



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

**NORAINA BINTI SAPARI  
2015102077**

**BACHELOR OF BUSINESS ADMINISTRATION WITH HONOURS  
(FINANCE)  
FACULTY OF BUSINESS MANAGEMENT  
UNIVERSITI TEKNOLOGI MARA  
KOTA KINABALU SABAH**

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## **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.