as investors. In other words, they have a status comparable to that of shareholders or members based on the principle of collateral assets and the sharing of profit and loss. The objective of this paper is to analyze and compare the performance of Islamic banks and conventional ones in Malaysia. The first section is devoted to a review of the literature and various studies on the banking sector. The empirical study on the banking sector in Malaysia will be treated in the second section. Finally, we conclude this article with a conclusion.

2. Literature Review

After the crisis of 2007 and the fall of the conventional banking system, particular attention was given to the Islamic finance since it was more stable in times of crisis. The majority of financial instruments that caused the subprime crisis are activities outside the model of Islamic finance. Several studies have analyzed the performance of Islamic banks and conventional. We can mention that of Metwally (1997) evaluated the performance of 15 Islamic banks and 15 conventional banks in terms of liquidity, leverage, credit risk, profitability and efficiency. He concluded that the two groups of banks can be differentiated in terms of liquidity, leverage and credit risk but not in terms of profitability and efficiency. Islamic banks rely more heavily on their own funds in financing loans and more difficult to attract deposits that banks set classic. In the same context, Iqbal (2001) made a comparison of the performance of Islamic banks with conventional banks. He evaluated the performance of 12 banks of equivalent size during the period 1990-1998. He also studied the capital adequacy and effectiveness of the deployment as: additional profitability, liquidity and risk variables. Performance of Islamic banks was assessed using the trend and ratio analysis. He analyzed that Islamic banks do not suffer from excess liquidity and are more profitable than their conventional counterparts. Samad (2004) examined the performance of the banking sector in Bahrain during the period 1991-2001. He concluded that there is a significant difference in performance between the two sets credit bank (Islamic bank and conventional bank). However, the study finds no significant difference in performance between profitability and liquidity of the Islamic banks and conventional banks. On the other hand, Saleh & Zeitoun (2007) assessed the financial performance of the two major Islamic banks in Jordan and found that the two banks have increased their efficiency and capacity. In addition, they have expanded investment opportunities. They found that these two banks have focused on short-term investment, and made a strong credit growth and profitability. Akhtar et al. (2010) made a comparative analysis of Islamic banks and conventional emphasis on the importance of firm size, capital network on capital adequacy, and the ROA with the management of liquidity risk. They found that the size of banks and capital network assets with a net positive insignificant relationship with liquidity risk. While capital adequacy in conventional banks and return on assets in Islamic banks with a positive and significant relationship with liquidity risk. Shar et al. (2010) have studied and evaluated the performance and efficiency of the banking sector of Pakistan with the Securities Credit Stress Test Leona Asia (CLSA-stress test). Using the stress test and not seasonally adjusted, it was analyzed that some banks are poor, under stress regarding capital strength, asset quality, efficiency and liquidity. This study evaluated the solvency of individual banks. Jaffar and Manarvi (2011) examined and compared the performance of Islamic banks and conventional banks operating inside Pakistan during 2005 to 2009 by applying the test of CAMEL. A sample of five Islamic banks and conventional banks 5 was selected to measure and compare their performance. CAMEL test is a standard test to check the health of financial institutions and to determine the performance of banks. Various reports were used to evaluate each element CAMEL. The study found that Islamic banks have better results with sufficient capital and liquidity in a better position while conventional banks are pioneering quality management and earning capacity. Asset quality in both streams of the bank was almost the same, conventional banks recorded slightly smaller loan loss ratio showing a better recovery policy loans while ratio analysis showed better UNCOL nominal performance for Islamic banks. Safiullah (2010) conducted a comparative study of the performance based on the four Islamic banks and conventional in Bangladesh over the period 2004-2008. Ratio analysis was conducted to assess the evolution of business, profitability, liquidity and solvency, commitment to the economy and the community, the efficiency and productivity of the two types of banks. The results showed that traditional

banks have done better than Islamic banks based on a commitment to the economy, community, productivity and efficiency. Javaid Anwar and Zaman (2011) provided an analysis of the determinants of banks' profitability top 10 in Pakistan over the period 2004-2008 using the pooling method of ordinary least squares (OLS) to examine the impact of assets, loans, equity, and deposits a key indicator of profitability (ROA). Hanif et al. (2012) show that Pakistan, conventional banks are more efficient than Islamic banks in terms of profitability and liquidity. However, they are less efficient in terms of maintenance management and solvency. Profitability is also another measure to determine the performance of banks. Most studies have been conducted to analyze the performance of conventional and Islamic banks. All these studies have not the same result due to differences in the selected time periods, analytical tools and cultural point of view. It is analyzed through these studies that Islamic banks are more profitable, more liquid and less risky and have a better quality of the loan portfolio capital adequacy than their conventional counterparts, but they lose to the floor of the operational efficiency.

3. Empirical study of comparative banking profitability

3.1. Data, sample and models

To make an appropriate comparative study of profitability 17 conventional banks and 17 Islamic banks located in Malaysia over the period 2000-2015 are selected. Data is sourced from annual reports, BankScope and completed from Islamic Banks and Financial Institutions Information database. Models to be tested are the followings:

Islamic banks:

$$ROA_{i,t} = a + \beta_1 TB_{i,t} + \beta_2 AB_{i,t} + \beta_3 END_{i,t} + \beta_4 KA_{i,t} + \beta_5 LA_{i,t} + \beta_6 RIRNI_{i,t} + \varepsilon_{i,t}$$

$$ROE_{i,t} = a + \beta_1 TB_{i,t} + \beta_2 AB_{i,t} + \beta_3 END_{i,t} + \beta_4 KA_{i,t} + \beta_5 LA_{i,t} + \beta_6 RIRNI_{i,t} + \varepsilon_{i,t}$$

$$COSR_{i,t} = a + \beta_1 TB_{i,t} + \beta_2 AB_{i,t} + \beta_3 END_{i,t} + \beta_4 KA_{i,t} + \beta_5 LA_{i,t} + \beta_6 RIRNI_{i,t} + \varepsilon_{i,t}$$

Conventional banks:

$$ROA_{i,t} = a + \beta_1 TB_{i,t} + \beta_2 AB_{i,t} + \beta_3 END_{i,t} + \beta_4 KA_{i,t} + \beta_5 LA_{i,t} + \varepsilon_{i,t}$$

$$ROE_{i,t} = a + \beta_1 TB_{i,t} + \beta_2 AB_{i,t} + \beta_3 END_{i,t} + \beta_4 KA_{i,t} + \beta_5 LA_{i,t} + \varepsilon_{i,t}$$

$$COSR_{i,t} = a + \beta_1 TB_{i,t} + \beta_2 AB_{i,t} + \beta_3 END_{i,t} + \beta_4 KA_{i,t} + \beta_5 LA_{i,t} + \varepsilon_{i,t}$$

3.2. Measures of variables

For dependant variable, we will use three measures of bank profitability. The return on assets (ROA) is defined as the ratio of net profits to total assets expressed as a percentage. We use the return on equity (ROE) is the ratio of net profits to equity expressed as a percentage. The Cost to income ratio (COSR) is the ratio of Total cost/Total income. For independent variables, we will use: TB : Bank size : Ln (total assets); AB : Age of the bank : Ln (age of the bank); KA: capital adequacy : Equity to total assets (%); END: Net loans to total assets; LA : Net Loans/Total Deposits and Borrowing and RIRNI : Islamic Income Ratio: Islamic Income to Islamic Income plus Non Islamic Income

3.3. Results

We estimate models using a within estimator (Fixed effect) and a generalized least square random effect (GLS RE) following Baltagi and Wu (1999) technique. For robustness tests, we estimate the same regression using GMM in system.

Islamic Banks are dominating in profitability when ROA and ROE are the financial measures that depict the profitability. During the period of the international financial crisis Islamic Banking is dominating in profitability. For COSR conventional Banking are more profitable than Islamic banks.

Table 1: Comparative banking performance: GLS RE/FE

| Variables | GLS RE/FE : Islamic banks | | | | | | GLS RE/FE : Conventional banks | | | | | |
|--------------------------|---------------------------|---------|--------------|---------|-------------|---------|--------------------------------|---------|----------------|--------|--------------|---------|
| | ROA | | ROE | | COSR | | ROA | | ROE | | COSR | |
| | Coefficient | SD | Coefficient | SD | Coefficient | SD | Coefficient | SD | Coefficient | SD | Coefficient | SD |
| TB | -0.886 | 0.552 | -0.3909 | 0.6842 | 22.0933 | 17.449 | 0.3407*** | 0.1458 | -0.366 | 0.5008 | -7.871 | 14.802 |
| AB | 0.25 | 0.5977 | 0.28536 | 0.7403 | -16.296 | 15.1044 | -1.019*** | 0.1146 | -0.526*** | 0.4231 | 19.2835* | 11.6312 |
| KA | 0.9639*** | 0.2088 | 13.306*** | 2.586 | -86.6628 | 73.138 | -0.1786 | 0.4508 | -1.4368 | 1.809 | -49.0790 | 45.737 |
| LA | 0.456** | 0.2058 | -6.751*** | 2.743 | -52.987 | 56.987 | -0.1138 | 0.14578 | -0.367 | 0.593 | 17.315 | 14.796 |
| RIRNI | 0.0109 | 0.60014 | -0.0866 | 0.7433 | 8.1848 | 23.520 | - | | | | | |
| END | 1.5886*** | 0.3895 | 0.79389 | 4.8244 | 235.2287 | 152.463 | -0.1978 | 0.5584 | -2.352 | 2.352 | 8.0147 | 57.808 |
| Constant | -0.4989 | 0.61435 | 5.2326 | 7.60917 | -235.2287 | 212.044 | 11.45** | 0.152 | 5.314 | 5.314 | 79.85 | 155.3 |
| Nb of obs | 196 | | 196 | | 196 | | 188 | | 188 | | 188 | |
| Wald Test | - | | - | | 9.55 | | - | | 15.8 | | - | |
| P-value Wald | - | | - | | 0.1448 | | - | | 0.0074 | | - | |
| Fisher test | 9.87 | | 3.64 | | - | | 19.83 | | - | | 1.0000 | |
| P-value Fisher test | 0.0000 | | 0.0026 | | - | | 0.0000 | | - | | 0.4202 | |
| Within R ² | 0.255 | | 0.1736 | | 0.035 | | 0.3686 | | 5.81 | | 0.0202 | |
| Between R ² | 0.0018 | | 0.0942 | | 0.237 | | 0.0031 | | 0.3253 | | 0.0102 | |
| Overall R ² | 0.0882 | | 0.0962 | | 0.0481 | | 0.0048 | | 0.0775 | | 0.0194 | |
| Hausman test and P-value | 3.77 (0.22) | | 0.038 (0.34) | | 5.66 (0.46) | | 0.47 (0.23) | | 0.99098 (0.32) | | 18.22 (0.27) | |

Hausman χ^2 statistics: the test evaluates the significance of an [estimator](#) versus an alternative [estimator](#). The numbers in parentheses are the absolute values of t-statistics.

*, **, and *** indicate statistical significance at the 1%, 5%, and 10% level.

Table 2 : Comparative banking performance: GMM in System

| | Islamic banks | | | | | | Conventional banks | | | | | |
|-------------------|---------------|---------|-------------|---------|-------------|---------|--------------------|--------|-------------|--------|-------------|---------|
| | ROA | | ROE | | COSR | | ROA | | ROE | | COSR | |
| | Coefficient | SD | Coefficient | SD | Coefficient | SD | Coefficient | SD | Coefficient | SD | Coefficient | SD |
| Lag | 0.24452*** | 0.0070 | 0.394942*** | 0.00379 | 0.09907*** | 0.01159 | 0.863*** | 0.583 | 0.51007*** | 0.1178 | -0.0625*** | 0.00341 |
| TB | -0.1323*** | 0.01112 | -1.0397*** | 0.21075 | -65.500 | 56.931 | -0.17033 | 0.1227 | -0.2128 | 0.2779 | -43.618*** | 6.444 |
| AB | 0.21684 | 0.01478 | 1.68557*** | 0.10693 | -61.914* | 37.559 | -0.612*** | 0.735 | -3.25*** | 0.3347 | -20.52*** | 3.8996 |
| KA | 2.49183*** | 0.05817 | 32.0225*** | 0.1641 | -288.399 | 241.24 | -0.1059 | 0.276 | -1.588 | 2.002 | 39.45202 | 21.0657 |
| LA | 0.02773 | 0.03449 | 1.95940*** | 0.01812 | 149.386 | 110.12 | 0.8007*** | 0.1498 | -1.6508* | 0.898 | 84.8939*** | 29.203 |
| RIRNI | 0.02249** | 0.00982 | 0.19881** | 0.08243 | -36.7489 | 31.5245 | | | | | - | |
| END | 2.37449*** | 0.01478 | 11.5481*** | 1.6575 | 248.894 | 521.817 | 0.0945 | 0.102 | 0.32014* | 0.1940 | 31.306*** | 4.8642 |
| Constant | -1.4670*** | 0.08110 | -12.5511*** | 2.9779 | 623.735 | 563.586 | 3.9715** | 1.5513 | 13.2947*** | 4.2716 | 516.891*** | 90.019 |
| Nb. Ob | 180 | | 180 | | 180 | | 174 | | 177 | | 172 | |
| Wald Test | 9.87*** | | 8.49*** | | 9.55*** | | 19.83*** | | 15.8*** | | 18.83*** | |
| Sargan Test | 12.7469 | | 13.49738 | | 9.376623 | | 7.606 | | 6.9288 | | 15.2056 | |
| P-value du sargan | 1.0000 | | 1.0000 | | 1.0000 | | 1.000 | | 1.000 | | 1.0000 | |
| P-value AR(1) | 0.1787 | | 0.1786 | | 0.0873 | | 0.1151 | | 0.2027 | | 0.1534 | |
| P-value AR(2) | 0.2769 | | 0.2450 | | 0.2835 | | 0.3764 | | 0.633 | | 0.7853 | |

AR (1): Arellano and Bond test of null of zero first-order serial correlation, distributed N (0, 1) under null. AR

(2): Arellano and Bond test of null of zero second-order serial correlation, distributed N (0, 1) under null. Sargan test: is a [statistical test](#) used to check for [over-identifying restrictions](#) in a [statistical model](#). The numbers in parentheses are the absolute values of t-statistics.

*, **, and *** indicate statistical significance at the 1%, 5%, and 10% level.

Table 1 shows that the bank's capital and reserve ratio is a statistically significant variable at the 1% level with a positive coefficient (0.9639). Indeed, an increase in capital and reserves leads to an increase in the probability of high profitability. A result consistent with that of Iqbal (2001) Viverita (2011) and shar, et al (2010). The variable debt ratio is statistically significant at the 1% level, with a positive coefficient (1.5886). Then, an increase in debt ratio level an increase in the probability of liquidity and thereafter in the profitability of Islamic banks. However, estimating the model for conventional banks, we found a negative coefficient (-0.34077) statistically significant at the 1%. The same is true for the variable bank size which is found to be statistically significant at the 1% level with a negative coefficient (-1.019), which affects profitability. These results are consistent with those of Akhtar, Ali & Sadaqat (2010) and Safiullah (2010).

Estimating model [2] of Islamic banks, we found that the capital and reserve ratio is statistically significant at the 1% level with a strong and a positive effect on banking efficiency (13,306). This means that an increase in the capital and reserves of Islamic banks generates higher profitability. Moreover, the variable bad debts is statistically significant at the 1% level with a negative effect on efficiency (-6.751), while an increase in debt ratio generates a decrease in the probability of 'efficiency. For conventional banks, we notice that ROE is primarily affected by bankage with a negative coefficient (-0,526), significant at the 1% level. This means that an increase in bank age leads to a lower probability of efficiency.

Model [3] is globally significant, but the chosen variables are insignificant at the 1%, 5% and 10% levels. For conventional banks, we found that bankage influences their performance and is positive and statistically significant at the 10% level. Accordingly, Samad and Hassan (1999) and Metwally (1997) concluded that the two groups of banks can be differentiated in terms of performance and not in terms of profitability and efficiency.

Examining conventional banks, we found that Malaysian banks finance projects with high risks. This is detrimental to financial statements and in some cases led to banks closure. Thus, most banks have experienced an excessive rise in bad debts due to non-repayment of bank loans. Performance of conventional banks is expressed more by the profitability ratio than the efficiency ratio and the performance ratio.

Finally, we found that 55.2% of Islamic banks of our sample are more profitable when size is considered, while 59.77% of the banks are more performing when bankage is considered and 60.01% of Islamic banks generated more income than conventional banks. Moreover, 68.42% of the banks of our sample are more efficient when size is considered and 74.03% are when bank age is considered. On average, 74.33% of income is generated by Islamic than non-Islamic banks. To strengthen our results, we use the one-step GMM estimator-in-System method.

Econometrically-wise, in the three models of the two types of banks, we found that hypothesis H0 of the validity of instruments is not rejected (Sargan's probability statistic is greater than 5%, which means that the instruments are overall exogenous). Similarly, there is no serial correlation of order 2 (probabilities of Arellano & Bond of AR (2) test are greater than 5%). This allows us to state that the GMM model in system is coherent and specifies well the instruments without heteroscedasticity nor autocorrelation problems.

Table 2 shows that the order (1) lags operator is statistically significant at the 1% level and it has a positive effect on the model (0.2445) estimating Islamic banks. Similarly, we found that bank size is statistically significant at the 1% level and has a negative effect (-0.1323) on profitability. Moreover, debt ratio is statistically significant at the 1% level and positively influences (2.3745) bank performance of Islamic banks. This allows us to conclude that on average 78.24% of the banks of our sample dispose of a debt ratio and subsequently good profitability. The variable "bank capital and reserves" is statistically significant at the 1% level with a positive coefficient (2.4918) and significantly affects bank performance. Finally, the variable Islamic vs non-Islamic income is statistically significant at the 5% level and contributes positively (0.0225) and insignificantly to performance. These results may be explained by the fact that Islamic banks in our sample have high profitability and that the profitability of Islamic banks in Malaysia is oriented towards capital, reserves and income. Therefore, they depend on internal rather than external factors.

However, for conventional banks, we found that bank age is statistically significant at the 1% level and has a negative effect (-0.612) on the banking profitability. While the capital and reserves ratio is statistically significant at the 1% level and positively affects profitability (0.8007). This allows us to conclude that profitability of conventional banks in our sample results from the bank's age and its capital and reserve ratio.

Observing model [2] estimating Islamic banks, we may conclude that bank size is statistically significant at the 1% level and has a negative effect (-1.0397) on profitability. This means that an increase in bank size negatively affects banking profitability. Note that the debt ratio is statistically significant at the 1% level and positively influences efficiency of Islamic banks. Bank age is also statistically significant at the 1% level and positively influences (1.6855) efficiency. Then, an increase in bank age means more efficiency stemming from experience. We notice also that the capital and reserve ratio and bad debts are statistically significant at the 1% level and contribute positively to ROE with respective coefficients of (32,022) and (1.9595).

We can also notice that 16.57% of the banks in our sample are considered more profitable when the capital and reserve ratio is considered, and 18.14% are when bad debts are considered. Finally, the variable Islamic vs Non-Islamic income is statistically significant at the 5% level and positively influences (0.1988) performance. These results are explained by the fact that performance of Islamic banks in Malaysia depends on capital, income, debt, size and age. In light of these results, we may say that Islamic banks are more profitable than conventional banks where 11.78% of the banks in our sample are profitable, while bank age negatively affects profitability (-3.25), which is statistically significant at the 1% level. As for the variable, debt loans, it is statistically significant at the 10% level with a positive coefficient (0.32014). Moreover, an increase in debt levels positively affects the probability of banking performance. Finally, the capital and reserve ratio yielded a negative coefficient (-1.6508), statistically significant at the 10% level.

Note that Hanif and al (2012) argue that ROE is an important performance indicator that measures profitability of banks. It generates profits from each equity unit scaled to the bank's

capital (Gul Zaman and Irshad, 2011). It is the main reason why potential investors show interest in ROE before investing in a bank.

Finally, estimating model [3], we found that only bankage is statistically significant at the 10% level and has a negative effect (61,914) on the "COSR" ratio, allowing for a clear look on performance. For conventional banks, we found that size and bankage are statistically significant at the 1% level with high negative coefficients (-43.61843) and (-20.5197). Finally, capital and income ratios and debt are statistically significant and positive with respective coefficients of (84.89396) and (31.30577).

4. Conclusion

There are many differences between Islamic and conventional banking. The fundamental difference lies in the fact that Islamic banking refers to religious principles and practices while conventional banking refers to purely economic principles. This study has allowed us to determine the performing banking system out of a sample of conventional and Islamic banks in Malaysia using econometric and financial features. Islamic banks operate under different principles than their conventional counterpart. Islamic finance refers mainly to the precepts of Islamic law, such as the sharing of profits and losses and the prohibition of interest and speculation while the two types of banks face the same competitive environment. However, it is unclear whether the performance of financial ratios differ significantly between the two categories of banks. In this study, we chose three financial ratios to investigate performance i.e. the profitability ratio "ROA", the efficiency ratio "ROE" and the performance ratio "COSR".

Econometrically, we found that Islamic banks are much more efficient than conventional banks. Reporting profitability estimates, Table 2 shows that most variables are statistically significant at the 1% level. However, for conventional banks, we found that only bank age is statistically significant at the 1% level. Looking into estimates of the "Static Panel" method, reported in Table 1, we found that the average of "bank size" is 55.2% for Islamic banks, which is much greater than that of conventional banks (14.58%). This means that 55.2% of profitability of Islamic banks is generated thanks to their size. The variable "bank age" is also relevant since on average it is equal to 59.77% for Islamic banking, unlike that of conventional banks which is 11.46%. We can conclude that 59.77% of Malaysian Islamic banks are more profitable when we consider this variable. In other words, on average 60% of Islamic banks provide more income than conventional banks. From the above results, we can conclude that Islamic banks are more efficient in terms of profitability. Moreover, such high performance may relate to the following reasons. First, Islamic banks generate more liquidity since they use more contracts and funding resources. Then, they generate much higher incomes than their conventional competitors thanks to the religious aspect, which attracts Muslim believers. Islamic banks have significant debt ratio, capital, reserves, income and outstanding loans. These factors allow Islamic banks to be well positioned in the global banking system. Several other reasons may explain such a higher performance. First, Malaysia, the sharia's Board of Directors oversees investment of banks which ensures banking performance. Second, investments in government bonds are the main

source of income for the Malaysian Islamic banks. Government bonds generate less profits than other types of investments. Finally, to insurance depositors on their deposits and build their trust (Amanah), Malaysian Islamic banks hold more cash than conventional banks.

ROE of Islamic banks indicates that they are more profitable than conventional banks. Indeed, we found that all the related variables are statistically significant at the 1% level. Indeed, comparing the means, we found that 68.84% of Islamic banks are efficient when size is considered, while the rate for conventional banks is around 50%. Table 1 also shows that income of Islamic banks is very high. It is 74.33% and is statistically significant at the 1% level. We found that the liquidity ratio is higher for Islamic banks than for conventional banks because of several factors. First, it should be noted that the scope of Islamic investment is limited by the sharia. Islamic banks are not allowed to invest in opportunities present for non-Islamic investments, like gambling, projects and activities prohibited by Islam such as alcohol and sex. The limited set of investment opportunities help Islamic banks in Malaysia to hold more liquid assets. Second, most of the loans and Islamic banking investments are short term in nature. The Murabahah is a short-term investment instrument and less risky for a bank that has 60% of Islamic banking activities. There is practically no risk involved in the Murabahah financing which remains fully secured by assets. On the other hand, Mudarabah and funding are more like long-term mucharaka investment, which represents only a small percentage of total funding for the bank which encourages customers to invest in Islamic banks. This generates higher profit and liquidity. Third, Islamic banks want to impose themselves as a great alternative to conventional banks and therefore they cannot afford to incur losses and harm thus the general reputation of Islamic banking.

References

- Akhtar, H., (2010). Technical Efficiency and Productivity Growth Of Saudi Banks: A Data Envelopment Analysis Approach. *Global Business Review* 11:2.
- Awan, A., (2009). Comparison of Islamic And Conventional Banking In Pakistan, Proceedings 2 e CBRC, Lahore, Pakistan, Nov.2009.
- Gul, S. & al, (2011). Factors Affecting Bank Profitability in Pakistan. *La Romanian Economic Journal* 39.
- Hanif, M. et al, (2012), Comparative Performance Study of Conventional and Islamic Banking in Pakistan.
- Iqbal, M., (2001). Islamic And Conventional Banking In The Nineties: A Comparative Study. *Islamic Economic Studies* 8: 2.
- Jaffar, M., & Manarvi, I., (2011). Performance comparison of Islamic and Conventional banks in Pakistan. *Global Journal of Management And Business Research* 11: 1.
- Javaid, S.et al, (2011). Determinants Of Bank Profitability In Pakistan: Internal Factor Analysis. *Mediterranean Journal Of Social Sciences*.
- Percin, S., & Ayan, TP, (2006). Measuring Efficiency Of Commercial Banks In A Developing Economy: The Case Of Turkey. *Investment Management And Financial Innovations* 3: 2.
- Rosly, SA, and Abubakar, MA, (2003). Performance of Islamic and mainstream banks in Malaysia. *International Journal of Social Economics* 30 :12.
- Safiullah, M. (2010). Superiority of Conventional Banks & Islamic Banks of Bangladesh: A Comparative Study. *International Journal of Economics and Finance* 2: 3.
- Samad, A. (2004). Performance Of Interest-Free Islamic Banks Vis-À-Vis Interest-Based Conventional Banks Of Bahrain, *IIUM Journal Of Economics And Management*.
- Shar,A.et al, (2010). Performance Evaluation Of Pre-Post Nationalization Of Banking Sector In Pakistan: An Application Of Clsa-Stress Test. *International Journal Of Business And Management*.
- Sheik, SA, & Ali, A., (2009). Risk management in Islamic and conventional banking: a differential analysis. *Journal of Independent Studies and Research*.
- Sheikh,et al, (2010). Islamic Vs Conventional Banks in Pakistan(A case study of Bahawalpur). *Journal of Education Research*.
- Yahya, M.H; Muhammad, J. and Abdul Hadi, A.R. (2012), "A comparative study on the level of efficiency between Islamic and conventional banking systems in Malaysia", *International Journal of Islamic and Middle Eastern Finance and Management*, Vol. 5 pp. 48 - 62

Appendix 1. List of banks

| Islamic Banks | Conventional banks |
|---------------|--------------------|
|---------------|--------------------|

| | |
|---|--|
| <p> B1: Affin Bank B2: Alrajhi bank B3: Alliance Bank Malaysia Berhad B4: Am Islamic Bank B5: Asian Bank B6: Bank l B7: Muamlt Bank B8: CIMB Islamic Bank B9: EONCAP Islamic Bank B10: Hong Leong Islamic Bank B11: HSBC Bank Malaysia Berhad B12: Kwait Bank B13: Mayban Fibance Berhad B14: OCBC Al-Amanah B15: Public Bank BHD B16: RHB Islamic Bank B17: Standard Chartered Saadiq </p> | <p> B1: Affin Bank B2: Alliance Bank B3: Am Bank B4: Bangkok Bank Limited B5: CIMB Bank B6: Citi Bank NA B7: Deutsch Bank B8: Hock HUA Bank Group B9: Hock HUA bank Sabah BHD B10: JP Bank B11: May Bank B12: OCBC B13: Public Bank B14: RBS B15:RHB Bank B16:Scotia B17:Standa </p> |
|---|--|