



LIQUIDITY RISK OF ISLAMIC BANKS IN MALAYSIA

KHALIDA BINTI JAMAL

2014846262

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FACULTY OF BUSINESS MANAGEMENT

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TABLE OF CONTENTS

DECLARATION OF ORIGINAL WORK	ii
LETTER OF SUBMISSION	iii
ACKNOWLEDGEMENT	iv
LIST OF TABLES	viii
LIST OF FIGURE.....	ix
ABSTRACT.....	x
CHAPTER 1: INTRODUCTION	1
1.0 INTRODUCTION.....	1
1.1 OVERVIEW OF THE STUDY	1
1.2 BACKGROUND OF STUDY	4
1.3 PROBLEM STATEMENT	6
1.3 RESEARCH OBJECTIVE.....	8
1.5 SIGNIFICANT OF STUDY	8
1.6 SCOPE OF STUDY	10
1.7 SUMMARY	11
CHAPTER 2: LITERATURE REVIEW	12
2.1 INTRODUCTION.....	12
2.2 LIQUIDITY RISK (LR).....	12
2.3 RETURN ON ASSET (ROA).....	15
2.4 RETURN ON EQUITY (ROE).....	16

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ABSTRACT

Liquidity risk shows the institution's ability whether the institution will be able to continue as a going concern. Liquidity risk has been one of the main drivers of the current credit crisis and the most familiar risk with Islamic and conventional banks. Most of the bank's failures, whether they are Islamic or conventional banks, are due to the difficulties in managing the liquidity needs (Abdul Majid,2003) So, it is necessary to study the factor that contribute the liquidity risk of the Islamic banks in Malaysia. This research conducts a study for local Islamic Banks in Malaysia. Other than that, the aim of this research is determine the factors that contribute the liquidity risk in Islamic banks in Malaysia. The variables include return on asset, return on equity and capital adequacy ratio. This research use secondary data collected from the previous researched and data extracted from bankscope data of the selected Islamic banks from 2009 until 2015. 10 Islamic banks were selected among Malaysia banking sector. This research is using panel data to analyse the data collected and the method use is generalised least square.

CHAPTER 1: INTRODUCTION

1.0 INTRODUCTION

This study is to determine what are factor that contribute the liquidity risk of Islamic banks in Malaysia. Liquidity need to be managed effectively because it is crucial especially to the banks. Liquidity is needed to make sure the smooth running of the business.

1.1 OVERVIEW OF THE STUDY

Financial system in Malaysia provides various types of banking sector and non-banking financial intermediary such as Islamic banks, commercial banks, investment bank, insurance company and others which can contribute in the development of country. In the non-banking financial intermediation industry, banking became the most dominant sector. According to central bank of Malaysia, banking sector in Malaysia have 27 commercial banks, 16 Islamic banks include 10 local and 6 foreign owned banks, 15 investment banks, 5 international Islamic bank and 2 other financial institution. In this research will be focused more on local Islamic banks.