



**THE RELATIONSHIP BETWEEN CAPITAL STRUCTURE
AND PERFORMANCE OF ISLAMIC BANKS
(CASE STUDY OF MALAYSIA)**

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ABSTRACT

This research seeks to extend Al-Kayed, Zain, and Duasa (2014) and Shubita, Jordan and Jordan (2012) findings regarding the effect of capital structure on profitability by examining the effect of capital structure on profitability of the Islamic banks in Malaysia during a ten-year period (2006-2015). The problem to be analyzed is there are unanswered questions stated by Modigliani and Miller (1958) which is does the capital structure effect the performance of Islamic banking and do Islamic banks with lower equity capital benefit their shareholders in the form of higher return. The management of Islamic banks must carefully decide when it comes to their capital structure decision because they are very sensitive to it. This research will be using a sample of 13 Islamic banks (IBs) in Malaysia during a period from 2006 to 2015. The dependent variable is return on assets (ROA) and the independent variable are capital ratio (CR), debt ratio (DR), interest coverage ratio (ICR), and asset tangibility (AT). In this research, the E-Views program is used as a tool to analyze all the data. By using this program, the data can be easily analyzed in order to identify the relationship between the dependent variable and the independent variable. The E-Views program is used mainly for statistical analysis and econometrics analysis, such as cross-section and panel data analysis and time series estimation and forecasting. The method used is panel least squares. After control the capital structure variables, the result shows capital ratio (CR), debt ratio (DR), and asset tangibility (AT) have significance relationship with return on assets while interest coverage ratio shows there is no relationship with return on assets.

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