UNIVERSITI TEKNOLOGI MARA

FACTORS DETERMINING THE PERFORMANCE OF ISLAMIC BANKING IN MALAYSIA

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ABSTRACT

A primary goal of this study will be to gather data on Islamic banking in Malaysia. Economies and countries rely heavily on banks. Banks' ability to make a profit and operate efficiently is critical because it helps to keep the financial system stable and shields a country from adverse waves. Understanding the factors that influence Islamic banks' profitability is essential. This study's primary goal is to examine the factors that influence Islamic banking in Malaysia. Return on Asset (ROA), the most widely used metric, is used to examine the connection between Bank Size, Capitalization, GDP growth, and Inflation as they relate to bank profitability. Data for this study came from the bank's annual reports, Thomson Reuters, and the World Bank's databases. From 2011 to 2020, this study relies on data from six (6) Islamic banks listed on Bursa Malaysia's stock exchange. The collected data is examined using panel data in this study. As a result of the findings of each test, two variables have a significant relationship with the dependent variable while the other two are showing otherwise. The first two significant variables are bank-specific factors which are Bank Size and Capitalization. It was supported by S. Bony (2021), he found that bank-specific factors and macroeconomic factors are linked to the performance of the bank. This result is also supported by Mosharrof Hosen (2020) the findings of the standardized pooled ordinary least square (OLS) approach revealed that Bank Size and Capitalization have a significant positive impact on Islamic banks' Return on Assets. Meanwhile, the other two variables are macroeconomic factors which are GDP growth and Inflation which have shown an insignificant result. According to P RidhoSatria (2019), macroeconomic factors which are GDP growth and Inflation have an insignificant but positive link to the performance of the bank. As a result of the research, it has been determined that the variables studied are linked to bank performance.

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Sincerely, Muhammad Adam Asyraf Bin Mohd Asri

TABLE OF CONTENT

CHAPTER ONE: INTRODUCTION

1.1 Introduction

Malaysia is a multiracial and multiconfessional country with Islam as its official religion. Every country has financial institutions that oversee economic development and money management and reflect the government's financial policies. There are 61.3% Muslims, 19.8% Buddhists, 9.2% Christians, 6.3% Hindus in the country and traditional Chinese faiths make up 3.4 percent of the population, according to the 2010 Census of Population and Housing. (Rashid, 2010). Every country has financial institutions that oversee economic development and money management and reflect the government's financial policies. According to Bashir (2017), Malaysia's Islamic financial sector is one of the most progressive and appealing in the world. Consequently, the success of Islamic banks is viewed as an important indicator of the economy's ability to grow and thrive.

Islamic banking has become more appealing to Muslims, resulting in an increase in the number of Muslims switching from traditional banking to Islamic banking (Islamic Finance, 2017). With credit cards and other conveniences, many Muslims will not want to give up these when they switch over to Islamic banking. The 'Muamalat court' was created to help the industry better manage Islamic finance affairs, strengthen accountability, and develop a contractual regulatory framework. (Ali, 2018).

Malaysia has three types of financial institutions which are conventional banking, investment banking, and Islamic banking. (BNM, 2018). According to Islamic Finance Development Report 2018, the Islamic banking sector currently accounts for 71 percent of all Islamic finance assets, totalling 1.721 trillion US dollars (Hassan, 2020). In addition, over the last ten years, Islamic finance has been one of the fastest-growing industries, with an estimated value of US$2.4 trillion in 2017 and a 6 percent CAGR to reach US$3.8 trillion by 2023. (Reuters, 2020). Thus, according to Musa 2015, in the world, there are two types of banking systems which are Islamic banking and conventional banking.

There are 16 Islamic banking in Malaysia based on the global banking & finance review (BNM, 2020). However, in this research, we only choose 6 of them which are Al Rajhi Bank, Maybank, CIMB Bank, Bank Islam, Alliance Bank and Bank Muamalat. This research is to investigate whether the performance of Islamic banks in terms of Return on Asset (ROA) are significantly affected by Bank Size, Capitalization, GDP growth and Inflation. Bashir (2003) discovered a significant positive relationship between profitability and economic growth using