



**BANK SPECIFIC DETERMINANTS OF
PROFITABILITY:
A CASE OF ISLAMIC BANKING IN MALAYSIA**

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Abstract

This research has been resolves regarding to the basic idea of profitability measurement of Islamic Banking in Malaysia pertaining the relationship between profitability (ROA) and bank specifics determinants. Banking is one of the most sensitive businesses all over the world and they are playing very significant role in the economy of a country and Malaysia is no exemption. Islamic banking is one of the financial institutions that operated based on Islamic principles, which do not allow the paying and receiving of interest also called as *Riba* and encourage profit sharing in the conduct of banking business. Recently, Islamic banking industry is growing at a rapid pace. It shows that Islamic banking is playing a crucial role in growing up the development of the country's economy especially in Malaysia. The objectives of this study are to determine the relationship between Asset Quality, Capital Adequacy, Liquidity and Operating Efficiency with ROA. Other than that, study also aims to identify the most important factor that gives impact on profitability of Islamic bank in Malaysia. Using pool data analysis from 2008 to 2011, analyze the data using STATA software to evaluate the four bank specific determinants with ROA. The study had discovered that only two variables have a significant relationship towards ROA of Islamic banking by using Random GLS Regression which is Asset Quality and operating efficiency. Conversely, the other two variable; liquidity and capital have insignificant relation with ROA.

Keywords: *Islamic bank, ROA, Bank specific determinants, Random GLS regression*