



**DETERMINANT OF ISLAMIC BANKING INSTITUTIONS'S
PROFITABILITY IN MALAYSIA**

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DECEMBER 2014

ACKNOWLEDGMENT

Foremost , I would like to express my deep and sincere gratitude to my advisor, En. Kharudin Mohd Sali @ Salleh for his patience, enthusiasm, immense knowledge and continuous support throughout my thesis. His valuable guidance and constructive evaluations have been of great value for me in all the time of research and writing this thesis.

Since thanks go towards my friends for their continuing support and encouragement all the way to accomplish my thesis. I am grateful to my beloved family for their patience and keep supporting me spiritually throughout my life. Last but not least, i offer my regards and blessings to all of those who supported me in any respect during the completion of my thesis.

Thank You,

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CHAPTER 1

INTRODUCTION AND BACKGROUND OF STUDY

1.1 Introduction

Nowadays, Islamic banking is one of the important role in banking industry. Many people now more prefer the Islamic banking rather than the commercial bank. Islamic banking already had grown rapidly in Malaysia. There are now total 16 Islamic banks in Malaysia including the foreign bank. There are more researchers started to carry out their research to determine the factors affecting the profit of Islamic banking institutions.

1.2 Research Background

Islamic Banking refers to a system of banking that complies with Islamic Law also known as Shariah law. The underlying principles that govern Islamic Banking are mutual risk and profit sharing between parties, the assurance of fairness for all and that transaction are based on an underlying business activity or asset¹.

There are over 300 Islamic Financial institutions worldwide across 75 countries. According to the Asian Banker Research Group, The World's 100 largest Islamic banks have set annual asset growth rate of 26.7%².

¹ Bank Negara Malaysia (2014, September 10) Retrieved from website http://www.bnm.gov.my/index.php?ch=fs_mfs&pg=fs_mfs_bank

² Bank Negara Malaysia (2014, September 10) Retrieved from website http://www.bnm.gov.my/index.php?ch=fs_mfs&pg=fs_mfs_bank