



**THE BANK SPECIFIC DETERMINANTS OF PROFITABILITY ON
ISLAMIC BANKING SCHEME (IBS) OF MAINSTREAM BANKS IN
MALAYSIA**

**RAIMI BIN RUSLI
2008794355**

**BACHELOR OF BUSINESS ADMINISTRATION (HONS) FINANCE
FACULTY OF BUSINESS MANAGEMENT
UNIVERSITI TEKNOLOGI MARA
MELAKA CITY CAMPUS MELAKA**

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RAIMI BIN RUSLI

**Submitted in partial fulfillment
of the requirement for the
Bachelor of Business Administration
(Hons) Finance**

**FACULTY OF BUSINESS MANAGEMENT
UITM BANDARAYA MELAKA**

OCTOBER 2010

DECLARATION OF ORIGINAL WORK



**BACHELOR OF BUSINESS ADMINISTRATION
(HONS) FINANCE
FACULTY OF BUSINESS MANAGEMENT
UNIVERSITI TEKNOLOGI MARA
BANDARAYA MELAKA**

“DECLARATION OF ORIGINAL WORK”

I, RAIMI BIN RUSLI, (I/C Number: 880411-14-5879)

Hereby, declare that,

- This work has not previously been accepted in substance for any degree, locally or overseas and it not being concurrently submitted for this degree or any other degrees.
- This project paper is the result of my independent work and investigation, except where otherwise stated
- All verbatim extract have been distinguished by quotation marks and sources of my information have been specifically acknowledged

Signature: _____

Date: _____

LETTER OF SUBMISSION

29 October 2010

The Head of Program
Bachelor of Business Administration (Hons) Finance
Faculty of Business Management
Universiti Teknologi MARA
Bandaraya Malaka

Dear Sir,

SUBMISSION OF PROJECT PAPER

Attached is the project paper titled "THE BANK SPECIFIC DETERMINANTS OF PROFITABILITY ON ISLAMIC BANKING SCHEME (IBS) OF MAINSTREAM BANKS IN MALAYSIA" to fulfill the requirement as needed by the Faculty of Business Management, Universiti Teknologi MARA

Thank you.

Yours sincerely,

RAIMI BIN RUSLI
2008794355
Bachelor of Business Administration (Hons) Finance

ABSTRACT

Using central bank data of nine (9) years timeframe, this research intends to investigate the impact of bank-specific characteristics on Islamic banks' profits, during the period 2001 to 2009. The bank level data are obtained straightly from Bank Negara Malaysia database. This study employs regression models that relate bank profitability ratios to various explanatory variables. In this study, one ratio represent profitability measures that are return on assets (ROA), three variables (capital, loan and overhead) are drawn from the conventional banking literature as proxies for bank-specific factors. The results from this study indicate that the main determinants of Islamic bank's profit are capital and loan, although the loan is negatively correlated to profitability. This study also found a positively significant relationship between profitability measures and capital of Islamic banks but no significant toward overhead. The findings revealed that the determinants of Islamic banks profitability are similar to those of the conventional banks. The similarity of determinants is a strong indicator that many of the tools and techniques used in conventional banking are potentially suitable for an Islamic banking environment. In conclusion, it is hoped that this study could provide not only bank managers, but also to the governments, with a better understanding and a guideline to enhance the financial positions of Islamic banks. This is important since Islamic banks play a vital role in the current global economic crisis.