

DETERMINANTS OF CREDIT RISK OF LISTED ISLAMIC BANKS AND COMMERCIAL BANKS IN MALAYSIA

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ABSTRACT

This research investigates the determinants of credit risk of listed Islamic Banks and Commercial Banks in Malaysia for the period of year 2009 until year 2019. Most of the studies focus on credit risk, which might give huge impact towards Islamic banks and Conventional banks in Malaysia. The purpose of this research is to examine the relationship between credit risks of Islamic banks and Conventional banks in Malaysia. Other than that, it will determine the most significant variable might affect the credit risk the banks. The determinant factors chosen are based on bank profitability (return on asset (ROA) and return on equity (ROE)), inefficiency (IE), loan to deposit ratio (LDR), inflation (INF) and exchange rate ER). To analyze the relationship between all the variables, the multiple regression analysis is performed to examine all possible relationships in a year from 2009 until 2019. There are a few empirical tests had conducted in this research, such as diagnostic checking, Random Effect (RE) test and Variance Inflation Factor (VIF). Lastly, the result concludes that all variables have significant relationships with credit risk.

Keywords: *Profitability, Inefficiency, Loans to Deposit Ratio, Inflations, Exchange Rate*