UNIVERSITI TEKNOLOGI MARA

STUDY OF RISK MANAGEMENT OF ISLAMIC BANKS IN MALAYSIA

MUHAMMAD HAIRUL AZMI BIN MUL
2019630906

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ABSTRACT

The purpose of this research is to study at the link between risks and the performance of Malaysia's Islamic banks. This research will also look into or establish the impact of factors like liquidity management and leverage risk on the performance of Islamic banks that are listed with Bank Negara Malaysia. Data for this study were collected from a sampling Islamic bank's relevant database from 2011 to 2020. Return on asset is chosen as the dependent variable in this study. It is determined by its independent variable, which is the capital adequacy ratio, as well as liquidity management. To evaluate and understand the acquired data, the E-views integrated software application would be employed. The study shows a positive relationship on the leverage towards return on asset. While liquidity management shows a negative relationship towards return on assets.

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INTRODUCTION

1.1 INTRODUCTION

Financial institutions play a critical and essential role in Malaysia's development and economic growth. Relatively speaking, it is undeniable that the financial industry is viewed as an important source of finance for most firms. Malaysia is one of the many countries that has introduced a dual banking structure and it is a planned system to provide Malaysians with a complete and robust banking alternative. This ensures that a greater range of Islamic banking goods and services are made available to the Islamic banking institutions. The explanation is due to the rising in demand for Islamic banking, especially among Bumiputera and Muslim communities. According to the Department of Statistics Malaysia (DOSM), that the estimated Malaysia population in 2021 are at 32.7 million with 69.6 percent are Bumiputera. In addition, current year projection to grow by 0.4 percent annually. However, most of the country's banking industry is regulated primarily by conventional banking, with Islamic banks accounting for around one-fifth or twenty percent of the overall proportion. There were 26 conventional banks and 16 Islamic banks in the compromise.

Islamic banking is defined as a banking system that is based on the principles of Islamic law, also known as Shariah law. Two basic principles behind the Islamic banking are the profit and loss sharing and the prohibition of the collection and payment of interest, also known as Riba. This is because, the collection of interest is not permitted under Islamic law. A study by Spira (2002), stated Islamic banking refers a system of banking or banking activities that is consistent with Islamic law and principles and guided by Islamic economics. Furthermore, the establishment of Bank Islam Malaysia Berhad (BIMB) with operations industry guided and regulated by the Islamic Banking Act of 1983; Malaysia first embarked on Islamic banking in 1985. In addition, the establishment of BIMB also represented a new landmark for Malaysia's growth of the Islamic financial sector. BIMB performs banking operations close to those of other commercial banks, but in accordance with the principles of Syariah. In 1992, Islamic counters or windows were opened to the public at conventional banks, offering equivalent interest-free services.