



**UNIVERSITI TEKNOLOGI MARA**

**FACTORS AFFECTING THE  
PROFITABILITY OF MALAYSIAN  
ISLAMIC BANK**

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## ABSTRACT

This study is to determine what are the factors will be effect the profitability of Islamic Banks in Malaysia for a year 2008 until 2015. The objective of this study is to identify the major factors that influences the profitability of Malaysian Islamic bank. The factors that will be measure are bank specific determinants. There are Equity to asset ratio (EAR), Loan Loss Reserves (LLR), Liquid asset to deposits and short term funding – (LIQ), Cost to Income Ratio (COSR) and Bank Size. The Return on Asset is used as dependent variable to represent the bank profitability. The data collection for each variable is collected using the secondary sources which are from annual report, online database and bank scope. This research included 10 Islamic Bank in Malaysia and the period is 8 years. So that, the observation of this study is 80. The econometric model has been use in this study is panel data and contain several test to find out the result of the study. So that, based on the result of regression indicates LLR and COSR had negative relationship with significant value with ROA. So that, this research indicated COSR and LLR had big impact on the profitability of Islamic bank in Malaysia. Other than that, another independent variable had no significant with the profitability (ROA) even the result were positive but not significant.

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# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 INTRODUCTION**

The study is to measure the profitability of Malaysian Islamic Bank. In order, the items that are exposed in this study are a background of the study, problem statement, research questions, research objective and include the summary in each chapter. There are also discussing the relationship between the dependent and independent variables used in the study. To more specific, this study is to find out the factors that influence the Islamic bank profitability in the Malaysia. There some factors that influence the Islamic bank Profitability in Malaysia which is based on the Bank-specific determinant.

So that, the dependent variables is to measure of Islamic Bank profitability which is using the Return On Asset (ROA), while the independent variables for the Bank-specific determinants Equity to asset ratio (EAR), Loan loss Reserve (LLR), Liquidity Asset to Deposit and Short –Term Funding Ratio (LIQ), cost to income ratio (COSR) and Bank Size (BS). All the factors is important to measure whether this can give the positive or negative effect on the bank profitability or not.

Malaysia is the early country that using the two banking system at the same time which is the conventional and the Islamic finance system. Islamic financial system operates in the parallel with the conventional financial system. A system in a country's economy consisting of financial markets, financial institutions, financial instruments and market participants those operates with Islamic principles and is aimed at meeting the Maqasid of Sharia.