



DETERMINANTS OF PROFITABILITY IN MALAYSIA ISLAMIC BANKING

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JUN 2019

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ACKNOWLEDGEMENT

Bismillahirrahmanirrahim.

I am grateful to our creator for giving me a great opportunity, patience and ideas in completing a research paper. This research paper is one of the requirement to be fulfill in order to complete the study.

I would like to acknowledge our Universiti Teknologi Mara (UiTM) branch Terengganu campus Dungun for providing the facilities. I would also like to express my special thanks of gratitude to my lecturer Dr. Zuriyati binti Ahmad who is very helpful and always support, give an idea and guide me in completing the research paper. Without her guidance, this research paper would not be able to complete.

I would also like to express thankfulness to my co advisor Puan Noorazlina binti Ahmad. I also would like to take this opportunity to express my gratitude to our beloved parents and sibling that always being supportive on me and to all of my friend in giving moral support and full of commitment in all aspects.

ABSTRACT

This study seeks to determine the profitability of Islamic banking in Malaysia. The objective is to examine the relationship between internal and external variable towards profitability (PRO) and to investigate the most significant factors influencing profitability in Islamic banking. Using bank size (BS), capital adequacy (CA), liquidity (LIQ) as an internal variable while gross domestic product (GDP) and Inflation (INF) as an external variable. Secondary data was collected from fourteen (14) listed Islamic bank in Malaysia covering the period of 2009 until 2017 and using random effect model (REM) as a method. The result revealed that BS, GDP is significant in determining the profitability with positive relationship and INF is significant but negative relationship while CA and LIQ is negative relationship and not significant in determining the profitability.

Keywords: Islamic banking, profitability, bank size, liquidity and random effect model