



UNIVERSITI TEKNOLOGI MARA

**THE INTERNAL DETERMINANTS OF
KUWAIT FINANCE HOUSE'S (KFH)
PROFITABILITY**

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ABSTRACT

Kuwait Finance House was founded in 1977, in the State of Kuwait. The bank operating in accordance with the principles of Shari'ah. The establishment of KFH in Malaysia was in 2005. KFH offers many types of Islamic banking products and services such as corporate and investment, retail, and consumer banking services. According to Gurmeet Kaur, as reported in the Star newspaper, its total assets as at financial year ended Dec 31, 2014 (FY2014) stood at RM10.47bil. KFH said it posted a moderate financing growth of 10.2% in 2014 in view of the cautious approach adopted in the business strategy with emphasis on asset quality. Net profit for FY2014 came in at RM92.82 mil, down from RM97.74mil previously (Gurmeet Kaur, 2015). Thus, this research is conducted in order to examine the relationship between profitability of KFH and the internal determinants that affect its profitability. The purpose of this research is to determine the factors that affect the Return of Assets (ROA) of Kuwait Finance House (KFH). The data is collected by using the secondary data. The type of the data used in this research is time series where the data is collected on annual basis. The data is obtained from the financial statements of Kuwait Finance House (Malaysia) based on the performance of the bank from the past 10 years which is from the year 2006 until 2015. The data collected were analyzed by using Eviews program with Ordinary Least Square Regression (OLS). The hypotheses will be tested based on the result obtained from OLS regression. The t-test, multicollinearity and heterocedasticity test would be run. The internal determinants that will be used in this study are capital adequacy, expenses management, asset quality and deposits which give an impact on the Return of Asset of Kuwait Finance House (KFH). There are significant and insignificant relationship between the independent variables and dependent variable.

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TABLE OF CONTENTS

	Page
LETTER OF SUBMISSION	I
AUTHOR'S DECLARATION	II
ABSTRACT	III
ACKNOWLEDGEMENT	IV
TABLE OF CONTENTS	V
LIST OF TABLE	IX
LIST OF FIGURE	X
LIST OF EQUATION	XI
LIST OF ABBREVIATION	XII
CHAPTER ONE: INTRODUCTION	
1.1 Introduction	1
1.2 Overview/Background of the Study	2
1.3 Problem Statement	3
1.4 Research Objective	5
1.4.1 General Objective	5
1.4.2 Specific Objective	5
1.5 Research Question	5
1.5.1 General Research Question	6
1.5.2 Specific Research Question	6
1.6 Significance of the Study	6

CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION

The words 'Islamic banking' means a form of system that complies with Shari'ah law (Azira Husain, Salwani Affandi & Nabilah Abdul Shukur, 2015). That means all the transactions, operations and management of the Islamic banks follow the Shari'ah principles that have been approved by the Shari'ah Board. The Islamic banking system applies the concept of risks and returns sharing among the parties (Azira Husain, Salwani Affandi & Nabilah Abdul Shukur, 2015). The reason is to avoid any elements that not approved by the religion of Islam. Thus, any elements that involved riba' (interest), gharar (uncertainty) and maysir (gambling) are prohibited. The sources of Islamic principles are Quran and Hadith.

Technically, Islamic banking and conventional banking system have the same purpose except for the operation of Islamic banking system based on the principle of Shariah that have agreed by the jurists. The entry of foreign Islamic banks into Malaysian banking industry happened because Islamic banking system has changed. According to Bank Negara Malaysia (2011), there were seventeen Islamic banking institutions operating in Malaysia. The market in the Malaysian Islamic banking industry is Islamic banks (i.e Bank Islam Malaysia Berhad and Bank Muamalat), commercial banks (i.e. HSBC Bank Malaysia Berhad and Hong Leong Bank Berhad) and also foreign Islamic banks (i.e. Kuwait Finance House and Al Rajhi).

The goal of every financial institution is to achieve a high profitability. The profitability is defined as a condition of yielding a financial profit or gain from an exchange of potential risk (Azira Husain, Salwani Affandi & Nabilah Abdul Shukur, 2015). Any company or organization cannot survive in a long period of time without