



Determinants of Financial Performance of Islamic Banking in Malaysia

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Abstract

This research was conducted to investigate the determinants of the financial performance of Islamic banking in Malaysia. The performance of Islamic Bank measured based on return on asset (ROA), while the independent variables examined were capital adequacy (CA), asset quality (AQ), and liquidity management (LM). The data for this research were collected from twelve out of sixteen Islamic Banks in Malaysia listed by Bank Negara Malaysia. The annual reports were analyzed for six years which were from the year 2010 until 2016. The findings revealed that there is a significant relationship between asset quality and liquidity management towards the performance of Islamic Banking in Malaysia. However, there is insignificant relationship between capital adequacies towards the performance of Islamic Banking in Malaysia. Nevertheless, there are still other factors that may affect the performance of Islamic Banking in Malaysia.

Key words

Islamic Banking, Return on Asset, capital adequacy, liquidity management, asset quality

Received: 25 Nov 2018 © The Authors 2018

Revised: 5 Dec 2018 Published by Human Resource Management Academic Research Society (www.hrmars.com)

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1. Introduction

Every country has financial institutions to embody the financials guidelines and ensure the economic growth as well as, control of money for the country. The financial institutions are responsible to manage and control all the resources related to financing. The presence of banking institution is to help the growth of economic activity in a country. In Malaysia, there are currently three types of banking institution which are conventional banking, investment banking and Islamic banking.

Conventional banking and investment banking are considered under the commercial banking guidelines meanwhile, Islamic banking falls under its own category. The banking system is also a financial institution or agency for the public to save funds in the forms of savings or in the form of credit to improve living standards while keeping their money in the banks. Other than that, the banking system also functions as a supplier of the money and funding money to help the economic activities in Malaysia. Alternatively, an investment bank deals with money and credit for profit-seeking business firm.

Additionally, Islamic Banks perform the same purposes as commercial banks, but Islamic banking obligation follows the rules of Islamic Shariah board. Malaysia is the one of the fastest growing countries in the Islamic finance industry. The existing Islamic banking system in Malaysia has received numerous recognitions and become references to other countries. Islamic banking was based on the Islamic Law as