



**DETERMINANTS OF ISLAMIC BANK PROFITABILITY
EVIDENCE FROM MALAYSIAN LOCAL ISLAMIC BANKING
USING PANEL REGRESSION MODEL**

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TABLE OF CONTENT

	Page
TITLE OF PAGE	i
DECLARATION OF ORIGINAL WORK	III
LETTER OF TRANSMITTAL	III
ACKNOWLEDGEMENT	V
TABLE OF CONTENT	I
LIST OF FIGURE	ERROR! BOOKMARK NOT DEFINED.
LIST OF TABLES	XI
LIST OF ABBREVIATIONS	ERROR! BOOKMARK NOT DEFINED.

ABSTRACT

CHAPTER 1 INTRODUCTION 8

1.0 BACKGROUND OF STUDY	1-2
1.1 PROBLEM STATEMENT	3-4
1.2 SCOPE AND LIMITATION OF STUDY	4-5
1.3 OBJECTIVE OF STUDY	5
1.4 SIGNIFICANT OF STUDY	5-6
1.5 SUMMARY OF CHAPTER	7

CHAPTER 2 LITERATURE REVIEW

2.0 INTRODUCTION	8
2.1 THEORETICAL STUDIES	8-9
2.2 EMPIRICAL REVIEW	10
2.2.1 RETURN ON ASSET	10-11
2.2.2 BANK SIZE	12-13
2.2.3 EXPENSES MANAGEMENT	13-15
2.2.4 CAPITAL RATIO	15-16
2.2.5 INFLATION	16-18
2.2.6 GROSS DOMESTIC PRODUCT	18-19

	2.3 SUMMARY OF CHAPTER	19
CHAPTER 3	RESEARCH METHODOLOGY	
	3.0 INTRODUCTION	20
	3.1 DATA COLLECTION METHOD	20-21
	3.2 VARIABLES AND MEASUREMENT	21-22
	3.3 THEORETICAL FRAMEWORK	23
	3.4 RESEARCH HYPOTHESIS	24
	3.5 EMPIRICAL ANALYSIS FRAMEWORK	24-25
	3.6 PANEL REGRESSION MODEL PROCEDURE	25-26
	3.7 FLOW CHART	27
	3.8 SUMMARY OF CHAPTER	28
CHAPTER 4	RESULTS AND FINDINGS ANALYSIS	
	4.0 INTRODUCTION	29
	4.1 DESCRIPTIVE ANALYSIS	29-30
	4.2 UNIT ROOT TEST	30-32
	4.3 POOLABILITY TEST	32-33
	4.4 REGRESSION TEST	33-35
	4.5 MULTICOLLINEARITY TEST	35-36
	4.6 CORRELATION AND COEFFICIENT	37
	4.7 AUTOCORRELATION TEST	37-38
	4.8 HETEROSCEDASTICITY TEST	38-39
	4.9 ROBUSTNESS TEST	39-41
	4.10 STANDARD ERROR	41
	4.11 HYPOTHESES TESTING	42
	4.12 SUMMARY OF CHAPTER	43
CHAPTER 5	RECOMMENDATION AND CONCLUSION	
	5.0 INTRODUCTION	44

ABSTRACT

This study seeks to determine what factors had influenced the profitability of the local Islamic bank in Malaysia. The data of 10 Malaysian Islamic Banks has been obtained which covered the period of 2007 until 2016. Data were sources from the yearly reports and DataStream of Thompson Reuters of the sample banks and analysed by using regression model. The return on asset (ROA) is used as a proxy in measuring the Islamic banks' profitability. This study focused on both internal and external factor in determining the profitability of Islamic banks. The internal factor comprises of bank size, expenses management and capital ratio while, the external factors included are inflation(CPI) and Gross Domestic Product (GDP). The results revealed that the variables of expenses management capital ratio and gross domestic product have a positive and significant relationship with return on asset while consumer price index (CPI) found to have a negative and significant relationship with the profitability. However, the variable of bank size proved to have no significant relationship towards the return on asset.

Keywords: Local Islamic banks, Return on Asset, bank characteristics, macroeconomics.