



UNIVERSITI TEKNOLOGI MARA

**THE DETERMINANTS OF ISLAMIC BANKING
PROFITABILITY IN MALAYSIA**

**AN NUR ASHRAF SUHADA BINTI MOHD ALI
2016728423**

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ABSTRACT

Islamic banking is playing an important role in today's banking industry. Islamic banking has grown rapidly in Malaysia recently. There are now total 16 local Islamic bank in Malaysia. Then, the aim of this study is to increase our knowledge and understanding about the determinants that may give impact to the profitability of Islamic bank in Malaysia. Most Islamic banking research only covers the factor such as the bank reputation and services. The research about Islamic banking profitability is rarely found. So, this paper intends to contribute to the understanding of Islamic banking profitability and what is the measure of Islamic banking profitability in Malaysia. The data was taken from the Financial Statement of each banks, and the average return on asset (ROAA) ratio is used to proxy for profitability. The data that will be use is for five years latest from year 2016, year 2017, year 2018, year 2019, also year 2020. Then, dependant variable that measure the profitability of Islamic bank. Then, for independent variables, is asset quality, liquidity, operations, capital and size of the banks. In order to produce the result we are going to use multiple linear regression to achieve the objective of the research. For expected finding, we expect that some variable that had been tested have significant relationship with Islamic bank profitability.

CHAPTER 1

INTRODUCTION

1.1 Introduction

Islamic banking is a banking system that is consistent with the *sharia'a* (Islamic law) and, as such, an important part of the system is the prohibition on collecting *riba* such as interest and usury according to the book that title Introduction to Islamic Banking and Finance by Brian Kettle. Islamic banks operate without interest, which is not permitted in Islam. Instead, money is generated through profit from investments. Each Islamic bank has a panel of Muslim advisers who ensure that these investments are compliant with Sharia law. Dealing with *riba* (interest) is strictly prohibited as Allah SWT has mentioned in Quran. The revelation is in Surah Al-Rum (39); “That which you give in usury in order that it may increase on (other) people’s property hath no increase with Allah, but that which you give in charity, seeking Allah’s Countenance, hath increase manifold. The verses above clearly stated that Islamic banks are prohibited from taking *riba* (interest). The crux of Islamic banking is that any profit gained by the banks must be interest-free based. Generally, Islamic bank act as an intermediary and trustee of the deposit placed by the customers similar to the conventional, (Suppia, 2019).

Then, Islamic banking is playing an important role in today’s banking industry and Islamic banking also has grown rapidly in Malaysia recently. There are now total 16 Islamic bank that we listed by Bank Negara Malaysia until 2021 that operation in Malaysia (Bank Negara Malaysia, 2021). Statically, Islamic banking has had phenomenal growth , according o the Asian Banker Research Group, the world’s 100 largest Islamic bank have an annual asset growth rate 26,7% and the global Islamic finance industry is experiencing an average growth of 15-20% annually (Kunhibava, 2021). Then, Islamic finance industry also has expanded swiftly in the past thirty years expanding its horizon in terms of operations and territory by reaching out to many parts of the world from Arab countries to Middle-East to Asia and Europe. The dynamics of Islamic finance industry as discussed earlier emerged with the establishment of the Small Savings Association of Mitghamr (Egypt) in 1963. The capacity and vigor of the industry has nowreached to more than 500 banking and financial entities having operations in over 90 countries with the aggregate gross assets approximately more than 1.6 trillion US dollars which is likely to double by 2016 (Ali, 2015).