



PROFITABILITY OF ISLAMIC BANKS: EVIDENCE FROM MALAYSIA

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ABSTRACT

Malaysia is one of countries that implemented Islamic banking systems. The developing of Islamic banking system has made Malaysia become one of the most important hubs in the world. This study aims to examine the factors that will significantly affect on the Islamic banks performance. This study utilizes the secondary data collected from the yearly financial reports of 16 Islamic banks in Malaysia from 2007 to 2016. The explanatory variables are categorized on internal factor in this study. The internal factors include capital adequacy, bank size and liquidity ratio. From the result, it is found that capital adequacy ratio and liquidity ratio have positive relationship on the profitability of Islamic banks. On the other hand, bank size shows the negative relationships on the profitability of Islamic banks. But among of the three (3) independent variables, only one shows result that really have strong relationships towards the profitability of the Islamic banks which is Liquidity ratio.

Keywords: Profitability of Islamic banks, Capital Adequacy Ratio, Liquidity Ratio, Bank size and Return on Asset