



UNIVERSITI TEKNOLOGI MARA

**FACTORS AFFECT THE PERFORMANCE OF
ISLAMIC BANKING IN MALAYSIA**

ISKANDAR IKHWAN SHAH BIN SAUBI

2020982649

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ABSTRACT

Islamic banking has seen enormous growth in the previous three decades, particularly in Malaysia, according to evidence. The purpose of this study is to look at the elements that influence Islamic banking performance in Malaysia, specifically from 2000 to 2010. The major goal of this study is to look into the factors affecting of Islamic banking in Malaysia. This study examines the relationship between return on equity (ROE) and loan loss provision to total assets, shareholder equity ratio, bank size, and inflation rate to bank profitability. Internal predictors include loan loss provision to total assets, shareholder equity ratio, bank size, as well as external forecasters such as inflation rate. The loan loss provision to total assets and inflation rate are the key variables affecting the performance of Malaysia Islamic banking throughout the time studied, according to the pooled OLS approach.

Keywords: Islamic banking, Performance, Relationship, Variables

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CHAPTER ONE: INTRODUCTION

1.1 Introduction

In the 1980s and 1990s, the Muslim world's financial landscape was marked by the gradual rise of Islamic banks. Islamic banks are currently playing an increasingly important role in their individual economies, with a network spanning more than 60 countries and an asset base of more than \$166 billion. Islamic banks have the flexibility to become shareholders and creditors of businesses, as well as the advantage of providing investment banking services, thanks to their charters. Islamic banks are increasingly acquiring market share in their own economies in this regard. In retrospect, Islamic banks demonstrate the empirical success and viability of removing fixed interest payments from financial transactions.

The study that want to be examine is factors affect the performance of Islamic banking in Malaysia. The question is whether banking factors and macroeconomic factors affect the performance of Islamic banking in Malaysia. The step in determining this study are identifying indications, analyzing the condition, defining the problem, and declaring research objectives are all ways to tackle a problem. A researcher must first set the study objectives and research questions in order to obtain the research's answer. Research questions are the questions that a research effort sets out to answer, whereas investigation objectives reflect what we intend to learn from the research. The symptoms will be used to determine the complication. The researcher must identify the problem that related to variables. The problem statements concerning about the performance of Islamic banking in Malaysia. This study is about to identify the loan loss provision to total assets, shareholder equity ratio, bank size, and inflation rate.

Islamic banking in Malaysia was started in 1963 and the first Islamic bank in Malaysia was established in 1983. Since that, Malaysia Central Bank (BNM) and Securities Commission (SC) has introduced a policies to aim at accelerating the expansion of Islamic banking and finance in Malaysia. Malaysia is now known as the Islamic banking hub in which Malaysia is among the significant contributors to the growth of Islamic banking scheme around the world. (Asni, 2019). Despite the economic constraints posed by the coronavirus outbreak, Islamic banking in Malaysia continued to grow.