BANK’S LIQUIDITY HOLDING AND PROFITABILITY: EVIDENCE FROM GENERALIZED METHOD OF MOMENTS

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ABSTRACT
Aggressive bank financing operations can increase a bank’s profit. However, this operational approach exposes the bank to higher operational risk. Conversely, excessive holdings on liquidity offer safety, but it will reduce funds for financing and investment operations. Consequently, there is a trade-off between liquidity holdings and profitability performances. The objective of this study is to assess the implications of liquidity holdings on Islamic bank’s profitability. This study utilized the dynamic panel data technique with Generalized Method of Moments (GMM) model applied to the annual data of Islamic banking institutions in Malaysia from 1998-2014. The estimation of which Return on Assets (ROA) and Return on Equity (ROE) is regressed on the liquidity holdings ratio. The result shows that the relationship takes the form of quadratic function with a downward concave parabolic due to the insufficient amount of fund. It suggests that profitability is improved for banks that hold some liquidity; however, it raises the issue in which holding further liquidity diminishes a banks’ profitability. There is a trade-off relationship between liquidity holdings and profitability performance given by both ROA and ROE. This finding is consistent with the idea that funding market reward banks for holding some liquid assets, but this benefit is somehow outweighed by the opportunity cost of holding such low-yielding assets. Hence, bank portfolio management should consider and develop strategy and liquidity plans that help balance the acceptable return and risks. A banking firm must determine the appropriate level of asset versus liability management in view of liquidity risk and associate trade off in terms of bank profitability.

Keywords: Bank Profitability, Liquidity Holdings, Financing Operation, Islamic Bank

INTRODUCTION
The fundamental objective of a firm is to maximize shareholders’ wealth. Wealth maximization requires the management to evaluate and balance the tradeoff between opportunities for higher returns, the probability of not realizing these expected returns, and the possibility that the business might fail. The complex, dynamic, and uncertain of the present day economic atmosphere expose banks to an increasing excessive and unmitigated risk. From the context of institutional security, managing the liquidity is one of the top priorities of a banking institution’s assets and liabilities management. From the banking industry perspective, liquidity or the ability to fund increases in assets and meet obligations as they come due, is critical to the ongoing viability of the banking institution. For the Islamic bank, liquidity holding is just as important as it is in the interest-based bank. A prudential standard on risk management set by the Islamic Financial Services Board in 2005 shows the importance of the liquidity holdings management. Since banks are financially constrained, an aggressive strategy will reduce the bank’s provision for liquidity holdings, especially the cash reserve fund for bank safety. This will expose the bank to a higher operational risk associated with the unexpected unavailability of funds or any unexpected rises in the borrowed fund cost. Nevertheless, excessive holding of liquidity, especially the cash reserve will reduce excess fund for financing and investment operations. The study anticipates that there will be a tradeoff relationship between liquidity holdings and profit. Thus, is there any significant relationship between liquidity holdings and the Islamic bank profitability?

LITERATURE REVIEW
Risk management is vital for a sound and secured banking system. Bernanke (2009) in his speech at the Federal Reserve Bank of Chicago Conference mentions that the capital adequacy, effective liquidity planning, and strong risk management are crucial for bank safety and soundness. The effort was clearly visualized after the Basel III was reformed (2010) to strengthen the global banking sector capital and liquidity regulations. For the Islamic bank, the importance of the institutional risk management is clearly stated in the chapter of Yusuf (12:47-48; Quran). However, empirical work directly focusing on whether holdings of liquidity have any significant implication on banks’ performance is considered new. In the past, empirical studies usually regard the liquidity risk as an exogenous variable (Molyneux & Thornton, 1992; Demirgüç-Kunt & Huizinga, 1999; Naceur & Kandil, 2009 and many more). The focus of the earlier literature on bank liquidity management was generally concentrated more on bank failures or bank run. Diamond and Dybvig (1983; 2000) analysis of bank liquidity management show banks that deficiency in their liquidity management might face with bank failures or bank runs.

According to Mehta and Bhavani (2017), 75 percent of its independent variable can increase bank performance. Cost efficiency, asset quality and capital adequacies are the most important actions on bank specific variables. Furthermore, an increase in economic growth will increase ROA and the Return on Equity (ROE). This research used a panel data analysis to determine the firm-specific and country-specific variables of the United Arab Emirates (UAE) banking sector and the result indicated that bank with the highest tier capital adequacy was positively related to higher profitability.

Yaacob, Rahman and Karim (2016) analyzed the determinants of liquidity risk by using two indicators which were macroeconomics variable Gross Domestic Product (GDP) and inflation rates, and microeconomic variable (capital adequacy ratio, profitability, and asset quality and bank specialization). Analyse using fixed effect random model on 17 Islamic banks in Malaysia found that Capital Adequacy Ratio and financing was a great influence to liquidity risk management both in the long run and short run. Macroeconomic factors have an impact on the behavior of Islamic Banking and certainly will determine the percentage of bank’s liquidity risk.

Tlemsani and Suwaidi (2016) analyzed the performance of Islamic and conventional banking systems in the United Arab Emirates (UAE) during the financial crisis happened between 2007 and 2008 by using a comparative and cross sectional analysis. The study found that Islamic banks did very well compared to conventional banks during the crisis and both banking sectors were negatively impacted by the crisis when ROA and ROE declined. Islamic banks which are not allowed to practice activities that were directly linked to debt, were report less likely to have liquidity problems and bankruptcy because Islamic banks managed to have a highly liquid asset. It means Islamic banks are safer to avoid the main problems during financial a crisis which is illiquidity.

Islamic Bank Risk Management

Liquidity risk is one of the major risks facing the Islamic bank and alleged to be one of the major reasons for the impediment to the growth of Islamic banking industry (Standard & Poor’s, 2008). The setting up of Islamic Financial Services Board in 2002 is one of the efforts in developing effective and prudent standards to supervise the Islamic bank operations and development. However, empirical works for the Islamic bank that focusing on the liquidity holdings implication on banks’ performance is yet to be examined.

The study that becoming increasingly popular recently on the Islamic bank is on the income smoothing practices that closely related to the liquidity risk management. Though it is very limited, mixed results were report. Taktak et al. (2010) with samples of 66 Islamic banks over the period of 2001 to 2006 and using the Beidleman and Eckel coefficients shows the extensive use of income smoothing by the Islamic banks. Their study shows that the smoothed incomes were derive from the use of profit equalisation reserve and investment risk reserve. Zoubi and Al-Khazali (2007), Shahimi et al. (2006) and Sundararajan (2005) shows that the Islamic banks are exercising the income smoothing through the loan loss provisions just like their conventional counterparts. Finding by Sundararajan (2005) shows a significant smoothing of returns paid to the Profit Sharing Investment Account, even with a wide divergence in risk. Ismail and Be Lay (2002) as well provide evidence on the using of loan loss provisions to manage earnings by Malaysian banks over the period of 1997 to 1999. However, Ismail et
al. (2005) study on 10 Malaysia commercial banks that offer the Islamic banking services shows that they use the Realized Security Gains and Losses to manage their earnings instead of using the loan loss provisions to manage their capital and earnings.

**Bank’s Liquidity Holding and Profitability Relationship**

Bank’s liquidity management is the ability of a bank to fund any increases in assets and to meet the obligations as they come due. Bank’s liquidity risk on the other hand, originates from the difference between fund resources and fund spending by banks. The liquidity risk of bank increases both in the case of cash surplus and cash deficit. Banks face liquidity risk when uncertainty over their solveney arises at the refinancing stage. It means that when the cash resources exceed cash expenditure, it creates cash funds (without payoff) and when the cash expenditure exceeds the cash resources, it creates liquidity deficit. This can make a bank unable to reduce the debts or to collect funds to increase the assets (Basel Committee on Banking Supervision, 2000). This threat is called the liquidity risk.

The liquidity risk also related to any unexpected rises in cost of lending fund and the unavailability of fund sources. Shortages of cash and marketable liquid assets can happen if there is a sudden increase in borrowers’ demand above the normal level. Oldfield and Santamero (1997) point out that the liquidity risk arises from the maturity mismatches where liabilities have a shorter tenor than assets. A sudden rise in the borrowers’ demand above the expected level can lead to shortages of cash or liquid marketable assets. Decker (2000) divided the liquidity risk into market liquidity risk and funding liquidity risk. Market liquidity risk is that banks cannot easily unwind or offset specific exposures without significantly lowering market prices because of inadequate market depth or market disruptions. Funding liquidity risk is a condition where bank’s inability to liquidate the assets or obtain adequate funding sources as they come due, thus the bank will unable to meet its obligations. Therefore, the capability to fund any increase in assets and meet the obligations as they come due is vital to the survival and viability for every banking organization.

Banks’ liquid assets are the holding of cash, government issued and government guaranteed securities and the interbank deposits that can easily convert into cash. A cash reserve ratio is the percentage of bank reserves to deposits and notes are known as the liquidity ratio. The bank’s reserve is the minimum amount of funds that each bank must hold for safety reason. The reserve includes the retained earnings, profit equalization reserves, and investment risk reserves. The reserves are set aside to cover anticipated future liabilities or reductions in the bank asset values and held as protection against unforeseen losses. It is a pool of funds that will cover the costs of any risk events that might happen. It reduces the risk of overruns to an acceptable level of an organization. When establishing reserves, a bank has to consider the risks associated with possible unforeseen events and the risk directly related to the investment or project financing. The reserves have to adequately cover the risk and implement any contingency plan meant to ensure the success of an investment or project financing. The higher the reserves, the safer depository institutions are held to be but with an opportunity cost of profit forgo from loan operation. The excessive holding of liquidity reduces excess fund for financing and consequently will catch up the bank from getting any profit. Thus, the relationship between liquid asset holdings and bank profitability is estimated to be a non-linear relationship, which takes the form of quadratic function with a downward concave parabolic or an inverted U shape. In mathematical form, Equation (1) gives the profit ($\pi$) function related to the liquidity holdings and illustrated in Figure 1. Parameter $L$ is the amount of liquid assets and $R$ is the amount of reserve holding.

$$\pi = \alpha + (\beta_1 L - \beta_2 L^2) + (\beta_3 R - \beta_4 R^2)$$

Figure 1: Profit Function Related to Liquidity Holdings

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Figure 1. Liquidity ratio and profit optimization relationship

All else are equal, institution profitability performance is improved from holding some portion of liquid assets and contingency reserve. However, there is a level where holding further liquid assets and contingency reserve diminishes the banks’ profitability. At some point, the benefit of holding liquidity is outweighed by the opportunity cost of holding low yielding assets.

Theoretical Framework

This study employed time series data from 21 Islamic banks in Malaysia. The macroeconomic data come from Bank Negara Malaysia reports. The data time framed collected for the study is from the range of 1998 to 2014. With regard to bank financing, the banks considered in their balance sheets the full amount of any probable losses as the borrower defaults and they update the assessment of the probable losses according to new information in each period. Hence, suggesting that provisions are systematically related. Since problem financing is not immediately written-off, hence, they can remain on the balance sheet for a certain period. Therefore, to address the issue, the statistical estimation procedure is applying a dynamic specification. For most dynamic panels, Arellano-Bond (1991) and Blundell-Bond (1998) is the most popular estimating model used and is the one used here. Thus, this study utilizes the Generalized Method of Moments (GMM) estimation model.

To determine whether our instruments are valid in the system GMM approach, the study uses the specification tests proposed by Arellano and Bond (1991), Arellano and Bover (1995). For robustness analysis, both of the first differences (Arellano & Bond, 1991) and orthogonal deviations (Arellano & Bover, 1995) are applied to the estimated model. This study applied the forward orthogonal deviation transformation in order to eliminate the firm-specific variable. The GMM estimator is consistent if there is no serial correlation in the error term of the equation. Thus, the conditions stated that past growth in total financing, liquidity holdings, reserves, provision for bad and doubtful financing, and capital requirement are not correlated with the banks fixed effects or the current error term. The analysis applies the Sargan test, a test of over-identifying restrictions, to determine any correlation between the instruments and errors. The null hypothesis is that the instruments and the error terms are independent or the error terms are serially uncorrelated. Thus, failure to reject the null hypothesis could deliver evidence that valid orthogonally conditions and instruments are used. The study also applied the kernel-based method with automatic bandwidth selection developed by Newer-West (1994) to obtain heteroskedastic and autocorrelation consistent (HAC) standard errors and covariance estimation.

METHODOLOGY

To estimate the implication of liquidity holdings on the Islamic bank profitability this paper focuses on the growth of financing to the growth of all the selected predictors. The used of growth rate is to avoid potential misspecification and endogeneity problems that may arise from the time series data of the individual bank characteristic. Previous study mostly uses the liquidity ratios to measure for the liquidity risk management. Among the popular ratios used to measure for banks’ liquidity are the liquid assets to total assets ratio (Barth et al., 2003; Demirgüç-Kunt et al., 2003; Bourke, 1989; Molyneux & Thornton, 1992). Thus, the liquid assets (LA) include the cash, government issued and government guaranteed securities, and interbank deposits relative to the bank’s total assets. The reserve includes the retained earnings, profit equalization reserves, and investment risk reserves relative to the bank’s total assets. The measurement of the bank’s profitability is the ROA and ROE. ROA is the ratio of a bank’s profits to its total assets ratio (Barth et al., 2003; Demirgüç-Kunt et al., 2003; Bourke, 1989; Molyneux & Thornton, 1992). Therefore, the ROA and ROE primarily indicates how efficient the management of a bank able to convert the bank’s assets and shareholders fund into net earnings. Thus, the ROA and ROE measure for managerial efficiency.

Based on the bank’s liquidity risk and the bank’s performance model, the determinants are categorized into three groups. Two of them are under the internal factor that is the bank institutional related variables and the regulatory variables, and the other factor is the external variable that is the macroeconomic variables. The function can be specified as:

Profitability = f (Bank’s specific variables, Regulatory variables, and Macroeconomic variables)
The institutional specific variables include the liquid assets and a contingency reserve, which are the institutional items that indicate the internal liquidity buffers policy. This study regards the liquidity holdings as an endogenous factor that influences the bank performance. The regulatory variable is the capital requirement item, and the macroeconomic indicators are the real gross domestic product (GDP) growth and consumer price index (CPI) growth. The study also includes the lagged dependent variable as an explanatory variable to take into account a dynamic adjustment of the dependent variable. If banks adjust their financing operations slowly to recognize their previous year result, then it could be systematically related to each period, potential change against financing following an event, then financing could be systematically related to each period. On bank earnings and capital relationships, a study conducted by Berger (1995) from the United States bank data over the period of 1983–1989 finds that there is a positive relationship between capital and return on equity. In his study, Berger (1995) applies the concept of the ‘expected bankruptcy cost hypotheses in considering the effects of capital on the deadweight costs of bankruptcy. It conceptually applies to the impact of liquidity holdings on profitability, whereby banks holding more liquidity benefit from a superior perception in funding markets, reducing their financing costs and increasing profitability.

In the context of this particular study, if an increase in the relative liquidity holdings of a bank decreases its probability of default and if the ‘expected bankruptcy cost hypothesis’ is indeed correct, then the holdings of liquidity should exhibit a positive relationship with bank profits. At the same time, holding liquidity imposes an opportunity cost on the bank given their low return relative to other assets, thereby having a negative effect on profitability. Thus, this study expects liquidity holdings to exhibit a non-linear relationship to bank profitability in which increasing liquidity holdings would improve a bank’s profitability through the “expected bankruptcy cost hypothesis”, as long as the marginal benefit of holding additional liquids outweighs the opportunity cost of their low relative return.

Analytical Model
The proposed model for the analysis of the impact of liquidity holding on the Islamic bank profitability performances is as follows:

\[ \pi_i = \alpha^0 + \beta_1 \frac{LA}{TA}_i t + \beta_2 \frac{LA}{TA}_i 2it + \beta_3 \frac{R}{TA}_i it + \beta_4 \frac{R}{TA}_i 2it + \beta_5 \frac{PBD}{TA}_i it + \beta_6 \frac{K}{TA}_i it + \beta_7 \frac{F}{TA}_i it + \beta_8 \text{GDP}_t + \beta_9 \text{M2}_t + \beta_10 \text{CPI}_t + \epsilon_i (2) \]

With \( \pi \) it is the return on assets; return on equity growth for bank i in country j at time t. (LA/TA)it is the liquid assets growth to total assets ratio for bank i at time t. (LA/TA) is the liquid assets growth to total assets growth ratio for bank i at time t as a nonlinear polynomial of order two. (R/TA)it is the contingency reserve growth to total assets ratio for bank i at time t. (R/TA) is the contingency reserve growth to total assets growth ratio for bank i at time t as a nonlinear polynomial of order two. (PBD/TA)it is the provision for bad and doubtful financing growth to total assets growth ratio for bank i at time t. (F/TA)it is the capital growth to total assets growth ratio for bank i at time t. GDP t is real gross domestic product growth at time t. M2 t is money supply M2 growth at time t. CPI t is consumer price index growth at time t. The study hypothesizes that the tradeoff relationship between liquidity holdings and profitability performances exist if ROA and ROE is associated as a nonlinear polynomial of order two to the liquidity holding namely the liquid assets and contingency reserve.

RESULTS AND DISCUSSION
The sample size collected for this study for each variable used in the analysis was initially 237 data, but was reduced to 196 after adjusting to the statistical conditions and validity requirement. To ensure the stationary of sample data, the unit root test was conducted. The results from the unit root test (Table 1) shows that all of the variables are stationary at level. Thus, the analysis is regressed at level. Therefore, our series are well characterized as an I(0) process.
Islamic Bank Liquidity Holdings and Profitability Performance

The sample size collected for this study for each variable used in the analysis was initially 237 data, but was reduced to 196 after adjusting to the statistical conditions and the validity requirement. To ensure the stationary of sample data, the unit root test was conducted. The results of the unit root test (Table 1) shows that all of the variables are stationary at level. Thus, there is a level where holding further liquid assets and reserve diminishes the banks’ profitability. More specifically, as anticipated, the profitability function given by the ROA and ROE takes the form of quadratic function with a downward concave parabolic due to the insufficient amount of fund. Coefficients for the liquid assets and reserve are all statistically significant at the 1% level. The negative β coefficient on the square (L2 and R2) variable indicates that the profitability behaviour to the liquidity holdings to some extent the relationship reached the maximum level. Taken together, these results suggest that all else equal, profitability is improved for banks that hold some liquid assets However, there is a point at which holding further liquid assets diminishes a banks’ profitability. This finding is consistent with the idea that funding market reward banks for holding some liquid assets, but at some point this benefit is outweighed by the opportunity cost of holding such low-yielding assets. The empirical finding also suggests that the current year profitability performances are also significantly influence by previous year banks liquid asset holdings and also takes the form of a downward–concave parabola. This one financial period lagged of liquid asset is significant at the 1% level. The association between profitability performances and Islamic bank financing activities is also consistent with the theory. The result demonstrates that the relationships are positively correlated and significant at the 1% level. The profitability increase when financing increases. Both of the profitability performance measurements are significantly related to both current and previous year financing. The result demonstrates that the provision for bad and doubtful financing (PBD) are negatively related to the Islamic bank profitability. The association between the current periods PBD with the Islamic bank profitability is consistent with the theory. The finding verifies the research argument on the insufficient fund resources is a constraint to the Islamic banks financing operations. Thus, there is a negative relationship between the PBD and the profitability performances. The negative relationship shows that an increase in the PBD reduces the excess fund resources that can be delivered to the credit market. The results for both the ROA and ROE are significant at the 1 % level. The profitability ratio decreases as the PBD growth increase. On the other hand, the empirical finding also suggests that the previous year PBD is positively related to current year profitability performances and it is significant at the 1% level. This positive relationship between one financial period lagged of PBD and bank’s profitability given by the ROA and ROE suggest that it successfully protects bank’s profitability after one financial period lagged. Next, the relationship between non-performing financing and profitability performances are following the theory that is negatively related.

<table>
<thead>
<tr>
<th>Model Variable</th>
<th>Levin, Lin and Chu stat</th>
<th>Prob</th>
<th>Im, Pesaran and Shin stat</th>
<th>Prob</th>
<th>ADF- Fisher Chi-square stat</th>
<th>Prob</th>
<th>PP- Fisher Chi-square stat</th>
<th>Prob</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liquid asset</td>
<td>-2.553</td>
<td>0.005</td>
<td>-1.753</td>
<td>0.040</td>
<td>67.893</td>
<td>0.001</td>
<td>85.044</td>
<td>0.000</td>
</tr>
<tr>
<td>Liquid asset²</td>
<td>-8.515</td>
<td>0.000</td>
<td>-4.601</td>
<td>0.000</td>
<td>77.770</td>
<td>0.000</td>
<td>80.995</td>
<td>0.000</td>
</tr>
<tr>
<td>Securities</td>
<td>-7.087</td>
<td>0.000</td>
<td>-1.477</td>
<td>0.050</td>
<td>43.700</td>
<td>0.051</td>
<td>60.041</td>
<td>0.007</td>
</tr>
<tr>
<td>Reserve</td>
<td>-5.447</td>
<td>0.000</td>
<td>-2.016</td>
<td>0.022</td>
<td>54.851</td>
<td>0.023</td>
<td>111.920</td>
<td>0.000</td>
</tr>
</tbody>
</table>

Table 1. Unit root test
However, the insignificant of non-performing financing (NPL) in influencing the bank’s profitability indicates that the Islamic bank profitability performances is not tied to the non-performing financing. The insignificant of real GDP growth, M2, and CPI growth in determining the profitability indicates that the Islamic bank profitability performances is not tied to the expansion and contraction in the macroeconomic conditions. This finding indicates that the Islamic bank is free from any speculative activities when there is an expansion of the business activities. Both of the estimation procedures, namely the first differences (Arellano & Bond, 1991) and orthogonal deviations (Arellano & Bover, 1995) for the purpose of robustness test, produces consistent results. The estimations are also free from the heteroskedasticity and autocorrelation problem. The estimated coefficient for the J-statistic for the liquidity holdings implication on the return on assets is 43.7441 ($\rho$-value = 0.1757 > .05) for the first differences, and for the orthogonal deviations model the J-statistic is 43.7056 ($\rho$-value = 0.17680 > .05). The estimated coefficient for the J-statistic for the liquidity holdings implication on the return on equity is 46.5052 ($\rho$-value = 0.1128 > .05) for the first differences, and for the orthogonal deviations model the J-statistic is 44.4043 ($\rho$-value = 0.1587 > .05). Thus, the Sargan test failed to reject the null hypothesis (Table 2, J-statistic). Therefore, under the null hypothesis, the original idiosyncratic errors are uncorrelated, thus, the hypothesis test accepts the null hypothesis that the original idiosyncratic errors are serially uncorrelated. In conclusion, the finding verifies the research argument on the tradeoff relationship between liquidity holdings and profit. There is a point at which holding largely of excess liquid assets will at length diminishes banks’ profit. In general, the baseline results show that the estimated coefficients of the control variables, both the endogenous and exogenous are generally in line with the theoretical foundation.

Table 2. Islamic bank liquidity holdings implication on return on assets and return on equity

<table>
<thead>
<tr>
<th>Model</th>
<th>Return on Assets</th>
<th>Model</th>
<th>Return on Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>First</td>
<td>Orthogonal</td>
<td>First</td>
</tr>
<tr>
<td>ROA(-1)</td>
<td>-0.1340</td>
<td>0.3416 (7.5548) *</td>
<td>ROE(-1)</td>
</tr>
<tr>
<td>L</td>
<td>0.0399 (2.0628)*</td>
<td>0.0284 (1.3494)*</td>
<td>L</td>
</tr>
</tbody>
</table>
CONCLUSION

Even though the fact that an excessive bank’s asset liquidity offers safety, but likely it can diminish the banks profit for the reason of smaller amount of excess fund able to be offered for financial operations. Based on the key results, the estimation in which the return on assets and return on equity is regressed on the liquidity holdings ratio, the finding shows that the relationship takes the form of quadratic function with a downward concave parabolic due to the insufficient amount of fund. This finding is consistent with the idea that funding market reward banks for holding some liquid assets, but at some point this benefit is outweighed by the opportunity cost of holding such low-yielding assets. Eventually, excessive liquidity asset holdings do offer safety to the bank, but it will give lower returns. Excessive holding on liquidity reduces excess fund for financing and consequently will catch up the bank from getting any profit. Hence, bank portfolio management should consider and develop a strategy and liquidity plan that able to balance the acceptable return and risks. A banking firm must determine the appropriate level of asset versus liability management in view of liquidity risk and associated tradeoffs in terms of bank profitability. The evaluation on the implication of liquidity risk management of the Islamic bank financing operations is vital since that financing is the main source of income to the bank. Too much of provisions on the liquidity risk management will reduce the excess reserve fund for financing activities of the bank and this will directly have a negative consequence on the banks’ return. Hence, the Islamic banks should have an efficient and effective liquidity management policy in place that covers a sound process for measuring and monitoring their liquidity holdings.

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