A STUDY ON THE MEASUREMENT AND DETERMINANTS OF PROFITABILITY PERFORMANCE IN MALAYSIAN ISLAMIC BANKING INSTITUTION

RESEARCH MANAGEMENT INSTITUTE
UNIVERSITI TEKNOLOGI MARA
40450 SHAH ALAM, SELANGOR
MALAYSIA

BY:

SITI NURULHUDA BT IBRAHIM
SHARIFAH HERYATI BT SYED NOR
FAHMI BIN ABDUL RAHIM

DISEMBER 2010
PROJECT TEAM MEMBERS

SITI NURULHUDA BINTI IBRAHIM
Project Leader

Signature

SHARIFAH HERYATI BINTI SYED NOR
Project Member

Signature

FAHMI ABDUL RAHIM
Project Member

Signature
<table>
<thead>
<tr>
<th>TABLE OF CONTENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>PAGE</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>FRONT PAGE</td>
</tr>
<tr>
<td>TITLE PAGE</td>
</tr>
<tr>
<td>RESEARCH OFFER LETTER</td>
</tr>
<tr>
<td>REPORT SUBMISSION LETTER</td>
</tr>
<tr>
<td>PROJECT TEAM MEMBERS</td>
</tr>
<tr>
<td>ACKNOWLEDGEMENT</td>
</tr>
<tr>
<td>CONTENTS</td>
</tr>
<tr>
<td>ABBREVIATIONS</td>
</tr>
<tr>
<td>LIST OF FIGURES</td>
</tr>
<tr>
<td>LIST OF GRAPHS</td>
</tr>
<tr>
<td>LIST OF TABLES</td>
</tr>
<tr>
<td>ABSTRACT</td>
</tr>
</tbody>
</table>
CHAPTER 1

INTRODUCTION

1.1 Background of study 1
1.2 Problem Statement 3
1.3 Objective of Study 4
1.4 Research Question 5
1.5 Scope of the Study 6
1.6 Significant of the Study 6
1.7 Limitation of the Study 7

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction 9
2.2 Islamic banking in practice 10
2.3 Financial ratio analysis as a method for measure performance 14
2.4 Indicators of bank’s return 22
   2.4.1 Bank specific determinants 23
   2.4.2 Macroeconomics determinants 26
2.5 Conclusion 28
ABSTRACT

This study is able to measure the profitability performance of Malaysian Islamic Banking institution, whereby in the same time identify the determinants of its profitability from year to year that cover ten years period starting in year 2000 until 2009. Besides measure its performance from year to year, this study attempt to compare its profitability performance with conventional banking institution whether going parallel or not as targeted by BNM. Data has been analyzed by using ratio analysis when its become to measure its profitability performance. However, to identify the determinants of its profitability, the Least Square Method has been used. All data obtained straightly from secondary sources through published journal, books, working papers and etc. This study found that in terms of its profitability performance, the Islamic Banking Institution is moving parallel with Conventional banking institution. Meanwhile the most indicator that determine profitability of Malaysian Islamic Banking Institution is loan, whereby they have positive relationship that indicated increase (decrease) in loans would make increase (decrease) in profitability. However there is insignificant relationship for inflation and GDP growth rate with profitability of the Islamic Banking Institution. The finding also revealed that capital, cost of management and fuel price have significant relationship with profitability of this institution. As a conclusion, it is hoped that this study can give better understanding of Islamic Banking institution since now the islamic banking system play a vital role in the current global economic crisis.