



UNIVERSITI TEKNOLOGI MARA

**THE DETERMINANTS OF LIQUIDITY
RISK MANAGEMENT BETWEEN
MALAYSIAN CONVENTIONAL BANKS
AND ISLAMIC BANKS, AND ITS
LIQUIDITY PERFORMANCE DURING AND
AFTER THE GLOBAL FINANCIAL CRISIS
PERIOD**

NADHIRA AQILAH BINTI MAHMOOD

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ABSTRACT

The purpose of this research is to identify the factors affecting the liquidity risk management of conventional banks and Islamic banks of Malaysia. It is also to observe the liquidity performance of both banks during and after the Global Financial Crisis (GFC) period, respectively. Both circumstances will utilise the usage of dummy variables in comparing between the models in this research. Overall, the dummy variables will be divided into two parts. The first part is to observe the dummy variable on types of bank, while the second part is to measure it against time effect. This study mainly focuses on bank specific factors as the independent variables, including Size of Bank (SIZE), Return on Asset (ROA), Return on Equity (ROE), Capital Adequacy Ratio (CAP), Non-performing Loan (NPL), and Net Interest Margin (NIM). This research study utilises secondary data obtained from four (4) conventional banks and another four (4) Islamic banks of Malaysia from the year 2006 to 2015, contributing to 80 observations. Meanwhile, for the GFC period, the 'during' period will be from the year 2006 to 2008, while the 'after' period will be from the year 2009 to 2015. This study concludes result based on descriptive analysis, correlation analysis as well as on regression analysis. The regression of three different models are carried out in achieving the objectives of this research study.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF STUDY

Assessing a bank's performance is very detrimental, and it is useful not only to bank managers, but also to depositors and regulators whom may find the information convenient and beneficial. Additionally, investors also put on a high importance in analysing the 'health' of a bank through their performance before they take up any decision, due to the heavy reliance that they have on the findings that they obtain. The objective of this research is to investigate the liquidity risk management by conducting a comparative analysis between the conventional banks and Islamic banks of Malaysia. Furthermore, the performance of both conventional banks and Islamic banks during and after the Global Financial Crisis (GFC) is also investigated in identifying the type of bank that is more efficient when taking into consideration the recent financial crisis incepted in 2007.

In general, people usually measure performance based on the returns that an organisation may incur. However, for researchers and analysts, they are more focused on specific indicators on the performance of the bank itself. As profitability is divided into many sub-indicators such as liquidity and credit holdings of the company, which are components of internal risks, or any other external risks constituent such as political factors, this study will focus on the liquidity risk management aspect as it has a heavy influence on the exposure level of a bank towards insolvency.

According to Almunani (2013), liquidity refers to the capability of a bank to meet its cash and collateral responsibilities without contracting any unnecessary loss. Liquidity risk, on the other hand, is the possibility of a bank's failure to fulfil said responsibilities in a timely manner. This is why a bank should always maintain sufficient and secure liquid assets as to ensure that they will be able to meet their short-term liabilities and to fulfil unforeseen funding demands requested by their depositors or creditors. Moreover, an effective and efficient management policy will also be able to signal to the managers beforehand if any liquidity crisis were to emerge soon.