An-Najah National University
Faculty of Graduate Studies

THE IMPACT OF CREDIT RISK MANAGEMENT ON PROFITABILITY AND LIQUIDITY OF ISLAMIC AND CONVENTIONAL BANKS: A CASE OF PALESTINE

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Dedication

This thesis is dedicated with gratitude to:

Allah the Almighty for giving me the strength and the health to complete this thesis.

My dear father and my lovely mother, who always wished me continuous progress in my life.

My husband, Dr. Qudama, for his continued support and love.

My kids, Rowayda and Mustafa, who lightened my life with their love.

My brothers and sisters, who always encouraged and gave me endless support,

My friends who always wish the best for me

all the people in my life who touch my heart.

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Declaration

I, the undersigned, declare that I submitted the thesis entitled:

THE IMPACT OF CREDIT RISK MANAGEMENT ON PROFITABILITY AND LIQUIDITY OF ISLAMIC AND CONVENTIONAL BANKS: A CASE OF PALESTINE

I declare that the work provided in this thesis, unless otherwise referenced, is the researcher's own work, and has not been submitted elsewhere for any other degree or qualification.

Student's Name: أسيل جعفر أمين القطو

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Date: 15/9/2022

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Abstract

Background: Credit risk is one of the largest and most significant risk exposures facing banks.

Objective: This thesis aimed to examine the impact of credit risk management on the profitability and liquidity of Islamic and conventional banks operating in Palestine.

Methodology: The researcher analyzed data from 13 banks: 11 conventional banks and two Islamic banks. The sample period extended from 2011 to 2019. The data were collected from the Palestinian Monetary Authority and yearly financial reports of individual banks. The panel data regression analysis was used for data analysis.

Results: Results of the study indicated that credit risk measurement had a statistically significant impact on the profitability of CBs but an insignificant impact on IBs' profitability. Liquidity had a significant impact on the profitability of CBs but an insignificant impact on IBs' profitability. Profitability had a significant impact on CBs' liquidity but an insignificant impact on IBs' liquidity. Credit risk had a statistically significant impact on IBs' liquidity but an insignificant impact on CBs' liquidity.

Recommendations: Based on the study results, the researcher suggests that the government develop Islamic systems to support Islamic banks and make a balance between liquidity and profitability through efficient management. For future studies, the researcher recommends conducting more research on the subject of the thesis using other measurements.

Keywords: Credit risk management; liquidity risk, Islamic bank, commercial/ conventional bank; Basel.

Chapter One
Introduction

The banking sector plays a vital role in economic growth worldwide, and its stability is a prerequisite for achieving economic growth and stability. The banking system around the world can be categorized into two groups: the interest-based banking system (i.e., the conventional banking system) and the interest-free banking system (i.e., the Islamic banking principles). These two types of banks face many risks that affect the achievement of their primary goal of maximizing their shareholders' wealth.

Both conventional and Islamic banks face a wide range of risks. Some of these risks include market and liquidity risk; operational risks; legal risks; and reputational concerns(Zou & Li, 2014)(حاكمي & الله، 2014). The danger that promised payment flows on financial claims held by financial institutions, like loans or bonds, won't be paid in full gives rise to credit risk.(Saunders & Cornett, 2004).

Due to the unique business model based on Islamic Shari'ah law, Islamic banks are exposed to more complex challenges due to the differences in financial activities and the nature of their contracts. These additional risks include human, technological, and legal risks as well as contract-specific risks, including Murabaha risk, Mudarabah risk, Salam risk, and Musharaka risk (حاكمي & الله، 2014).

Liquidity and profitability are the primary goals of both Islamic and commercial banks. Banks seek to achieve a balance between these conflicting objectives. Liquidity is essential to avoid bankruptcy and liquidation risks (القــلاب&2018 ،النيــف). On the other hand, profitability is essential for growth and survival. The conflict between profitability and liquidity is due to the fact that achieving more of one will be at the expense of the other. Liquidity means approaching cash and cash equivalents, and profitability means staying away from it and investing money in illiquid but more profitable assets. Achieving a balance between liquidity and profitability depends on a financial manager's skill in exploiting and employing funds and maintaining an appropriate amount of cash so that the bank can fulfil its obligations and maintain a good credit reputation (القلاب&2018 ،النيف).

Research on the relationship between bank profitability and liquidity and credit risk has yielded many interesting findings. In their studies (Zou & Li, 2014), (Isanzu, 2017), (Kaaya &Pastory, 2013), (Ekinci&Poyraz, 2019), and (Kolapo, Ayeni &Oke, 2012), non-performing loans (a credit risk indicator) have been demonstrated to have a negative and statistically significant influence on ROA and ROE profits. According to Zou & Li (2014), the capital adequacy ratio (CAR) has a strong positive influence on ROA and ROE, but the CAR negatively impacts ROE (Hurka, (2017)). (Zou and Li, 2014). As Poudel (2012) discovered, CAR and ROA share a significant connection. When it comes to Islamic banks, capital adequacy and non-performing loans have a substantial negative influence on liquidity; nevertheless, they have a considerable positive impact on commercial banks' liquidity, according to Murage &Muiru (2016) and Aldeen et al. (2020), respectively.

Previous studies show that credit risk and the profitability of commercial banks have a strong negative association. Banks' liquidity is negatively affected by an increase in credit risk, which reduces cash flow, which has a negative influence on the banks' ability to lend.

With respect to Palestine, (Alkhatib&Harasheh, 2012), discovered that credit risk has an insignificant effect on ROA, (Bayyoud& Sayyad, 2015), found that credit risk management has no impact on bank profitability for both commercial and investment Palestinian banks. According to a literature review, no research has examined how credit risk impacts the liquidity and profitability of Islamic banks in Palestine. The ability of commercial banks to manage credit risk has never before been examined in any previous research.

1.1 Thesis Problem

Credit risk is one of the most important risks facing the banking sector all over the world, not only in Palestine. The profitable business of commercial banks is to lend, and the credit risk arising from lending will erode the banks' profits. Also, credit risks affect the liquidity of banks, as the lack of sufficient cash to pay obligations on time will expose the bank to liquidity risks. The previous studies did not address the impact of credit risk management on liquidity and profitability together, but rather studied the impact of credit risk management on each separately Ekinci&Poyraz (2019), Poudel

(2012). Also, there were not enough studies conducted in Palestine on this topic (Bayyoud& Sayyad, 2015), The study dealt with the impact of credit risk management on the liquidity of investment and conventional banks operating in Palestine, so the pure influence of the variables on the profitability of conventional and Islamic banks is to be established for the first time in Palestine.

1.2 Thesis Questions

This thesis aims to answer the following central question: **"What is the impact of credit risk management on the liquidity and profitability of Islamic and conventional banks in Palestine?"**

This central question is to be answered by answering the following sub-questions:

1. What is the relationship between credit risk and banks' profitability?
2. What is the relationship between credit risk and banks liquidity?
3. What is the relationship between liquidity and banks' profitability?
4. Does the effect of credit risk on liquidityand profitability of conventional banks differ from that of Islamic banks?

1.3 Thesis Objective

The thesis aims to fulfil the following objectives:

1. To find out how credit risk affects conventional and Islamic banks profitability in Palestine's.
2. To find out the impact of liquidity on the profitability of conventional and Islamic banks in Palestine.
3. To find out the impact of Profitability on the liquidity of conventional and Islamic banks in Palestine.
4. To find out whether credit risk and liquidity show a differential impact on the profitability of Islamic versus conventional banks.

1.4 Thesis Significance

Practical and theoretical significance

Theoretically This thesis is significant because it investigates the impact of credit risks on the profitability and liquidity of Islamic and commercial banks operating in

Palestine, which previous studies did not. There haven't been enough studies done on Palestinian banks, and there hasn't been a study of the effect on liquidity and profitability, nor has there been a study comparing Islamic and commercial banks to see if Islamic banks are different from traditional banks because they follow Islamic law in how they do business.

Practically, it will help decision makers to make better credit risk management decisions in the banking sector in Palestine.

The following is the structure of the rest of this thesis: chapter two will review the environment of Palestinian banks, their characteristics, and financial indicators. The third chapter will review previous studies, which include studies on both credit risk management and liquidity and profitability. A conceptual framework and hypotheses, the fourth chapter, which will deal with the sample and the study population, the variables used in the study, and the indicators that were used to measure them. The fifth chapter will deal with data analysis, results, and recommendations.

Chapter Two

Banking Environment in Palestine

2.1 Banks' Characteristics

According to the Paris Protocol of 1994, which gave the Palestinian Authority control over monetary and financial matters, the Palestine Monetary Authority (PMA) has been established.

The decision to begin work on the Palestinian Monetary Authority initiative was made by the Palestinian Authority, which will take over the central bank's duties with the exception of the Palestinian currency. In addition to Law No. 9 of 2010, the Palestinian legislative council also passed Law No. 2 of 1997, establishing the independence of the Palestinian Monetary Authority.

One of the most important objectives of the monetary authority is to maintain an integrated banking system capable of promoting the national economy and contributing to its sustainability by achieving financial stability, attracting internal and external investment, and creating an economic environment conducive to the issuance of the Palestinian national currency. So financial stability in Palestine is considered one of the most important goals of the monetary authority and a top priority, like any central bank in the world. The monetary authority focuses its attention in the first place on ensuring that the financial sector generally, and specifically the banking industry, is able to face any risks that negatively affect the growth and development of the economy and to ensure that this sector performs its tasks effectively and efficiently. The monetary authorities also seek to achieve monetary stability. Although this stability is linked to the issuance of a national currency, it spares no effort to achieve this stability in Palestine through practical measures and providing an analytical and informational framework necessary for the formulation and implementation of monetary policy. (ربه، 2018&الرجبي).

In 2018, Kuwait Jordan Bank Consequently, the number of banks decreased to 14 banks (11 commercial and 3 Islamic banks). An acquisition is when a bank or a giant company with huge capital and a strong financial position acquires a bank or other company to achieve its goals by entering new markets, controlling the market, or controlling a

particular product. By doing bank acquisitions, the banks aim to provide banking services of the highest quality at the lowest possible cost, to increase competitiveness and create investment opportunities with more return and less risk, and to create more experienced management that performs the functions of the bank with higher efficiency. Since its inception in 1994, the Palestinian Monetary Authority (PA) has worked to support the country's banking industry by enacting a number of laws and regulations. In order to improve competition in the Palestinian banking market, it has given careful attention to promoting acquisitions. Merger and acquisition processes were detailed in 2009, when instruction No. 5 was issued that required a minimum paid-in capital of $35 million. This was the result when al-Aqsa Islamic bank was purchased in 2009 by the Palestinian bank.

The monetary authorities issued instructions in 2010 to boost the company's capital from $35 million to $50 million, which was approved. When al-Quda bank purchased Palestine International Bank at the end of 2010, it was a direct result.

The national bank was formed in 2012 after the Palestinian al-Rafah bank and the Arab investment bank combined.

The monetary authority raised the minimum paid-in capital in 2015 from $50 million to $75 million in order to strengthen and protect the Palestinian banking system against financial catastrophes. At the end of 2015, the state bank of Jordan purchased the Jordanian Union Bank. Palestine Commercial Bank was taken over in 2015 by Palestine Bank.

In 2016, both the Bank of Palestine and the national bank acquired controlling stakes in the Arab Islamic bank.(عوض&2019 ،عزمي)

According to a review of data from 2016 to 2019, the number of branches climbed.

from 304 in 2016 to 370 in 2019, with the number of staff for all banks increasing considerably. The PMA aims to reduce the number of people per bank in order to improve the quality of services given to consumers.

Table 1 shows the banks currently operating in Palestine along with their number of employees and branches as of 7328 employees and 357 branches of commercial banks and, for Islamic banks, 1259 employees and 70 branches.

Table 1

Banks Operating in Palestine

bank name	***local / foreign***	***bank type (Islamic/conventional)***	***# of employees***	***# of branch***
Bank of Palestine	Local	Conventional	2,326	98
Arab bank	Foreign	Conventional	923	32
The national bank	Local	Conventional	1,296	73
Quds bank	Foreign	Conventional	741	39
Arab Islamic bank	Local	Islamic	595	25
Cairo Amman bank	Foreign	Conventional	514	22
The housing bank	Foreign	Conventional	279	15
Bank of Jordan	Foreign	Conventional	344	20
Palestine investment bank	Local	Conventional	272	20
Jordan Ahli bank	Foreign	Conventional	218	10
Jordan commercial bank	Foreign	Conventional	138	7
Safa bank	Local	Islamic	127	9
Egyptian Arab land bank	Foreign	Conventional	150	7
Palestine Islamic bank	Local	Islamic	664	45

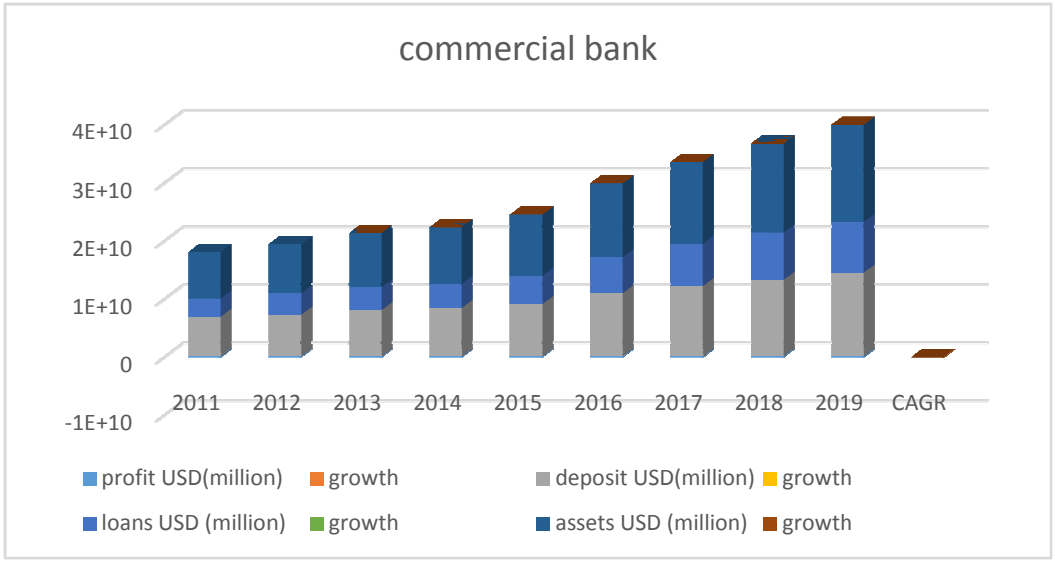
Source: https://abp.ps/

2.2 Banking Indicators

Figure 1 reports the profit, deposit, loan, and assets for the commercial banks operating in Palestine between the periods of 2011–2019, while figure 2 reports the profit, deposit, loan, and assets for the Islamic bank for the same period.

Figure 1

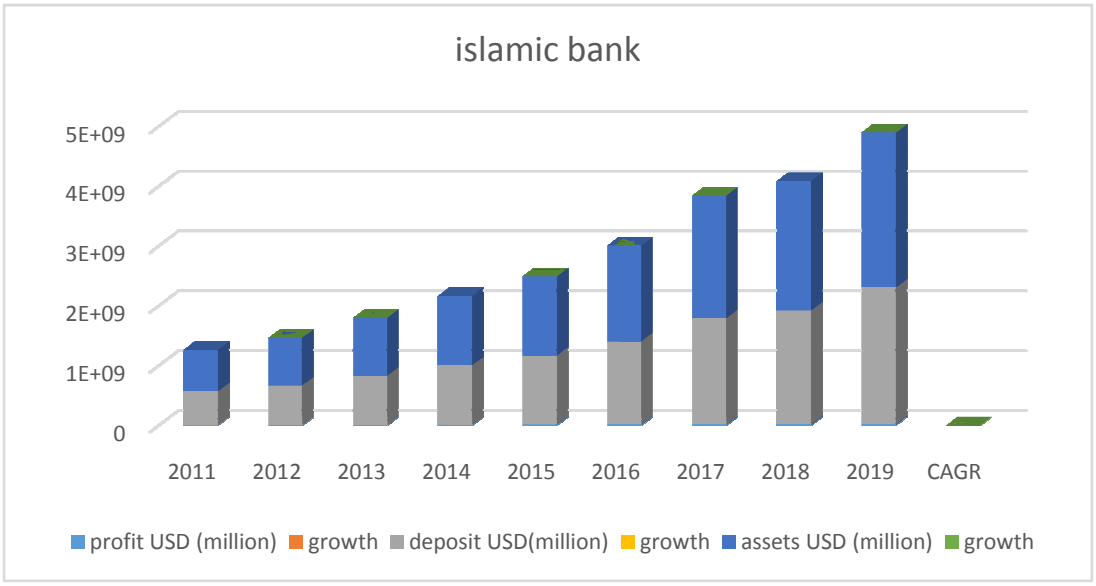
Bank Indicators for Commercial Banks



Source: https://abp.ps/

Figure 2

Banks Indicators for IslamicBank



Source: https://abp.ps/

The profit of the banking sector of conventional banks in 2011 was (123301449) USD million and grew at an annual rate of CAGR to reach (3.580) USD million in the year 2019. Meanwhile, the consolidated profits of Islamic banks in 2011 were (4921205) USD million and grew at an annual rate of CAGR to reach (21.605) in the year 2019.

Banks' capacity to attract deposits, particularly time deposits, is critical to their success since they can be used for lending, financing, or long-term investing. The value of deposits for the conventional banks was (6773609049) USD million in 2011 and for Islamic banks (564919020) USD million in 2011 and grew by (9.815) CAGR to reach (14326171849) USD million for commercial banks in 2019 and grew by (19.078) to reach (228371156) USD million for Islamic banks in 2019.

Customer deposits make up the majority of the banks' deposits. It accounts for 93% of the banking sector's total deposits. Other types of deposits include PMA deposits, deposits from local banks, and deposits from foreign banks outside Palestine. (PMA 2019).

Refer to figure 1 and 2 below, in 2011, the Palestinian banking sector gave (3146237850) USD million in loans, which climbed over time to (8713160845) USD million in 2019 for commercial banks and Islamic banks gave (325643780) in 2011, which climbed over time to (1540411944) in 2019.

This increase in loans was sparked by Instruction No. 5 for 2008, which reduced foreign investment from 65 percent to 55 percent of total deposits. In addition, the establishment of the credit registry in 2009 was a major driver of credit growth.

The Palestinian banking sector's assets have risen from (79389616542) USD million in 2011 to (16757726047) USD million in 2019 for commercial banks and for Islamic banks the assets have risen from (692764454) USD million in 2011 to (2590341702) USD million in 2019. (PMA 2019). The increase in asset value over these years can be attributed to an increase in loans, which account for 45 percent of the total banking system.

The comparative mean values of bank features are shown in tables 2 and 3. Arab Bank has the highest average profit of (55496425.22) USD million, while Egyptian Arab Land Bank has the largest average loss of (-1515820.111) USD million for commercial banks and for Islamic banks. The Palestine Islamic bank has the highest average profit (10083203) USD million, while the Arab Islamic bank has the lowest average profit (4789435) USD million. The Arab banks had the highest mean deposits (2973281524) USD million, while the Egyptian Arab bank had the lowest mean deposit (103088437.6)

USD million for Islamic banks. Palestine Islamic bank had the highest mean deposit of 654818124 USD million, and Arab Islamic bank had the lowest mean deposit of 62567465 USD million. The Bank of Palestine had the highest mean loan of USD 17.69296863 million, which has 72 branches and a large paid-in capital, allowing it to take more risks and make more loans.

2.3 Average of Key Performance Indicators by Bank (2011-2019)

Table 2

Average of key performance indicators for commercial banks

bank name	profit USD million	deposit UDS million	loan USD million	assets USD million	equity USD million
arab bank	55496425.22	2973281524	1510281446	3341865530	286317234.8
bank of Jordan	5825818.222	497040159.8	210812625.3	592649224	74907681.33
bank of palestine	44029840.33	2883327921	1769296863	3349416821	328204083.6
cairoamman bank	7816962.222	744895051.1	363036677.6	879580312.1	92944435.89
the housing bank	5847541.222	492386450.9	199178266.7	591382410.6	85048087.33
jordan commercial bank	1753587.444	130952731	71375701.44	198403361.8	62369021.11
palestineinvestiment bank	3000697.556	266924502.6	152881226	354653740.6	78728138
al-quds bank	8035059.111	727890543.4	494462532	837121191.3	82869216.78
the national bank	7696566.889	859199228.3	568791520.7	1024278268	97656669.67
egyptionarab land bank	-1515820.111	103088437.6	99161807.78	158904944.6	50114981.33
jordaahli bank	2799240	243220291	138553082.1	324948699.1	71966678.56
MEAN	12798719.83	902018803.7	507075613.5	1059382227	119193293.5

Source: https://abp.ps/

Table 3

Average of key performance indicators for Islamic banks

bank name	profit USD million	deposit UDS million	loan USD million	assets USD million	equity USD million
arabislamic bank	4789435.222	625674651.3	396786716.9	725060459.6	79997126.56
palestineislamic bank	10083203.22	654818124.2	458278625.1	758974411	82575851.89
MEAN	7436319.222	640246387.8	427532671	742017435.3	81286489.22

Source: https://abp.ps/

Figure 3 presents the distribution of customer deposits by geographic area. Ramallah has the largest portion of deposits (35.40%), followed by Nablus (13.3). The distribution of deposits is parallel to that of credit facilities. Figure 2 shows the geographic distribution of credit facilities. The majority of loans were granted in Ramallah (52.10%), followed by Nablus (12.20%). (Association of Palestinian Banks, 2019). Because most government and NGO offices are located in Ramallah, the city has

a significant concentration of credit facilities. This allowed private and public sector personnel to work in Ramallah, increasing demand for consumer goods, real estate, and other services.

Figure 3

Geographic Distribution of Deposits

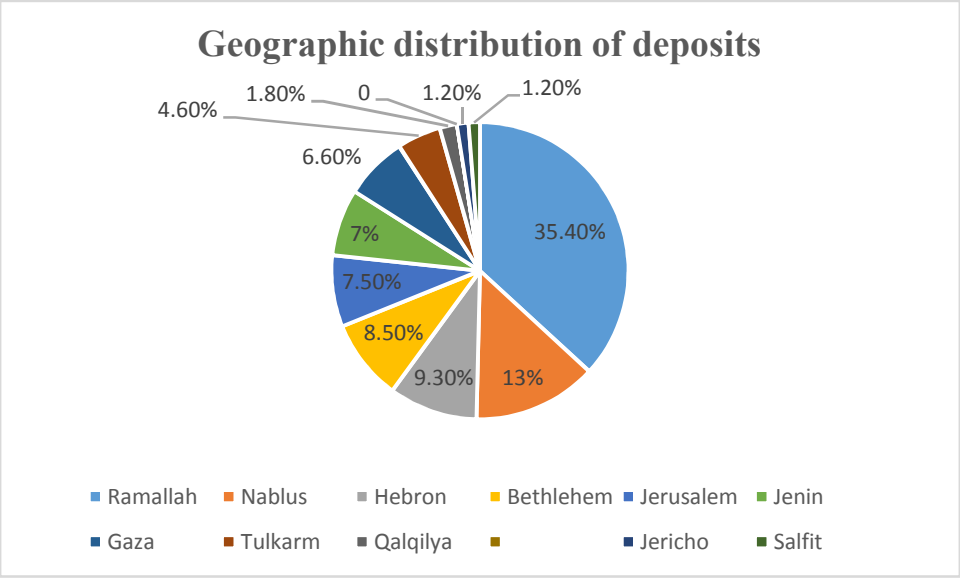
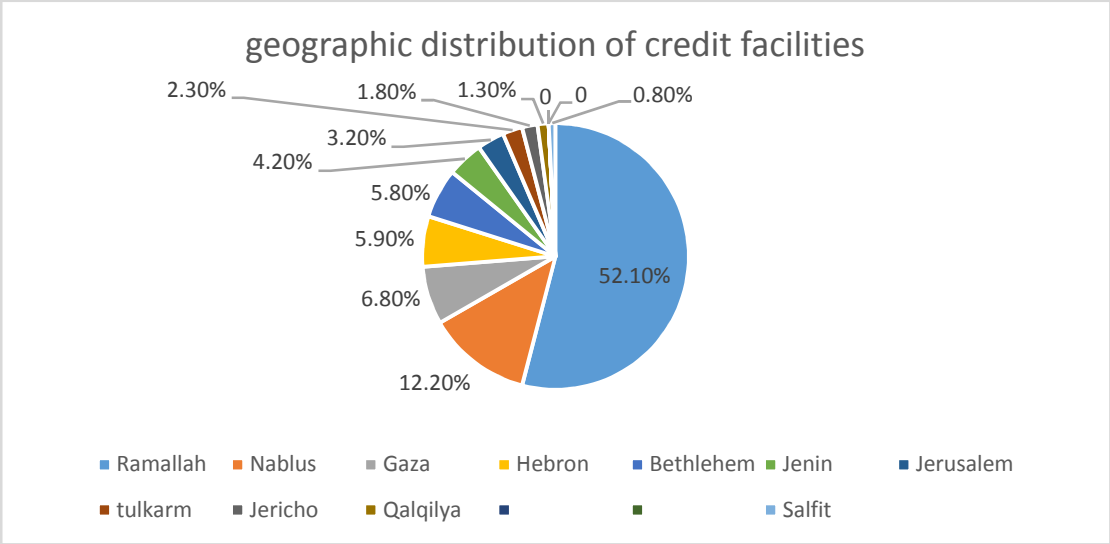


Figure 4

Geographic Distribution of Credit Facilities



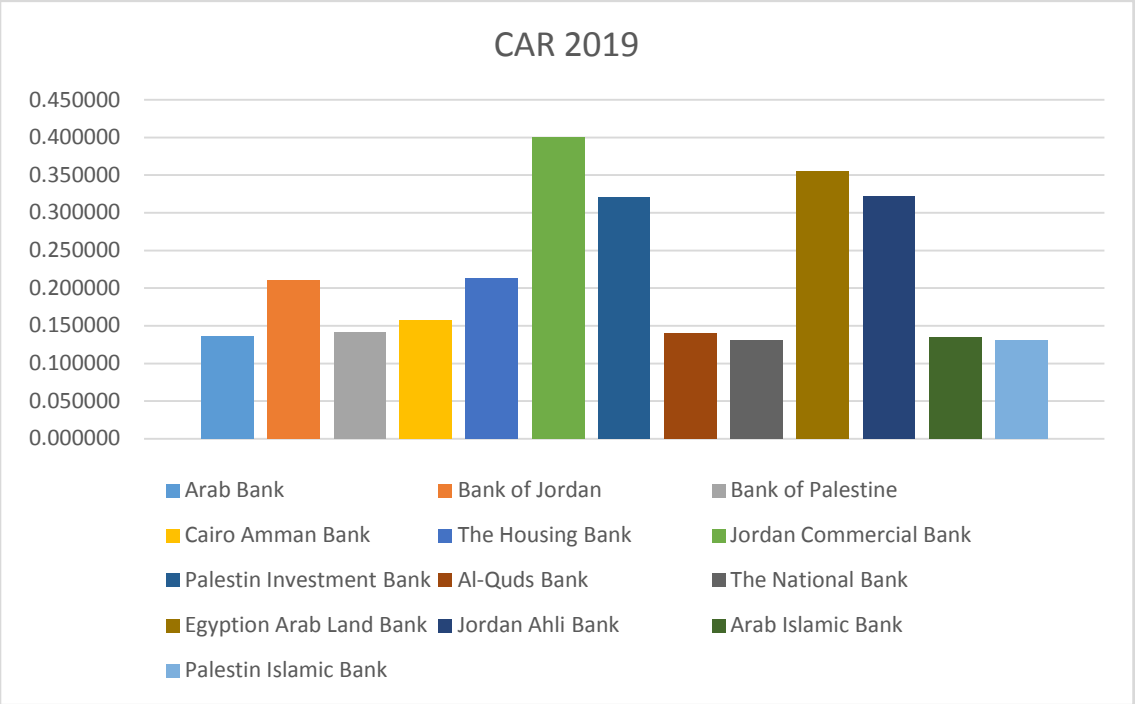
Source; Association of banks in Palestine. Available at https://abp.ps/

Figure 5 represents the values of CAR for the banks operating in Palestine as of 2019. According to the 2019 PMA Instruction, banks operating in Palestine must have a minimum capital adequacy ratio (CAR). This ratio is being changed based on the

potential risks associated with the size of the bank. According to the Palestine Bankers Association 2019, banks maintain a mandated CAR rate that varies depending on the size of the bank, the lending rate, and the value of risk-weighted assets. Jordanian commercial banks operate with a high CAR of 40.02% and Egyptian Arab land banks also operate with a high CAR of 35.5%. Higher CAR reflects less risky assets and indicates inefficient use of resources. However, the national bank operates with the lowest CAR of 13.004% and Palestine Islamic operates with a low CAR of 13.045% because of the significant lending portfolio of the two banks.

Figure 5

Capital Adequacy Ratio (2019)



Chapter Three
Literature Review

3.1 Theoretical Framework

3.1.1 Banking Risks

Risk is a relative measure of the volatility of future cash flows. As for the bank's risk, it is the difference between the expected value and the actually achieved value, whether positive or negative. The positive difference in the banking field is called opportunity. Therefore, the negative result is a loss and the bank's risk. This loss has two types. It may be unexpected losses that come as a result of unexpected events such as sudden fluctuations in interest rates or sudden fluctuations in the market that the bank expects to occur, such as non-fulfillment of the debt. As is well known, there are two types of banks: Islamic banks and commercial ones, and there are common risks to which both types are exposed. They are financial risks, which include credit risks, market risks, and liquidity risks.(Yan, Hall, Turner, & Economics, 2014), (Nocco & Stulz, 2006).

3.1.2 Liquidity Risk

The liquidity of the assets means the ease of converting them into money. Liquidity risk happens when the bank is unable to supply the required funding. to meet its obligations on time and obtain money from borrowers or sell assets. Liquidity risks have several types called liquidity risks. Term liquidity risk, funding liquidity risk, contingent liquidity risk, market liquidity risk. It can be measured on several scales, including LA/TA and LA/TD. Banks resort to several measures to manage liquidity risks, including the need to establish a system for informing, limits and liquidity rates, and cash flow limits. composition of assets and liabilities, and diversification of liabilities; emergency financing scheme (Mohammad, Asutay, Dixon, Platonova, & Money, 2020), (Culham, 2020).

3.1.3 Credit Risk

The danger of a bank borrower or counter party failing to meet their agreed-upon commitments is known as credit risk in the financial sector. Metrics like the non-performing loan to capital adequacy ratio can be used to assess credit risk. Managing credit risk may be done using a variety of techniques and instruments, such as exposure

ceilings, risk rating models, portfolio management, and risk-based scientific pricing.(Mounira, Anas, & Management, 2008), (Gregory, 2012).

3.2 Basel I, II, III and its relationship with liquidity and credit risk

Basel 1 and Basel 11 are the products of the Basel committee that was established in 1974. Its main objective, as stated in its founding document, is:

"Extend regulatory coverage, promote adequate banking supervision, and ensure that no foreign banking establishment can escape supervision." (Balin, 2008).

3.2.1 Basel 1

Under the 1988 agreement, Basel I focused on the importance of banks' achieving a capital adequacy ratio, so that the minimum level of it is 8% to face credit risks in the bank**.**

It was not satisfied with setting the minimum capital adequacy as it found that facing banking risks needs a set of basic rules and principles for effective banking supervision. After the financial crisis occurred at the end of 1997, Basel I was reconsidered for capital adequacy so that there would be stability for the financial system as a whole and it was not limited to facing credit risks. The risks to which banks are exposed are not limited to credit risk only. From here, the need for Basel 11 appears.

3.2.2 Basel 11

It was created and implemented in 2007, and its official name is:

"Revised framework on international convergence of capital measurement and capital standards" (Balin, 2008).

It is a set of procedures and ideas for capital adequacy in banks, the main aspect of which is how banks will be able to face three types of risks:

"Credit risk, market risk, operational risk" while maintaining the level of capital adequacy.

It focused on maintaining banking risks in the correct way and not only on achieving an 8% rate of capital adequacy.

Basel 11 maintains the capital adequacy ratio approved by Basel 1, but the important change will be in the weights allocated to credit risks, market risks, and operational risks. Therefore, the risks that Basel 11 will address are:

"Credit risk, market risk, operational risk, electronic banking risks, derivatives risk."

There are three pillars of Basel 11:

1. Method of calculating the risk-weighted capital adequacy needed to face market risks, operational risks, and credit risk.
2. Ensure the existence of an effective method of control if the bank is subject to supervision by the supervisory authorities for an internal evaluation to determine sufficient capital as a method of control against risks.

3-Market discipline, which means more disclosure of the capital adequacy standard, the types and size of risks, the accounting policy followed for the bank's assessment of its assets and liabilities, and the formation of provisions and strategies in dealing with risks. The aim of disclosure is to encourage banks to follow sound banking practices.

The first pillars of Basel 11 provide three methods for measuring credit risk:

Credit risk: a standardized approach

Sovereign claims are now lowered by the credit rating given to their debt by an "authorized" rating agency, as opposed to participation in the OECD. No weight is assigned to debt rated AAA to AAA-, A+ to A-, BBB+ to BBB-, or BB+ to B-; 20% is assigned to debt rated A-; 50% is assigned to debt rated BBB+ to BBB-; 100% is assigned to debt rated BB+ to B-; and 150 percent is assigned to debt rated below B-. The debt that has no rating assigned is weighed at 100%. When debt is funded and priced in the local currency, authorities may place less focus on relative riskiness(Balin, 2008).

Regulators have a choice of two methods for weighing the risk of bank debt. Government workers' main alternative is to resign. The bank's sovereign debt should be risk-weighted one level lower than this type of debt. For example, if the debt of a sovereign was rated A+, the risk weight of the companies it oversees would be 50%. The risk is restricted to 100% if the sovereign's rating is below BB+ or it is unrated. Under

the external rating criteria used for sovereign bonds, A+ to BBB-debt is weighted at 20%, A to A+ debt is weighted at 50%, and BB+ to BB-debt is weighed at 100%. Any loan with a grade lower than B- is subject to a risk loading of 150 percent. Unrated debt has a 50 percent weighted factor. BB+ debt is given a 50% weighting for short-term bank claims with maturities of less than three months, compared to a 100% loading for sovereign bonds. (Balin, 2008).

with the "conventional" method, corporate debt is weighted similarly to bank debt, with the exception that all debt with BB- and BBB+ ratings is included in the 100 percent group. All debt with a grade lower than BB is risk-weighted at 150%, whereas unrated debt is risk-weighted at 100%. In addition, residential mortgages are risk-weighted at 35% whereas commercial mortgages are risk-weighted at 100%.(Balin, 2008).

Credit risk-internal rating-based approach

Risk-weighting procedures referred to as "IRBs" are also encouraged under Basel II, in addition to the "conventional" approach (Internal Ratings Based Approach). Several procedures are employed in the development of banks' own internal risk-rating systems. The Basel Committee's mandate to "scale up" risk-weighted reserves by 6% allows banks utilizing the standardized approach to cut their reserve holdings, enhancing profitability.(Balin, 2008).

3.2.3 Basel 111

After the financial crisis that occurred in 2008, which led to that bankruptcy and the collapse of many major banks, Basel 111appeared.

It was initially drafted in 2010 and will be implemented between 2013 and 2015. It relates primarily to the increased standards for capital adequacy and liquidity, as well as the establishment of Basel 11's three core pillars, and aims to protect banks against insolvency and collapse.

It consists of five primary axes, the most important of which is the Basel 111 interest in liquidity, whose significance emerged after the 2008 financial crisis, as it revealed the significance of liquidity to the operation and stability of the global financial and banking system. Through Basel 111, the Basel committee demonstrated its intent to establish a global liquidity standard by proposing the adoption of two liquidity ratios:

1. The liquidity coverage ratio (LCR) is a ratio that quantifies the percentage of liquid assets in an institution's portfolio that may be used to determine an institution's capacity to satisfy current and future short-term commitments. Financial institutions must have sufficient capital buffers to withstand short-term liquidity disruptions if this ratio is applied.
2. The net stable funding ratio (NSFR) is the ratio of available finance to the necessary stable financing. 2-A steady and greater-than-100% ratio is required here. (Meriem, 2021)

For Islamic banks, capital adequacy and liquidity requirements

According to financial regulators, banks and other financial institutions are required to maintain a certain level of capital adequacy, which is often stated as a percentage of risk-weighted assets. As previously indicated, the Basel committee emphasizes capital adequacy in Basel 1, highlighting its significance as a measure for determining a bank's solvency and its capacity to withstand potential risks. In addition, a minimum of 8 percent was established, and greater emphasis was placed on credit risk, which at the time was considered the most significant risk element for banks. As a result of its three pillars, Basel II provided more precise risk measurement and management than Basel I. It maintained the 8% ratio while allowing banks to use internal models to assess the capital required to address market risks, which vary among banks.

With the attention of the Basel Committee (Basel l, Basel 11) to capital adequacy standards, it ignored the nature of the Islamic banking industry, which has become the establishment of strong banks specialized in Islamic financial services. Several infrastructure institutions have emerged that regulate and support the Islamic financial industry, including the accounting and auditing standards authority for financial institutions in 1991, the general counsel for Islamic banks and financial institutions, and the Islamic financial services council in 2002, which issued several standards, the most important of which is the capital adequacy standard.

The capital adequacy standard is one of the most important standards issued by the banking and financial services board. The standard has adopted the decisions of Basel ll, taking into account the necessary amendments to cover services, product characteristics,

and specifications that comply with Islamic law and which are provided by Islamic financial services institutions.(آدم، البشير، المولي، & فضل، 2015)

So, the capital adequacy is calculated by the Islamic financial services board in the same way as adopted by Basel ll, which links capital to risk-weighted assets (credit risk, market risk, operation risk).As mentioned previously, in response to the difficulties that banks faced during the recent global financial crisis due to the gaps in managing liquidity risk, Basel lll has developed two standards of minimum liquidity financing: loan coverage ratio (LCR) and net stable funding ratio (NSFR). These requirements pose a great challenge to the Islamic bank due to the lack of tradable short-term financial instruments with high credit ratings, and at the same time, compete with the provisions of Islamic law, as Basel 111 did not take into account the specificity of the Islamic banking industry when it was approved for each of the (LCR) and (NSFR).

Therefore, the International Islamic Liquidity Management Corporation, an international organization established by central banks from three different countries (Kuwait, Indonesia, Qatar, Malaysia, Turkey, Nigeria, and the United Arab Emirates), was established alongside the Islamic development bank in 2010. This institution has issued the Basel lll Sukuk. Sukuk, in general, are certificates that represent a right of ownership of intangible assets, a group of assets, or the assets of a specific project or investment activity, and they are compatible with the provisions of Islamic law.

Basel lll Sukuk are Sukuk that meet Basel lll requirements regarding capital and liquidity requirements. The international Islamic liquidity management corporation issued the first short-term Islamic Sukuk compliant with the Basel lll agreement in 2013 for 3 months, with an issuance amount of 490 million dollars. Then the issues continued to reach 1195 billion dollars in 2020. All these sukuks have the same credit rating (A-1) from the credit rating agency s&p 500.

3.3 Credit Risk Management

(Han, 2015) Credit risk and credit risk management were studied in commercial banks since credit risk has become their primary banking risk and is increasing daily due to the impact of domestic and international markets. The purpose of this article was to draw.

Pay attention to the sources of credit risk from Chinese banks, how risks are evaluated; and the knowledge and incapability of credit risk management techniques. The author says that the typical risks connected with credit assets are operational risks, moral hazard risks, and market risks. There is a credit risk if the borrower fails to make a payment. In addition, it was suggested that banks get familiar with credit risk management procedures in order to deal with potential repercussions and to retain a firm grip on credit risk.

Abdelrahim (2013) It says that the Saudi economy is tightly intertwined with the international economy. As a result, the financial crisis had a negative effect on it. The financial crisis underlined the significance and necessity of credit risk management in limiting default risk. His research attempts to identify Saudi banks' innovations and limitations, as well as develop innovative techniques for managing credit risk. Using the CAMEL model to examine credit risk performance in order to improve credit risk management, it was found that liquidity was critical. As a bank grows in size, its ability to effectively manage credit risk decreases, as does its ability to effectively manage capital, managerial soundness, and earnings. According to the study's authors, credit risk management, proper liquidity, and asset quality improvement should be implemented by Saudi banks.

3.4 Credit Risk Management and Profitability

(Alkhatib & Harasheh, 2012) The goal of this research is to examine the financial performance of five Palestinian commercial banks listed on the Palestine Securities Exchange (PEX). The sample of this research is five Palestinian commercial banks listed on the Palestine securities exchange for the period between 2005-2010. Financial success is the independent variable measured by using economic value added (EVA), Tobin’s Q, and return on assets (ROA). The result shows that there is a significant positive correlation between size and ROA; an in-significant relationship between CR and ROA; a significant negative correlation between operational efficiency and ROA; a significant positive correlation between assets management and ROA; and a significant positive correlation between size of bank and Tobin’s Q, in-significant correlation between credit risk , operational efficiency, assets management and Tobin’s Q; and a significant positive correlation between size, assets management and EVA;significant

negative correlation between assets management and EVA and in-significant correlation between credit risk and EVA.

(Kolapo, Ayeni, & Oke, 2012) The goal of this research is to examine the quantitative effect of credit risk on the performance of banks in Nigeria. For the period between (2000–2010), the sample of this study consists of five Nigerian commercial banks The independent variable is non-performing loan/loan and advance (NPL/LA), loan loss provision/classified loan (LLP/CL), loan and advance/total deposit (LA/TD). This variable is used to represent credit risk, and the return on assets (ROA) is the dependent variable used to represent performance. The research result shows that there is a significant negative impact between (LLP/CL), (NPL/LA) , (LA/TD) and ROA.

(Poudel, 2012) The goal of this research is to determine the impact of credit risk management on the financial performance of 31 banks operating in Nepal for the period between 2001 and 2011. Return on assets is the dependent variable used to represent the performance of banks; default rate (DR), cost per loan asset (CLA), and capital adequacy ratio (CAR) is the independent variable used to represent credit risk . The result shows that there is a significant negative relationship between CAR, DR, and ROA, while there is an insignificant relationship between CLA and ROA.

(Afriyie & Akotey, 2012) The goal of this study is to examine the impact of credit risk management on the profitability of 10 rural and community banks in the Brong Ahafo Region of Ghana for the period between 2006 and 2010. Return on assets is the dependent variable of the study, representing the profitability of banks and non-performing loans. The capital adequacy ratio is the independent variable of this study, representing credit risk management. The result shows that there is an insignificant relationship between CAR and ROA, while there is a significant positive relationship between NPLR and ROA.

(Kaaya & Pastory, 2013) The purpose of this study is to investigate the ways in which traditional banks in Tanzania have been affected financially by credit risk. The subject of this study is 11 banks operating in Tanzania. The ROA is the dependent variable used to represent profitability. The percentage of non-performing loans, the loan loss to gross loan, impaired loan to gross and the loan loss to net loan are all independent variables used to gauge the risk of a loan default. Incorporating the bank's size and deposits as

control variables, an inverse link exists between profit and credit risk, according to the study.

(Gholami & Salimi, 2014) Stressed how important it is to conduct analyses of financial institutions that play big parts in the economy One of the factors that goes into determining the overall rating of a bank is its profitability. Financial institutions, such as banks, are the focus of their research. They are trying to figure out what elements contribute to their earnings. A bank's profitability is influenced by both liquidity risk and credit risk, which are two independent factors. Profitability and liquidity are found to be inversely related in the study, as is the relationship between profitability and credit risk.

(Zou & Li, 2014) Attempt to establish a relationship between European commercial banks' profitability and credit risk management. The link's stability or instability can also be determined. From 2007 to 2012, 47 of the most major commercial banks in a variety of European countries were included in this study's sample. In order to measure profitability, it agreed to use the ROA and ROE metrics as indicators. The nonperforming loan ratio and capital adequacy ratio are used as stand-ins for credit risk in this study. The size of the bank is one of the elements that could be manipulated. A statistical test was carried out to see whether the link existed, and other statistical tests are being done to see if the association is reliable. As a direct result of this, NPLAR, ROA, and ROE are found to have a negative correlation. A higher NPLR is associated with less easily accessible capital for banks to invest in, and a trend analysis shows that the linkages between the four components are shifting as a result of this change. CAR, ROA, and ROE are not linked in any major way.

(Bayyoud & Sayyad, 2015) The present financial crisis has shown that the banking industry has overtaken the rest of the financial sector in terms of market share. There has been a strong correlation between credit risk and bank profitability in the past. The purpose of this study is to examine if there is a correlation between credit risk and profitability. The nonperforming loan ratio (NPLR), rather than the return on assets, was employed to assess a bank's profitability (ROA). The study revealed that there is no association between the amount of money conventional and investment banks make and the level of credit risk that they face.

(Alshatti, 2015) Points out that since the bank's primary objective is to maximize shareholder value, it is imperative that cash flow and possible hazards be given top priority. Credit risk is one of the most significant dangers to a company's success. Jordanian conventional banks' profitability was examined between 2005 and 2013 as a result of this research. Gross loans and non-performing loans have a positive impact on financial performance (ROA and ROE), whereas provision for facility loans and the net facilities ratio are detrimental (ROA and ROE). The financial success of banks and their level of capital adequacy have little in common. An investigation recommends that lenders set strict limits on credit risk management procedures before approving loans to customers. This suggests to us a means of gaining a competitive edge.

(A. Ekinci, 2016) Turkish banks' performance from 2002 to 2015 was examined to determine the influence of credit risk and market risk. While credit risk has a negative correlation with a bank's performance (profitability), exchange rates have a positive correlation, and interest rates have no bearing on a bank's overall profitability (profitability).

(Isanzu, 2017) Credit risk is the most pressing issue for banks, whose principal activity is the provision of credit. Studying commercial banks in China, researchers hope to discover how credit risk impacts their financial performance. The five major commercial banks in the country supplied secondary research data from 2008 to 2014. Financial performance measures such as return on assets and the capital adequacy ratio serve as credit risk indicators. Nonperforming loans and impaired loan reserves are financial performance indicators (ROA). Balanced panel data regression models are used to examine the data. Negative correlations between return on assets and the non-performing loan ratio and positive correlations between return on assets and capital adequacy. There is a substantial negative association between return on assets and the impaired loan reserve, but the loan impairment charges are positively correlated.

(Hallunovi & Berdo, 2018) This study was done to examine whether or not credit risk management and profitability connect. NPLR/CAR is an independent variable used to analyze a company's credit risk, which is a dependent statistic used to evaluate a firm's profitability and return on assets (ROA/ROE). Annual bank reports were the key data source for seven years, from 2008 to 2015. Multiple regression models were used to assess the quantitative data. (SPSS). When it comes to profitability (ROA and ROE),

non-performing loans have a negative correlation, whereas capital adequacy ratios have a positive one. The study's findings indicated that credit risk has a major influence on the profitability of commercial banks (ROA, ROE).

(MENDOZA & Rivera, 2017) This study's objective is to discover the effects of credit risk and capital availability on the profitability of rural banks in the Philippines. It is necessary to include all of the company's assets and equity in order to calculate the capital adequacy ratio and credit risk. The capital adequacy ratio was determined by dividing total shareholders' equity by total assets; the credit risk was computed by dividing total loan loss reserve by total loan.) All 567 registered rural banks in the Philippines were issued a report during the time period required by the BSP's systems and reports management division (2009–2013). The capital adequacy ratio and profitability have no statistically significant association, according to the findings of the research According to a study, credit risk has a statistically significant and negative influence on profitability.

(Hurka, 2017) The primary goal of this research is to look into the relationship between Nordic commercial banks' ability to manage credit risk and their ability to be profitable. It was gathered from a database called Data Stream, which contains the aggregated information of 13 commercial banks in four northern countries: Denmark, Finland, Norway, and Sweden. Between 2000 and 2015, the LLPR and the CAR were used to evaluate credit risk management. It's important to distinguish between these and other variables. ROA, ROE, growth in GDP, and real cost per loan were utilized to calculate profitability, with bank size serving as the control variable. Loan loss provisions have a large negative influence on both ROA and ROE, while ROA is favorably impacted by the capital adequacy ratio.

(Hamza, 2017) The effect of credit risk management in Pakistani commercial banks was studied for its overall performance in this study. A total of 13 commercial banks' secondary data was acquired through SBP publications on the banking sector survey, the official website, and the KSE between 2005 and 2014. Return on assets (ROA) and return on equity (ROE) can be used to estimate a company's profitability. (Dependent variable). Size of the bank, non-performing loan (NPLR), loan and advance (LAR) and liquidity ratio (Abdelrahim), Loan loss provision ratio (LLPR), CAR, and CAR are all utilized as gauges of credit risk (independent variables). According to the study, there is

a negative correlation between banks' performance in Pakistan and the management of credit risk. ROA is significantly impacted in a negative direction by LLPR, LR, and NPLR, whereas CAR, LAR, and size have a significant impact in the other direction. ROE is significantly impacted by CAR, LAR, and LLPR all at the same time. In this particular investigation, the factors denoted by LLPR, NPLR, and LR have a detrimental impact on the dependent variables, but the variables denoted by CAR, LAR, and size have a beneficial impact.

(Annor & Obeng, 2017) Using stock market data from 2007 to 2016, this study assesses the impact of credit risk management on the profitability of six randomly selected Ghanaian commercial banks. Data acquired from annual financial reports of these companies is used to analyze ROE (return on equity) as a dependent variable. For each dependent variable, we calculate the ratios of nonperforming loans, loan loss provision, capital adequacy, and the proportion of loans to assets (LAR). The findings revealed a statistically significant link between the factors. LLPR and NPLR, on the other hand, have a negative influence on profitability, whereas CAR has a favorable effect.

(Boahene, Dasah, & Agyei, 2012) Thisstudy investigates whether or not the profitability of six commercial banks in Ghana is connected to the degree of credit risk they face (the largest bank in Ghana). In the beginning, the information was gleaned through annual reports filed by banks between the years 2005 and 2009. Net charge-offs and non-performing loans, as well as advances and provision profit, are used to manage risk, and return on equity is used to evaluate profitability in the lending industry. Controls are also applied to the bank's growth and expansion. However, credit risk may be gauged by other metrics, such as return on equity (ROE), net charge-offs (NCAs), and advance and provision profit (PGP). According to the findings, Ghana's credit risk and bank profitability have a substantial and favorable link.

(Noman, Pervin, Chowdhury, & Banna, 2015) The purpose of this research is to determine the effect of credit risk on the profitability of Bangladesh's banking sector. Between 2003 and 2013, there were 18 private and commercial banks in the study's sample that were active. Indicators of credit risk include the LLRGL, the LLRNLGL, the LLRNNPL, and the CAR (the capital adequacy ratio). There were three profitability metrics: return on assets (ROA), net interest margin (NIM), and return of equity (ROE).

Both NPLGL and LLRGL were shown to have a negative influence on all profitability indices, and this effect was statistically significant. CAR also has a substantial influence on ROE, which may be both good and harmful. The application of Basel 11 resulted in substantial benefits for MIN.

(Singh & Sharma, 2018) They assess which areas of a bank's bottom line have the most influence. This includes credit risk, which is one of the most significant dangers banks face. Credit risk and bank profitability in India were evaluated in this study to determine whether there was a correlation between the two between 2011 and 2016. Twenty-six public-sector banks participated in the poll (20 nationalized banks and 6 SBI and its Associates). For this research, the Reserve Bank of India's journals, websites, and publications were consulted. According to research (NPLR), the return on assets (ROA) of a corporation is inversely connected with the default rate on its loans. Rather than the capital adequacy ratio (CAR) or the loan provision to non-performing loan ratio (LP/NPL), the NPLR is the best indicator of a bank's credit risk. A good connection exists between ROA, LP/NPL, and CAR, but the most relevant credit risk metric is NPLR. In order to optimize profits, the researchers recommended focusing more on credit risk management and restricting bank borrowing.

(Serwadda, 2018) Many financial organizations throughout the world still make their money from lending, even though it comes with many dangers. This study investigates how traditional Ugandan banks fared from 2006 to 2015 in terms of credit risk management. The study's sample is comprised of twenty typical financial institutions. In Uganda, recent research found that nonperforming loans and loan loss provisions hurt bank profits. Liquidity is negatively affected by non-performing loans, rendering banks more vulnerable to a financial catastrophe. As a result, banks are judged on their return on assets. Researchers found that banks in Uganda must devise strategies for dealing with non-performing loans and credit risks, both of which have a detrimental influence on the financial health and profitability of the institutions.

(R. Ekinci & Poyraz, 2019) It is important to note that financial services have a significant and active part in the economy due to the banking company's structure. This has been pushed to the fore. The fear of losing money because of poor credit is one of many issues that people are concerned with right now. A multitude of issues, including credit risk, may have contributed to the downfall of the bank. This research specifically

evaluates the influence of credit risk management on the performance of 26 Turkish conventional banks from 2005 to 2017. We found that the non-performing loan ratio accurately depicted the company's ability to handle credit risk. Credit risk management and profitability were found to have a negative relationship.

(Saleh1, Abu Afifa2020) When it comes to banks' profitability, this study looks at how credit risk, liquidity risk, and bank capital all interact. Between 2010 and 2018, researchers gathered data on conventional banks in emerging nations. The GMM plan was put into action (panel data). Credit risk and liquidity risk were found to have an adverse effect on the profitability of banks, while capital had a favorable effect on profitability.

(Weersainghe, Perera, & commerce, 2013) Commercial banks in Sri Lanka were surveyed in this study to examine the influence of bank-specific and macroeconomic factors on profitability. (– There was quarter-by-quarter data from 2001 to 2011. Using ROA as a lagging indicator was the decision made. Size (assets), risk-weighted assets (total assets), operational costs (efficiency ratio), adequate capital basis (total capital base/risk-weighted assets), and credit risk (total non-performing advances/total loans and advances) were all considered. The GDP and the interest rate were employed as macro-specific metrics. According to the findings of this study, ROA is positively impacted by bank size; operating costs are negatively impacted; credit risk is non-significantly positive; liquidity is positively impacted; interest rates are positively impacted; interest rates are negatively impacted; GDP is not significantly positive; and CAR is not significantly negative for ROA, according to the findings of this study.

(Kithinji, 2010) The purpose of this study was to examine the relationship between Kenyan commercial banks' profitability and their approach to credit risk management. Between 2004 and 2008, data was collected on all Kenyan commercial banks. Credit risk was assessed using total loans and non-performing loans, while profitability was assessed using ROA. According to the results of this study, total loans and nonperforming loans have little impact on a bank's profitability.

(Abbas, Iqbal, Aziz, & Finance, 2019) This analysis shows how bank capital, liquidity, and credit risk affected Asian emerging nations' profits from 2011 to 2017 when compared with the US banking industry. 174 banks' annual statistics and financial

data were gathered using the bank scope database (South Korea 8 out of 13, Hong Kong 28 out of 35, Singapore 11 out of 13, Saudi Arabia 6 out of 10, United Arab Emirates 14 out of 21, Cyprus 9 out of 13, Qatar 4 out of 6, Burn 1 out of 4, and Israel 7 out of 11). Profitability was measured using net income/average total assets, return on average earning assets, and net income/average total equity. It was determined by three independent variables: a bank's liquidity ratio, equity capitalization, and the probability of default on its debt obligations (loan loss provision to risk loans of a bank). To summarize, according to the study's findings, liquidity has a beneficial impact on the profitability of Asian banks but a negative impact on that of American commercial banks. Across Asia and the United States, the profitability of commercial banks is significantly impacted by credit risk. American and Asian banks reaped the rewards of this capital infusion.

(Ghenimi, Omri, & Economics, 2015) The goal of this paper is to determine the variables that affect the liquidity risk for both Islamic banks (IBs) and conventional banks (CBs) in 5 Gulf countries (Bahrain, Kuwait, Qatar, Saudi Arabia, and UAF). The paper sample consisted of 11 Islamic banks and 33 conventional banks for the period (2006–2013) The source of the data was the bureau van Dijik electronic banking database and world bank development indicators the dependent variable was liquidity risk the independent variable is capital adequacy ratio (CAR), non-performing loan (NPLR), return on assets (ROA), return on equity (ROE), size of the bank, net interest margin (NIM), inflation rate, GDP. The paper shows that size and liquidity risk are for both Islamic and conventional banks. And there is a significant negative impact between NPLR and liquidity risk for both types of banks. The CAR has a significant positive impact on liquidity risk for both IBs and CBs. The ROA has a significant negative impact on liquidity risk for both IBs and CBs. The NIM has a significant positive impact on liquidity risk for only IBs. The inflation rate has a significant positive impact on liquidity risk for both bank types, IBs and CVs.

3.5 Credit Risk Management and Liquidity

(Berríos, 2013) This study investigates the relationship between bank credit and performance, as well as the influence of uncertain credit on profitability and liquidity. This research used secondary data spanning five years, from 2005 to 2009, for forty commercial banks in the United States. The data was fed into traditional financial ratios

and evaluated using a regression model. When the loan exceeds cash flow, it has a negative impact on the liquidity of the bank. Greater deposit ratio loans result in a decline in liquidity since more cash is loaned to borrowers than is received from depositors.

(Caroline W Murage, 2014) This demonstrates that the risks the bank faces, such as credit risk and other risks, may result in the emergence of additional hazards, such as liquidity risk. The purpose of this study is to determine the effect of credit risk management on the liquidity of a small Kenyan financial institution between 2011 and 2013. The study discovered that credit risk management and liquidity risk are positively related. Due to a decline in cash flows and consequent inability to satisfy commitments, the growing quantity of bad loans increases liquidity risk.

(Caroline Wambui Murage & Muiru, 2016) The goal of this research is to determine the impact of credit risk on deposit institutions' corporate liquidity levels. Between 2010 and 2013, researchers in Kenya evaluated nine deposit-taking microfinance institutions (DTMs). Descriptive statistics, regression, and correlation analysis in SPSS were all employed to determine the relationship between the various variables. The dependent variable was the ratio of total assets to cash and cash equivalents, which measures the company's liquidity. The risk coverage ratio (loan loss reserve/portfolio at risk), portfolio-to-assets ratio (gross loan portfolio/total assets), operating expenses ratio (operating expenses/revenue), debt-to-equity ratio (total liabilities/total assets), and portfolio at risk ratio (loans outstanding for more than 30 days/gross loan) were all used to assess credit risk. There was a marginally positive correlation between corporate liquidity and the debt-to-equity ratio, while a negative correlation was found between corporate liquidity and the portfolio-to-assets and operational expenses ratios. The correlation between portfolio asset ratios and firm liquidity was found to be high and statistically significant in the regression results. Liquidity and credit risk have a strong positive link.

(Aldeen et al., 2020) This study's major goal is to quantify Syria's liquidity risk by comparing traditional banks with Islamic ones. Secondary data on Syria's private banking industry was acquired between 2011 and 2017. bank size (log total assets), non-performing loan ratio (loans/total outstanding loans), capital adequacy ratio (tire1 capital +tire2 capital)/risk-weighted assets, return on assets (net income/total assets),

and loan-finance of deposit (total loans/finance to deposit). Islamic bank liquidity is adversely affected by the size, CAR, and NPLR of the bank, as well as the ROA. On the other hand, CAR and NPLR have a large beneficial influence on traditional bank liquidity.

3.6 The relationship between liquidity and profitability

(Lipunga & Accounting, 2014) For the period of 2009 to 2012, the profitability of listed commercial banks in developing nations, specifically Malawi, was the subject of this study. Both ROA and EY were used to assess the profitability of the company's assets as a whole, with ROA serving as a profitability dependent variable. Participants in the study were commercial banks that were listed on the Malawi stock exchange (MSE). Each of the liquidity, size, capital adequacy, and management efficiency was a separate variable. The results show a strong negative association between managerial effectiveness and ROA; a positive but negligible correlation between liquidity and ROA; a significant positive correlation between size and ROA; and a positive but insignificant link between capital sufficiency and ROA. There was a large correlation between managerial efficiency and earnings yield; a moderate correlation between liquidity and earnings yield; and a negligible correlation between capital adequacy ratio and earnings yield.

(Dodi, Supiyadi, Arief, & Nugraha) Islamic banks in Indonesia are examined in this article with the goal of determining what factors contribute to their profitability. There are a total of twelve Islamic banks included in the sample. There are no primary datasets available for the years 2008 to 2017. The dependent variables that were used to calculate profitability were ROA and ROE (dependent variables). The independent variable was divided into macroeconomic and bank-specific subcategories in this study. A panel regression model using GMMs to analyze bank-specific and macroeconomic characteristics, However, capital, credit risk, and liquidity all had a considerable negative impact on the profitability of Islamic banks because of their size. GDP had a significant negative impact on profitability, whereas inflation had a positive impact.

(Almazari & banking, 2014) Internal bank variables were examined in this paper. We want to use internal criteria to gauge the profitability of Saudi and Jordanian financial institutions, particularly banks. For the study, 161 observations were collected from 23

Saudi and Jordanian banks between 2005 and 2011 for the period. There were a number of variables that were used as dependent variables, including the liquidity risk (the ratio of LQR cash and cash equivalents to total assets, as well as the net credit facilities/total assets ratio, the total investment/total assets, the total equity and assets, the net credit facilities/total deposit, the cost-income ratio, and the size of the bank in relation to total assets. To the surprise of no one, it turns out that Saudi banks' ROA is closely linked to LQR, TEA, and TIA. ROA and LQR, NCR, TEA, and CDR have a strong positive correlation in Jordanian banks. Furthermore, there is a strong negative relationship between CIR, TIA, and body mass.

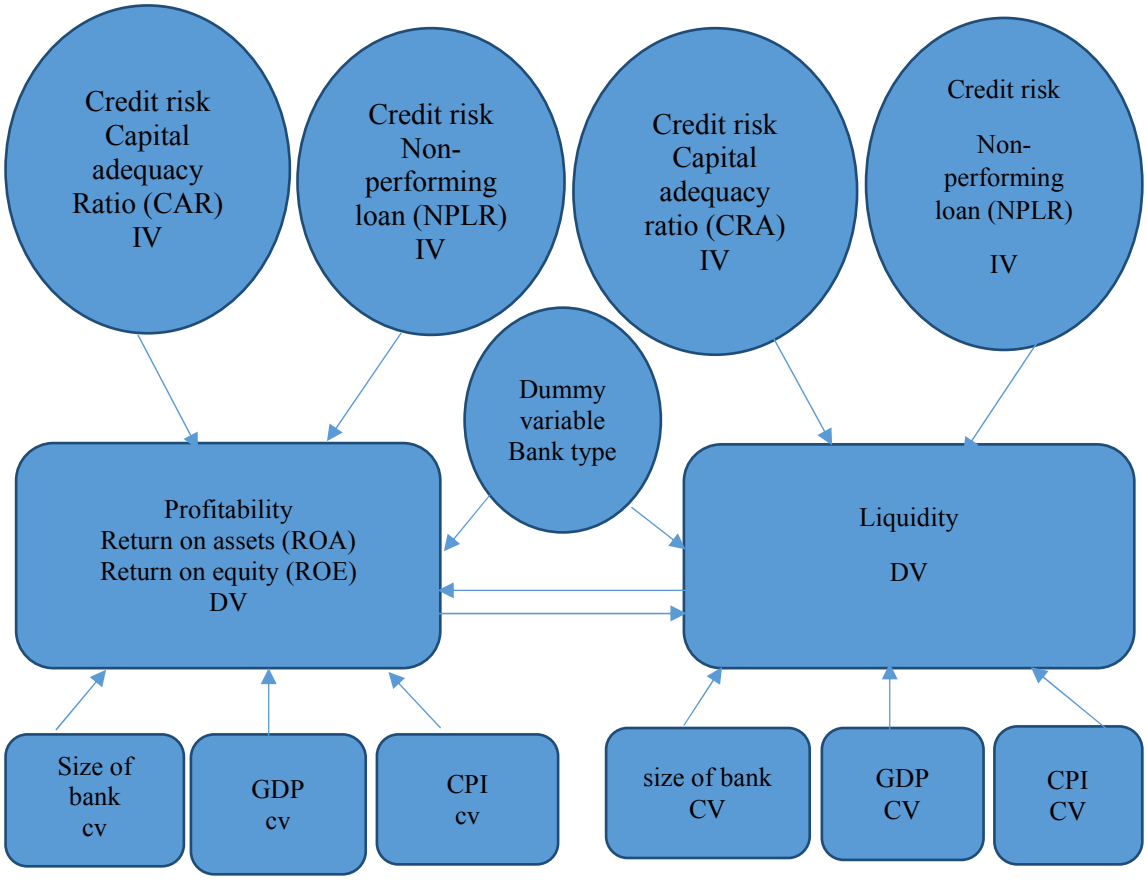
(Iqbal & research, 2012) From 2007 to 2010, conventional and Islamic banks have been studied in Pakistan in order to evaluate their liquidity risk. The study's sample included secondary data from five Islamic and five conventional banks out of Pakistan's 23 conventional banks. Each of the following factors act as independent variables in our analysis: the bank's size as defined by log total assets; its non-performing loan (NPL) ratio; its return on assets (ROA); its return on equity (ROE); and its capital adequacy ratio (CAFR) (CAR). According to a bank's risk-weighted credit, this is a percentage of the total amount that it has. Both Islamic and conventional banks used (cash and cash equivalents to total assets) to determine liquidity risk. In both conventional and Islamic banks, the size of the bank has a positive and statistically significant relationship with liquidity risk. There is a direct correlation between NPLR and liquidity risk, which is bad news for both Islamic and conventional banks. Both Islamic and traditional banks benefit from the strong relationship between ROE and liquidity risk. Liquidity risk is strongly correlated with both conventional and Islamic banks' CAR. Both Islamic and conventional banks' ROA and liquidity risk have a substantial and positive relationship.

After reading the previous studies, CAR, NPLR these variables were repeatedly used as measures of credit risk management. As well as LA/TA, LA/TD has repeated use as a measure of liquidity. With regard to the results, there was a difference in the results. There were studies that indicated a positive and statistically significant effect on the measures of profitability and liquidity There were studies that indicated that there was no statistically significant effect on the measures of liquidity and profitability, but most studies indicated that there was a negative effect on the indicators of liquidity and profitability.

3.7 Conceptual Framework

Figure 6

Conceptual framework



3.8 Hypothesis Development

3.8.1 The relationship between credit risk management and profitability

The bank lends the borrower a certain amount of money, which the borrower must repay at a later date. When a borrower fails to make timely payments, there is a credit risk. The danger is that you might go bankrupt as a result of this decision. As a result, attempting to quantify or forecast credit risk leads to the establishment of a causal link between credit risk management and the profit margins enjoyed by financial institutions.

Ekinci, &Poyraz (2019), Poudel (2012), panaayioties (2008) and other researchers have conducted various studies to establish the association between the management of credit risk and the profitability of banks and to examine the impact of credit risk on the profitability of banks. They come to the conclusion that credit risk management has a

negative influence on the profitability of banks. They say the increase in credit risk and the lack of competence in handling these risks led to a fall in the profitability of banks.

Hypothesis 1:

H1: the credit risk has a significant effect on the profitability of IB and CM.

3.8.2 The Relationship between Credit Risk and Liquidity

Liquidity is one of the biggest challenges facing banks, and it is the bank's ability to fulfill its obligations because banks use short-term funding sources to cover long-term investment.

(Harford, Mansi, & Maxwell, 2008) It has been suggested that the credit risk and liquidity risk structures of a financial institution are closely related, particularly for defaults on loans and withdrawals from funds. On August 1, 2010, this entry was published**.** (The industrial organization model) indicated the existence of a relationship between liquidity and credit risk. A risk of liquidity is seen as costing lower income. A credit default raises the risk of liquidity due to decreased cash flow. On August 1, 2010, this entry was published.(Hooks, 2003).

It has been suggested that the credit risk and liquidity risk structures of a financial institution are closely related, particularly for defaults on loans and withdrawals from funds. On August 1, 2010, this entry was published. (The industrial organization model) indicated the existence of a relationship between liquidity and credit risk. A risk of liquidity is seen as costing lower income. A credit default raises the risk of liquidity due to decreased cash flow. On August 1, 2010, this entry was published. The problem occurs if too many loan-funded economic ventures generate insufficient funds or even default, and the bank is not able to satisfy the customer’s requirements. As a result of this weakening of the properties, more and more depositors are going to demand their money back. Overall liquidity is reduced because all loans are called up. As a result, increased credit risk is associated with an increased liquidity risk when requesting deposits by depositors **(**Harvey and Roper 2004). Depend on this we can formulate our hypothesis:

Hypothesis 2:

H2: the credit risk has a significant effect on the liquidity of IBs and CBs.

Hypothesis 3:

H3: there is a significant difference in the impact of credit risk on the profitability of IBs and CBs.

Hypothesis 4:

H4: there is a significant difference in the impact of credit risk on the liquidity of IBs and CBs.

Chapter Four

Research Methodology

This part will go through how to choose econometric models, as well as how to determine the sample, the information gathered, and the variables chosen, as well as how to quantify the impact of these variables.

Using a panel data feasible generalized least square (FGLS) model, we analyze the determinants of credit risk in both Islamic and commercial bands in Palestine. NPLR and capital adequacy ratio (CAR) are credit risk determinant measurements, while return on assets (ROA) and return on equity (ROE) are profitability measurements, and liquidity assets/ total assets (LA/TA) and liquidity assets/total deposit (LA/TD) are liquidity measurements. The size of the bank, inflation Cpi, and GDB growth were all included as control variables. Finally, type 1 is employed as a moderating variable.

Credit

4.1 Population and Sample

IBs and CBs operating in Palestine are part of the study's population. There are a total of 14 banks in Palestine (11 CBs and 3 IBs). Thirteen banks comprise the research sample (11 CBs and 2 IBs). The excluded banks do not have a full data set for the full sample period that extends from 2011 to 2019. The sample is up to 2019, because the beginning of the thesis was in 2019 and the information for 2020 and 2021 was not published.

Secondary data acquired from the Palestinian Monetary Authority (PMA), the yearly financial reports of individual banks, and those available from the Association of Palestinian Banks are used. The Palestinian Statistics Authority has been used to collect macroeconomic information.

Table 4

Population of the thesis

Bank name	Type	Foreign/Local
Arab bank	Conventional	Foreign bank
Arab Islamic bank	Islamic	Local bank
Bank of Jordan	Conventional	Foreign bank
Bank of Palestine	Conventional	Local bank
Cairo Amman bank	Conventional	Foreign bank
The Housing bank	Conventional	Foreign bank
Jordan Kuwait bank	Conventional	Foreign bank
Jordan Commercial bank	Conventional	Foreign bank
Palestine investment bank	Conventional	Local bank
Palestine Islamic bank	Islamic	Local banks
Al-Quds bank	Conventional	Foreign bank
The national bank	Conventional bank	Local bank
Egyptian Arab land bank	Conventional bank	Foreign bank
Jordan Ahil bank	Conventional	Foreign bank

4.2 Econometrics Model

As mentioned earlier, one of the biggest challenges facing banks is liquidity. Failure to maintain sufficient liquidity within a bank exposes it to bankruptcy risks. On the other hand, keeping large amounts of money reduces bank investments, which will negatively affect the profitability of banks.

It is noticed that there is a mutual relationship between liquidity and profitability, and they both affect the other. Therefore, the dependent variables in the study are affected by each other in addition to the independent variables affecting them. A panel regression is to be used in order to investigate the relationship between the variables.

According to this model, the econometric models that are to be estimated are:

$$ROA=a+B1NPLR+B2CAR+B3LA/TD+B4LA/TA+B5GDP+B6SB+B7CPI+B8TYPE\ DUMMY+e.$$

$$ROE=a+B1NPLR+B2CAR+B3LA/TD+B4LA/TA+B5GDP+B6SB+B7CPI+B8TYPE\ DUMMY+e.$$

$$LA/TA=a+B1NPLR+B2CAR+B3ROA+B4ROE+B5GDP+B6SB+B7CPI+B8TYPE\ DUMMY+e.$$

$$LA/TE=a+B1NPLR+B2CAR+B3ROA+B4ROE+B5GDP+B6SB+B7CPI+B8TYPE\ DUMMY+e.$$

4.3 Variables of the Study

The measures to measure credit risk management include capital adequacy ratio (CAR) and non-performing loan (NPLR). The reason for their use in this study is their frequent use in previous studies.

4.3.1 Profitability Indicators

ROA

The return on assets shows the profitability of a bank relative to its total assets. When the rate of return on assets increases, the efficiency of management will increase in the use of assets.

ROE

The roe measures the efficiency of the company in generating the profits of each unit of equity. It shows how the bank's successfully using the investment fund to generate profits will increase the company's ability to generate profits.

4.3.2 Liquidity Indicators

The capacity of a company to meet its financial obligations on time is known as liquidity. Two ratios are used to determine a company's liquidity: liquidity assets /total assets and liquidity assets /total deposit.

4.3.3 Control Variables

A. The total assets of the bank are used to measure the bank's size. Assets are the primary means through which every company may increase its profits. The natural logarithm of the bank's total assets is used to calculate the size variable.
B. Inflation: Inflation is an important variable affecting band performance. Inflation is measured as LN (cpi2/cpi1).
C. GDP growth rate: it is used to represent economic growth. Measured as LN (GDP t/GDP t-).

4.3.4 Dummy variable

A Dummy variable used to distinguish between Islamic and conventional banks by giving value 1 to Islamic bank and value 0 to conventional bank.

Chapter Five

Analysis and Result

5.1 Statistical descriptive

Tables 5 and 6 While the ROAs of the two types of banks are identical (0.01), the ROEs of the two banks differ. Contrary to popular belief, the sample period shows that investment banks had a greater return on equity (ROE) than commercial banks (CBs), at 9 percent on average. CBs' NPLR (non-performing loan ratio) is greater than that of IBs (0.01 versus 0.00). Of course, the average capital adequacy ratio (CAR) for CBs (24%) is larger than that of IBs (17%).

Through the descriptive distribution of Islamic banks, we note that the S.D for the size of the bank is high compared to the other variables, and the same is true for conventional banks. We note that with the exception of (LA/TA), the rest of the variables have a normal distribution in IB, but in CB, the macroeconomic variables and liquidity measures have a normal distribution, while measures of credit risk (NPLR, CAR), and profitability measures (ROA, ROE) are non-normally distributed. Through figure 1 and 2, we also note that the (ROA and ROE) are negatively skewed in IB, while in CB, the ROA is negatively skewed while the ROE is positively skewed. With respect to the rest of the variables, they share the same characteristics with the exception that the size of IB is negatively skewed, while it is positively skewed in CB, and (LA/TD) is positively skewed in IB, while it is negatively skewed in CB.

Table 5

Descriptive statistic of CB

	GROWTHGDP	CAR	INFLATION	LA_TD	LA_TA	NPLR	ROA	ROE	SIZE
Mean	0.063424	0.291724	0.013222	0.52083	0.408459	0.006624	0.00858	0.054817	20.26504
Median	0.051307	0.21	0.016	0.490942	0.394427	0.004013	0.009007	1.79E-10	20.17244
Maximum	0.144455	1.071	0.029	0.931056	0.6186	0.03458	0.029483	0.415428	22.38434
Minimum	-0.001237	0.111	-0.002	0.138619	0.121732	-0.00509	-0.0319	-0.03288	18.74137
Std. Dev.	0.045195	0.229548	0.011079	0.150818	0.105955	0.00709	0.008551	0.077324	0.991389
Skewness	0.22069	2.037997	-0.09815	0.276013	-0.05409	1.365397	-2.11048	1.666093	0.435414
Kurtosis	2.009171	6.416457	1.756356	3.092052	2.540194	4.799036	11.05197	6.59802	2.332923
Jarque-Bera	4.853301	116.6793	6.538885	1.291972	0.920384	44.11177	340.9338	99.20302	4.963744
Probability	0.088332	0	0.038028	0.524146	0.631162	0	0	0	0.083587
Sum	6.279006	28.8807	1.309	51.56217	40.43747	0.655783	0.84945	5.426881	2006.239
Sum Sq. Dev.	0.200175	5.163855	0.012029	2.229125	1.100196	0.004927	0.007166	0.585935	96.31946
Observations	99	99	99	99	99	99	99	99	99

Table 6

Descriptive statistic for IB

	CAR	growth GDP	Inflation	LA_TA	LA_TD	NPLR	ROA	ROE	SIZE
Mean	0.173731	0.063424	0.013222	1.44E+08	0.402737	0.002184	0.009694	0.086921	20.3311
Median	0.15	0.051307	0.016	0.334167	0.37864	0.001133	0.009134	0.080086	20.31197
Maximum	0.301	0.144455	0.029	1.32E+09	0.562033	0.008867	0.015578	0.139995	20.99969
Minimum	0.1212	-0.001237	-0.002	0.214246	0.272279	-0.00121	0.001728	0.011336	19.51959
Std. Dev.	0.057797	0.04627	0.011343	4.19E+08	0.092485	0.002887	0.004143	0.03904	0.453278
Skewness	1.153488	0.22069	-0.09815	2.476602	0.442705	1.114325	-0.25107	-0.33892	-0.10655
Kurtosis	3.0936	2.009171	1.756356	7.137219	1.918376	3.010164	2.024492	2.305934	1.827256
Jarque-Bera	3.998171	0.882418	1.188888	31.23811	1.465395	3.725238	0.902823	0.705904	1.065553
Probability	0.135459	0.643258	0.551869	0	0.480611	0.155265	0.636729	0.702611	0.586973
Sum	3.12715	1.141638	0.238	2.59E+09	7.249272	0.039318	0.174497	1.564569	365.9598
Sum Sq. Dev.	0.056788	0.036396	0.002187	2.98E+18	0.14541	0.000142	0.000292	0.02591	3.49283
Observations	18	18	18	18	18	18	18	18	18

5.2 Correlation Matrix

Table 7 present the correlation matrix may be found. According to the study's correlation coefficients, there is no evidence of probable multicollinearity between any of the variables studied. A more formal measure of multicollinearity, known as the Variance Inflation Factor (VIF), demonstrates that none of the variables has a VIF greater than 10, which implies that there is no correlation between the variables.

Table 7

Correlation matrix for all banks type

Correlation	ROE	ROA	NPLR	LN_GDP_	LA_TD	LA_TA	Inflation	Growthgdp	Capital_Adequacy_Ratio	Size	Unemploument
ROE	1										
ROA	0.531175	1									
NPLR	-0.15186	-0.412296	1								
LN_GDP_	-0.003118	-0.10874	-0.112917	1							
LA_TD	-0.118001	0.028906	0.419089	-0.312924	1						
LA_TA	0.075619	0.005505	-0.024809	0.179372	-0.122857	1					
INFLATION	0.041548	0.113367	0.175632	-0.794659	0.29758	0.033227	1				
GROWTHGDP	0.034687	0.09139	0.096766	-0.604409	0.189184	-0.035531	0.46792	1			
CAPITAL_ADEQUACY_RATIO	-0.403335	-0.453079	0.354238	-0.21562	0.418539	-0.086479	0.178421	0.145583	1		
SIZE	0.645846	0.466621	-0.273195	0.285114	-0.436162	0.100877	-0.21889	-0.173414	-0.720378	1	
UNEMPLOUMENT	-0.00849	-0.000509	-0.14081	0.756163	-0.186948	0.076427	-0.577364	-0.666298	-0.151704	0.199985	1

5.3 Models' Estimation

Stata17's balanced panel regression analysis was used to estimate four different models. Tests were carried out to determine the best model among fixed, pooled, and random models. The Pesarans test was used to select the best model between fixed and pooled. The pooled model was found to be the best model for models 1, 2, and 3, while the fixed effect model was the best for model 4. The Hausman test was used to select between the fixed effect model and the random effect model. The outcome for all models is that the Randoom model is the best. Because heteroscedasticity and serial correlation are taken into account, feasible generalized least squares was used to ensure that there are no such issues and that the results are as accurate as possible.

5.3.1 ROA model

The estimated results of the ROA model are shown in table 8. Heteroscedasticity and serial correlation are taken into account by employing the feasible generalized least squares (FGLS) method.

Table 8

Estimation results-ROA model

ROA	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
CAR	-0.007	0.003	-2.13	0.033	-0.014	-0.001	**
NPLR	-0.563	0.084	-6.67	0	-0.728	-0.397	***
LATD	0.025	0.004	5.72	0	0.016	0.033	***
LATA	0	0	-1.82	0.069	0	0	*
Size	0.004	0.001	4.58	0	0.002	0.005	***
Inflation	0.144	0.054	2.67	0.007	0.039	0.25	***
GrowthGDP	0.014	0.013	1.08	0.28	-0.011	0.039	
type1*CAR	-0.031	0.028	-1.11	0.266	-0.086	0.024	
type1*NPLR	1.498	0.499	3	0.003	0.52	2.475	***
type1*LATD	-0.019	0.016	-1.18	0.239	-0.051	0.013	
type1*size	0.001	0	1.8	0.073	0	0.001	*
Constant	-0.077	0.018	-4.3	0	-0.112	-0.042	***

1. Capital adequacy ratio (CAR)

Capital Adequacy (CAR) of CBs has a negative (-0.007) and significant impact at level 5% on their ROA for CB this result confirmed with (Poudel, 2012). IBs' capital adequacy has a negligible impact on their profitability. Hence, there is no statistical difference between IBs and CBs when it comes to the impact of CAR.

2. non-performing loan ratio (NPLR)

NPLR has a negative (-0.563) and significant impact at level 1% on ROA for CB this result confirmed with **(Hurka, 2017)**, **(Kolapo et al., 2012)**. While type1*NPLR has a negative and significant impact at level 1% on ROA for IB.

3. non-performing loan ratio (NPLR)

NPLR has a negative (-0.563) and significant impact at level 99% on ROA for CB this result confirmed with **(Hurka, 2017)**, **(Kolapo et al., 2012)**. While type1*NPLR has a negative and significant impact at level 1% on ROA for IB.

4. Liquidity assets to total deposit (LA/TD)

The results indicate that liquidity as measured by LA/TD has a positive and significant impact at level 99 % on ROA for CB. This result is confirmed by **Abbas et al., 2019.** The liquidity of IBs has no statistically significant incremental impact compared tothat of CBs.

5. Liquidity assets to total assets (LA/TA)

LA/TA has a positive but insignificant impact on ROA for CM.

6. Size of bank

The bank size has a positive (0.004) and statistically significant impact on the ROA at a level of 1%. This indicates that larger CBs have a higher ROA. However, Table 11 shows that there is no statistical difference between IBs and CBs with respect to the size variable.

7. Real GDB growth (GDPG)

The growth rate in real GDP, which reflects the business cycle swings, has a positive (0.014) impact on the ROA. However, this impact is statistically insignificant.

8. Inflation

The effect of changes in purchasing power has a positive (0.14) and statistically significant impact on the ROA.

5.3.2 Return on equity model (ROE)

The estimated results of the ROE model are shown in Table 9. These results are estimated using the feasible generalized least squares (FGLS) method that corrects for heteroscedasticity and serial correlation.

Table 9

Estimation result ROE model

ROE	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
CAR	0.057	0.032	1.78	0.076	-0.006	0.12	*
NPLR	-0.693	0.782	-0.89	0.376	-2.226	0.84	
LATD	0.121	0.04	3.04	0.002	0.043	0.198	***
LATA	0	0	-1.65	0.099	0	0	*
Size	0.07	0.008	9.27	0	0.055	0.085	***
Inflation	0.968	0.499	1.94	0.053	-0.011	1.947	*
GrowthGDP	0.117	0.117	1	0.319	-0.113	0.347	
type1* CAR	-0.275	0.26	-1.06	0.291	-0.784	0.235	
type1* NPLR	8.252	4.619	1.79	0.074	-0.8	17.304	*
type1* [LATD	-0.077	0.152	-0.51	0.612	-0.375	0.221	
type1* SIZE	0.006	0.003	1.96	0.05	0	0.011	**
Constant	-1.462	0.166	-8.82	0	-1.787	-1.137	***

Mean dependent var	0.06	SD dependent var	0.074
Number of obs	117	Chi-square	140.235
Prob > chi2	0.017	Akaike crit. (AIC)	-348.504

*** *p<.01,* ** *p<.05,* * *p<.1*

1. Capital adequacy ratio (CAR)

CAR (Capital Adequacy) of CBs has a positive (0.057) but minor effect on ROE. This shows that raising the equity to capital ratio (CAR) has a favorable effect on the ROE. Even while ROE has a negative influence on the CAR of IBs, the statistical significance of this effect is small enough to be ignored.

2. non-performing loan ratio (NPLR)

The non-performing loan ratio (NPLR) has a negative (-0.693) but statistically negligible influence on the ROE. This finding suggests that the NPLR size at CBs has little bearing on ROE. This result confirms that of **(Bayyoud& Sayyad, 2015),**

(Kithinji, 2010), and (Weersainghe, Perera, & Commerce, 2013). On the basis of this outcome, it is possible to conclude that the CBs' provisioning policies are aggressive since the real NPLs have been fully accounted for. IBs' NPLR does not have a statistically significant influence on the profitability of their clients.

3. Liquidity assets to total deposit (LA/TD)

According to LA/TD, CB liquidity has a positive (0.121) and significant impact on ROE. Profitability and liquidity are inseparably linked. This discovery runs counter to **(Gholami&Salimi, 2014).** The liquidity of IBs has a negative association (-0.077) with profit (statistically insignificant).

4. Liquidity assets to total assets (LA/TA)

CB's liquidity, assessed by LA/TA, has a positive (0.0001) but insignificant influence on profitability.

5. Size of bank

It has a statistically significant (0.072) and favorable influence on the ROE of CBs, which is the bank size. Thus, larger banks have a better return on equity than smaller ones. However, Table 12 shows that there is no statistical difference between IBs and CBs with respect to the size variable.

6. Real GDB growth (GDBG)

Growth in real GDP, which reflects the economic cycle, has a positive (0.1117) effect on the ROE. However, the statistical significance of this effect is negligible.

7. Inflation

While the impact of changing purchasing power on ROE is positive (0.968), it is statistically negligible.

5.3.3 Liquidity assets to total deposit (LA/TD) model

The estimated results of the (LA/TD) model are shown in Table 10. Heteroscedasticity and serial correlation are taken into account by employing the feasible generalized least squares (FGLS) method.

Table 10

Estimation result LA/TD model

LATD	Coef.	t.Err.	t-value	p-value	[95% Conf	Interval]	Sig
CAR	0.074	0.071	1.05	0.292	-0.064	0.213	
NPLR	8.978	1.753	5.12	0	5.543	12.413	***
ROA	8.352	1.719	4.86	0	4.983	11.721	***
ROE	0.313	0.201	1.56	0.12	-0.081	0.707	
Size	-0.087	0.02	-4.37	0	-0.125	-0.048	***
Inflation	0.376	1.081	0.35	0.728	-1.743	2.495	
Growth GDP	-0.108	0.251	-0.43	0.666	-0.6	0.384	
type1* CAR	0.013	1.028	0.01	0.99	-2.002	2.029	
type1* NPLR	-5.755	14.956	-0.38	0.7	-35.068	23.559	
type1* ROA	1.171	37.674	0.03	0.975	-72.669	75.01	
type1* ROE	-1.166	4.827	-0.24	0.809	-10.628	8.295	
type1* SIZE	0.001	0.011	0.08	0.939	-0.021	0.023	
Constant	2.106	0.413	5.1	0	1.296	2.916	***

Mean dependent var	0.503	SD dependent var	0.149
Number of obs	117	Chi-square	121.365
Prob > chi2	0.131	Akaike crit. (AIC)	-169.198

*** $p<.01$, ** $p<.05$, * $p<.1$

1. Capital adequacy ratio (CAR)

CBs' capital adequacy (CAR) of CBs has a positive (0.074) but insignificant impact on their LA/TD. CAR of IBs shows a positive impact of their LA/TD, but statistically insignificant.

2. non-performing loan (NPLR)

The results show that the non-performing loan ratio (NPLR) has a positive (8.978) and statistically significant impact on the LA/TD at level 1%.This result confirms with (Iqbal & research, 2012).IBs have no statistically significant difference in the impact of their NPLR on liquidity.

3. Return on assets (ROA)

The results show that return on assets (ROA) has a positive (8.152) and statistically significant impact on the LA/TD at level 99% for CBs, and this result confirms with

(Iqbal &research, 2012). On the other hand, the impact of the ROA of IBs on their respective LA/TD is positive (1.171) but statistically insignificant.

4. Return on equity (ROE)

The Return on equity has a positive (0.313) but statistically insignificant impact on the liquidity of CBs. The ROE for IBs has a negative (-1.166) but statistically insignificant impact.

5. Size of bank (size)

The bank's size has a negative (-0.087) and statistically significant impact on the liquidity. This indicates that larger CBs have lower liquidity. However, Table 13 shows that there is no statistical difference between IBs and CBs with respect to the size variable.

6. Inflation

The effect of the change in purchasing power has a positive (0.376) but statistically insignificant impact on liquidity.

7. Real GDB growth (GDBG)

The growth rate in real GDP, which reflects the business cycle swings, has a negative (-0.108) impact on liquidity. However, this impact is statistically insignificant.

5.3.4 Liquidity assets to total assets (LA/TA) model

The estimated results of the (LA/TA) model is shown in Table 11. Heteroscedasticity and serial correlation are taken into account by employing the feasible generalized least squares (FGLS) method.

Table 11

Estimation result LA/Ta model

LATA	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
CAR	62020145	1.01E+08	0.61	0.54	-1.36E+08	2.61E+08	
NPLR	7.80E+08	2.50E+09	0.31	0.755	-4.11E+09	5.67E+09	
ROA	-1.16E+09	2.47E+09	-0.47	0.637	-6.00E+09	3.67E+09	
ROE	-2.61E+08	2.88E+08	-0.91	0.365	-8.26E+08	3.03E+08	
Size	45099053	28199438	1.6	0.11	-10170829	1.00E+08	
inflation	2.50E+09	1.55E+09	1.61	0.107	-5.36E+08	5.54E+09	
GrowthGDP	49824609	3.59E+08	0.14	0.89	-6.53E+08	7.53E+08	
type1* CAR	-2.04E+09	6.80E+08	-3	0.003	-3.38E+09	-7.10E+08	***
type1* ROE	4.15E+08	1.11E+09	0.37	0.709	-1.76E+09	2.59E+09	
type1* SIZE	23767487	8922986	2.66	0.008	6278756	41256218	***
Constant	-9.50E+08	5.88E+08	-1.61	0.106	-2.10E+09	2.03E+08	

Mean dependent var	22139673.06	SD dependent var	168632076.9
Number of obs	117	Chi-square	30.39
Prob > chi2	1	Akaike crit. (AIC)	4760.727

*** *p<.01, ** p<.05, * p<.1*

1. Capital adequacy ratio (CAR):

The result shows that CAR has a positive (6.2020) impact on liquidity (LA/TA) but statically insignificant, while CAR for IBs has a negative (-2.04) and statically significant impact at level 99% on their liquidity, so there is a fundamental difference between CBs and IBs.

2. non-performing loan ratio (NPLR)

NPLR has a positive (7.80) but statistically insignificant impact on the liquidity of CBs.

3. Return on assets (ROA)

It has a negative (-2.61) but statistically insignificant impact on the liquidity of CBs.

4. Return on equity (ROE)

It has a negative (-1.16) but statically insignificant impact on CBs, and for IBs, it has a positive (4.15) but statically insignificant impact.

5. Size of bank

The size of the bank for CBs has a positive (4.5099) but statically insignificant impact, while for IBs it has a positive (2.376) and statically significant impact at level 1%.

6. Inflation

The effect of the change in the purchasing power has a positive (2.50) but statistically insignificant impact on the liquidity.

7. Real GDB growth (GDBG)

The growth rate in real GDP, which reflects the business cycle swings, has a positive (4.982) impact on liquidity. However, this impact is statistically insignificant.

5.4 Conclusion and recommendation

Credit risk, liquidity risk, operational risk, currency risk, interest rate risk, and political risk all challenge financial institutions, including banks. Credit risk is the most important factor in a bank's insolvency risk. This variable is the primary cause of systemic crises in the economy.

The goal of this thesis is to determine how credit risk affects commercial and Islamic banks' profitability and liquidity in Palestine for the 2011–2019 period. ROA and ROE are cited as measures of bank profitability. CAR and NPLR are used to represent credit risk. Liquidity Assets /Total Assets and Liquidity Assets /Total Deposit are used to represent liquidity. The control variables were (size of bank), inflation, growth, and GDB. The findings for the ROA and ROE models are explained as follows: CAR and NPLR have a significant and adverse relationship with ROA this result supported our first hypothesis and also have a negative impact on ROE, but it is insignificant. This negative relationship means that when the NPLR increases, the capital utilized by banks to carry out their investments and activities decreases, and as a result, banks' profitability.

For capital adequacy ratio (CAR), the beta coefficient is negative and statically significant for ROA, while it is positive but insignificant for ROE. The negative relationship means that the change in the CAR ratio leads to an inverse change in how the bank performs.

(Liquidity Assets /Total Deposit) (Liquidity Assets /Total Assets) is the measure for liquidity. There is a significant and positive relationship between liquidity (Liquidity Asset /Total Deposit) and ROA and ROE, while liquidity (Liquidity Assets /Total Assets) has a positive but insignificant relationship with ROA and ROE. The positive impact means profit rises as a result of the availability of liquidity. The size of the bank has a positive and statistically significant impact on ROA and ROE. This indicates that a larger commercial bank has a high ROA and ROE. Real GDB growth has a positive impact on the ROA and ROE but is statistically insignificant. Inflation has a statistically significant impact on the ROA and ROE.

The result for the (Liquidity Assets /Total Assets) (Liquidity Assets /Total Deposit) model is explained as follows: ROA has a positive and significant impact on (Liquidity Assets /Total Deposit) while it has a negative but insignificant impact on (Liquidity Assets/Total Assets). ROE has a positive but insignificant impact on (Liquidity assets /Total Deposit) and has a negative but also insignificant impact on (Liquidity Assets/Total Assets). NPLR has a positive and statically significant impact on (Liquidity Assets/Total Deposit) and this result support our second hypotheses and also a positive impact on (Liquidity assets/Total Assets), but statically insignificant. The positive impact indicates that commercial banks enjoy high liquidity despite the high NPLR. This may be due to the fact that banks, being exposed to the risk of default, are imposing greater restrictions on obtaining loans, which leads to a decline in the percentage of loans granted, and thus it has a higher liquidity ratio. CAR has a positive but statistically insignificant impact on both (Liquidity Assets /Total Deposit) and (Liquidity Assets /Total Assets). ROA has a positive and significant impact on (Liquidity Assets /Total Deposit) while it has a negative but insignificant impact on (Liquidity Assets /Total Assets). The size of the bank has a negative and significant impact on (Liquidity Assets /Total Deposit) while it has a positive but insignificant impact on (Liquidity Assets /Total Asset). Inflation has a positive but insignificant impact on (Liquidity Asset/Total Asset) and (Liquidity Asset/Total Deposit). GDP growth has a negative but statistically insignificant impact on (Liquidity Asset /Total Deposit) and a positive but insignificant impact on (Liquidity Assets/Total Asset).

Liquidity and profitability are mutually dependent on one another, so increasing one of them will affect the other. Liquidity means approaching cash and cash equivalents, and

profitability means staying away from it and investing money to achieve more profit. Liquidity is inversely proportional to profitability. Achieving a balance between liquidity and profitability depend on the financial manager's skill in exploiting and employing funds and maintaining an appropriate amount of cash so that the bank can fulfill its obligations and maintain a good credit reputation.

It is worth mentioning that the impact of credit risk on profitability is sensitive to the measure of profitability. While credit risk has a significant impact on the ROA, it has no significant impact on the ROE. This result does not mean credit risk management is not a value-adding activity. On the contrary, it highlights the importance of managing credit risk at a portfolio level. As banks manage their credit portfolio more effectively, it can eliminate borrowers' specific loss events. Therefore, banks need to emphasize the importance of the portfolio approach to managing their credit risk and minimize the concentration of credit that results from either conventional sources or correlated risk factors. However, the insignificant relationship indicates that there is no important impact on the dependent variable. The results for Islamic banks for (ROA) and (ROE) models show that there is no statistical difference between Islamic banks and commercial banks for variables except NPLR, which has a positive and significant relationship with ROA this result support our third hypothesis. for (Liquidity Asset/Total deposit) and (Liquidity Asset /Total Asset) models. There is no statistical difference between IBs and CBs for variables except size of banks has a positive and significant impact on Liquidity Asset /Total Asset and CAR has a negative and significant impact on Liquidity Asset/Total Asset since high capitalization level will discovery liquidity creation by making the structure of the capital fragile. The difference in results between Islamic and conventional banks may be due to the different nature of the work of both banks. Conventional banks depend on the interest system, while Islamic banks are subject to different laws and regulations that comply with the laws of Islamic law.

Recommendations

1. Islamic banks in general need good support and development by the government through independent regulations. This means that an Islamic bank can develop good Islamic regulations and products as stipulated in Islamic law and Sunnah.

2. Finding a balance between liquidity and profitability depends on the efficiency of the administration and its ability to achieve this. It must possess the necessary competence to be able to achieve a balance between them, and there is no increase in one of them at the expense of the other.

3. For future studies, I advise the researchers to do more studies on Palestine that study the effect of credit risk management on liquidity and profitability of Islamic and conventional banks, but using other liquidity and profitability measures.

List of Abbreviations

ROA: return on assets.

ROE: return on equity.

CAR: capital adequacy ratio.

NPLR: non-performing loan ratio.

CBs: conventional banks.

IBs: Islamic banks.

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Appendices

Appendix 1: The summary of literature review

no	Publication Title	Country	Objective of the study and the related variables	Methodology		Analysis Techniques	Results
				Res. Design	**Sample**		
1	The relationship between credit risk management and profitability between investment and conventional bank in Palestine.	Palestine	Assess the extent of relationship between credit risk management and profitability. Dv: ROE Iv: Non-performing loan ratio	Quantitative and qualitative approach	All conventional and investment banks population in Palestine.	Regression model &structured interviews.	There is no consequence of credit risk on profitability of conventional and investment banks.
2	Investigate the relationship between credit risk management and liquidity management and the profitability in banking sector.		Study and investigate the relationship between credit risk management and liquidity management and the profitability in banking sector.	…….	……..	…….	Both liquidity and credit risk has an inverse relationship with profitability.
3	The effect of credit risk on financial performance of deposit banks in turkey.	Turkey	Analyze the impact of credit risk on banks performance. DV: Return on assets (ROA), return on equity (ROE). IV: Non-performing loan (NPLR). CV: Assets quality, bank size, ownership dummy variable,	Quantitative model	26 conventional banks operating in turkey.	Panel regression model.	There is a negative relationship between credit risk and ROA, ROE. There is a positive and significant relationship between size and ROA, ROE. Growth GDB is statistically insignificant with profitability

			CPI, crisis, concentration ratio, GDP growth rate.				There is a significant positive effect between inflation and (ROA, ROE). There is a negative impact between crisis and (ROA,ROE).
4	The effect of credit risk on corporate liquidity of deposit taking microfinance institutions in Kenya.	Kenya	Find out the effect of credit risk on corporate liquidity of deposit. DV: Corporate liquidity IV: Credit risk, portfolio to assets ratio, operating expense ratio, dept. to equity ratio, portfolio at risk.	Descriptive research design.	5 DTMs licensed under the central bank of Kenya.	Regression analysis, correlations analysis, descriptive analysis, variance analysis.	Credit risk and debt to equity ratio had a positive correlation with corporate liquidity.
5	The effect of credit and market risk on bank performance: evidence from turkey.	Turkey	Investigate the effects of credit and market risk on the bank performance. DV: ROA, ROE. IV: Diffusion indexes, default spread, expected default frequencies, loan loss provision, loss given default, non-performing loans.	……..	710 observation.	A time-varying framework, generalized autoregressive conditional, heteroscedastic approach.	Credit risk and foreign exchange rate risk has a positive and significant effect but interest rate has insignificant effect on banking sector profitability. Credit ad market have a positive and significant effect on conditional bank stock return volatility.
6	Impact of credit risk on profitability: a study of Indian public sector	India	Examine the impact of credit risk on profitability of public sector bank. DV: Return on assets.	…….	26 public sector banks.	Explanatory design	There is a significant and positive relationship between ROA and CAR, LP/NPL. Whereas ROA and NPLR

	banks.		IV: Capital adequacy ratio, loan provision to non-performing loan, non-performing loan.				have a negative relationship.
7	Financial performance of Palestinian conventional banks.	Palestine	Examine the financial performance of five Palestinian conventional bank. DV: ROA, economic value added, Tobin's Q model. IV: Bank size, credit risk, operational efficiency, asset management.	Multiple regressions analysis.	5 Palestinian conventional banks.	……	. positive correlation between ROA and bank size. . negative correlation between ROA and credit risk. . negative correlation between ROA and operational efficiency. . positive correlation with assets management. . there is an impact of assets size, credit risk, operational efficiency on market based performance that measure by Tobin's Q model. There is an impact of assets size, credit risk, operational efficiency on assets management.
8	Credit risk and conventional banks performance in Nigeria: a panel model.	Nigeria	Investigate the quantitative effect of credit risk on the performance of conventional banks in Nigeria. Dv: ROA. Iv:	Quantitative model.	5 conventional banking firms.	Panel regression analysis.	. increase in non-performing loan reduce profitability. . Increase in loan loss provision also reduce profitability. . Increase in total loan and

			Non-performing loan/loan advance, loan loss provision/classified loan, ratio of total loan/advance to total deposit.				advance increase profitability.
9	The effect of credit risk management on financial performance of the Jordanian conventional banks.	Jordan	Aims to examining the effect of credit risk management on financial performance of Jordanian conventional banks. DV: ROA, ROE. IV: Capital adequacy ratio, credit interest/credit facilities ratio, the leverage ratio, non-performing loan/gross loans ratio. Provision for facilities loss/net facilities ratio.	…….	Jordanian conventional bank	Panel regression model analysis.	Positive effect of credit risk indicators of non-performing loan/gross loan ratio. .negative effect of provision for facilities loss/net facilities ratio on financial performance.
10	Effectiveness of credit risk management of Saudi banks in the light of global financial crisis: a qualitative study.	Saudi Arabia	Investigating, determinants, challenge and developing means of credit risk management at Saudi banks. DV: Effective of credit risk management. IV: Capital adequacy ratio. Assets quality, management soundness, earning of credit facility, liquidity, bank size.	Descriptive and analytical analysis.	Saudi banks	CAMEL model	. liquidity has significant strong positive impact on effectiveness of credit risk management. . bank size has significant strong and negative impact on effectiveness of credit risk management. .capital adequacy, assets quality, management soundness and earning have insignificant impact on effectiveness of credit risk.

11	The relationship between bank credit risk and profitability and liquidity.		Study the relationship between bank credit risk and financial performance and the contribution of risky lending to lower bank profitability and liquidity. Variables: Net interest margin, return on assets, return on equity, cash flow to assets.	……..	793 active public companies, 40 banks.	Covariance model, statistical tools.	. negative relationship between less prudent lending and net interest margin. . insider holdings and chief executive officer having a higher tenuremcy be negatively related to bank performance. Higher loans to deposits ratio may be seen as a signal of lower liquidity due to greater amount of cash given to borrowers.
12	Impact of credit risk managements systems on the financial performance of conventional banks in Uganda.	Uganda	Analyze the impact of credit risk management on the financial performance of conventional bank in Uganda. DV: ROA IV: Non-performing loan, growth in interest earnings and loan loss provisions to total loans as credit risk measures.	Regression model, descriptive statistic.	20 conventional banks.	Regression and correlation analysis	Credit risk management impact inversely on bank performance.
13	The impact of credit risk management on financial performance of conventional	Nepal	The general objective of the study was to establish the impact of credit risk management on the financial performance of banks.	Descriptive research design, econometrics model.	31 banks.	…….....	All credit risk management's parameters have an inverse impact on bank financial performance.

	banks in Nepal		DV: ROA IV: Default rate, cost per loan assets, capital adequacy.				
14	Credit risk and conventional banks performance in Tanzania: a panel data analysis.	Tanzania	Find the relationship between credit risk and bank performance. DV: ROA IV: Loan loss to gross loan, non-performing loan, loan loss to net loan, impaired loan to gross loan.	Regression model		……	Negative correlation between credit risk indicators and bank performance the higher the credit risk the lower the bank performance.
15	Credit risk management and profitability of selected rural banks in Ghana.	Ghana	Examine the impact of credit risk management on the profitability of rural and community banks. DV: ROA, ROE. IV: Non-performing loan ratio, capital adequacy ratio.	Panel data analysis approach.	10 rural banks.	…….	Significant positive relationship between non-performing loans and rural banks profitability.
16	The effect of credit risk on corporate liquidity of deposit taking microfinance institutions	Kenya	Evaluate the impact of credit risk on the corporate liquidity level of deposit institutions. DV: Liquidity measured by (cash and cash equivalents/total assets) IV:	……	9 deposit taking microfinance institutions.	Statistical packages for social sciences (spss), descriptive statistic and regression	Credit risk has a strong ad statistically significant effect on corporate liquidity of deposit.

			Credit risk Risk coverage ratio (loan loss reserve/portfolio at risk). Portfolio to assets ratio (gross loan portfolio/total assets). Operating expenses ratio (operating expenses/revenue). Debt to equity ratio (total liabilities / total assets). Portfolio at risk (loans in areas over a period of 30 days/gross loan)			and correlation analysis.	
17	The impact of credit risk management on profitability of commercial banks: a study of Europe	Europe	Verify whether there is a relationship between credit risk management and the profitability of commercial bank and investigate if this relationship is stable or function DV: ROA, ROE IV: NPLR, CAR CV: Bank size	Statistical test	47 largest banks from different countries in Europe	Quantitative model	There is a negative relationship between NPLR and ROA and ROE and the relationship between CAR and ROA and ROE is not significant and the findings of trend for the relationship demonstrate a fluctuating relationship between all the four variable.
18	the impact of credit risk on the financial performance of Chinese banks	china	Investigate the impact of credit risk on financial performance on commercial bank on china. DV: ROA (return on assets). Iv:	……	5 largest commercial banks in the china.	Balanced panel data regression model.	Capital adequacy ratio and non-performing loan have a significant impact on financial performance of Chinese commercial banks.

			Capital adequacy ratio. Non-performing loan. Impaired loan reserve Loan impairment charges.				
19	The relationship between risk management and profitability of commercial banks in Albania.	Albania	To determinedwhether there is a relationship between credit risk management and profitability. DV: Return on assets(ROA), return on equity(ROE). IV: Non-performing loan (NPLR), capital adequacy ratio(CAR).	Multiple regression model, quantitative data analysis.	Commercial bank in Albania.	Spss	Credit risk has a significant impact on the profitability, there is a negative relationship between non-performing loan and profitability and there is a positive relationship between capital adequacy ratio and profitability.
20	The effect of credit risk and capital adequacy on the profitability of rural banks in the Philippines.	Philippines	To examine the effect of credit risk and capital adequacy on the profitability of rural banks in the Philippines. DV: ROA, ROE. IV: Capital adequacy ratio	Using arellano-bond estimator.	567 registered rural banks in Philippines.	----------	The result showed that capital adequacy ratio has no significant impact on the profitability while credit risk has a negative and statistically significant relationship with profitability.
21	The impact of credit risk management on profitability of Nordic commercial banks.	Nordic country	The aim of this study is to investigate the impact of credit risk management on the profitability of Nordic commercial bank. DV: ROA, ROE. CV: GDPgrowth real, cost per loan, banks size.	Panel data set	Nordic country (denmork,finland a,Norway,Sweden).	Time series ,gross-section.	The result showed that loan loss provision has a negative and significant impact on both ROA,ROE while capital adequacy ratio has a positive impact on ROA.

			IV: Loan loss provision ratio, capital adequacy ratio.				
22	Impact of credit risk management on banks performance: a case study in Pakistan banks.	Pakistan	DV: ROA, ROE. IV: NPLR, LAR, LR,LLPR,CAR, bank size.	Balanced panel data.	13 commercial bank in Pakistan.	Quantitative research approach, panel data model, time series and gross sectional.	The result showed that credit risk management have inverse relationship with bank performance in Pakistan LLPR, LR, NPLR have significant negative impact on ROA while CAR, LAR, SIZE have significant positive impact on ROA. CAR, LAR, LLPR have a significant impact on ROE.
23	Impact of credit risk management on the profitability of selected commercial banks listed on the Ghana stock exchange.	Ghana	Aim of the study: Assessed the impact of credit risk management on the profitability. DV: ROE. IV: NPL,LLPR,CAR,LAR.	Random effect model within the panel estimation technique framework.	6 selected commercial banks listed on the Ghana stock exchange .	……..	The result showed that there is a statistical significant relationship between variables CAR has a positive impact on profitability while loan loss provision , loan to assets ratio have negatively impact on the profitability.
24	Credit risk and profitability of selected bank in Ghana	Ghana	Aim of the study: To reveal the relationship between credit risk and profitability. DV: ROE. IV: Net charge off to total loans	---------	Six selected commercial bank in Ghana (largest bank in ghana).	Panel data, fixed effects framework.	The result showed that credit risk has a positive and significant relationship with bank profitability in Ghana.

			and advance, non-performing loans to total loans, advance and pr-provision profit to total loans and advance. CV: Bank size, bank growth.				
25	The effect of credit risk on the banking profitability: a case on Bangladesh.	banglades h	The aim of the study: To find the effect of credit risk on profitability of the banking sector of Bangladesh. DV: ROA, ROE, NIM IV: NPLGL,LLRGL,LLRNPL,CA R.	OLS random effect model.	18 private commercial bank.	GLS and system GMM.	The result showed that tere is a negative and significant effect of NPLGL,LLRGL on all profitability indicators. Also there is a negative and significant impact of CAR on ROE, the result also showed the effect of the implementation of Basel 11 is significantly positive on MIN.
26	Determinants of profitability of commercial banks n Srilanka.	Srilanka	This study aimed to examine the impact of bank specific and macroeconomic determinants on the profitability of commercial bank in sirlanka. Dv: ROA. Iv: Bank size, liquidity risk, operating cost, capital adequacy, credit risk, GDP growth, interest rate.	……	All commercial banks operating in srilanka.	Multiple panel regression.	The result show that bank size have a significant positive impact on ROA, operating cost have a significant negative impact on ROA, credit risk have a significant positive impact, interest rate have a significant negative impact, GDP have a non-significant positive impact and CAR have a non-significant positive impact ad CAR have a non-significant negative impact on ROA.

27	The impact of banks, bank liquidity and credit risk on profitability in post crisis period: a comparative study of us and Asia	Asia and US.	Objective: The purpose of this study is to explore the influence of bank capital, bank liquidity level and credit risk on the profitability of commercial banks in the post crisis period. DV: Return on average assets, return on average earning assets. IV: Liquidity level, bank capital , credit risk.	……	174 banks	……	The result show that the impact of liquidity in Asian banks is positive where's the impact of liquidity on profitability is negative in the USA commercial bank, the credit risk has a significant negative impact on the profitability of the USA and Asia commercial banks, capital had a positive impact on the profitability of the USA and Asian banks.
28	Determinants of bank liquidity in Syria: a comparative study between Islamic and conventional banks.	Syria	Objective: To assess liquidity risk by comparing Islamic and conventional banks in Syria. DV: Liquidity risk. IV: Non-performing loan ratio, ROA, risk weighted assets loan/finance of deposit.	….	All private banking sector.	Employed paired sample, t-test and regression with OLS estimation.	The result show that size and CAR and NPLR had a significant negative impact on Islamic banks liquidity and ROA had a significance negative impact on Islamic bank liquidity while CAR and NPLR had a significance positive impact on conventional bank liquidity.
29	Impact of internal factors on bank profitability comparative study between Saudi	Jordan	Objective: The main objective was to compare the profitability of the Saudi and Jordanian banks by using the internal factor of	….	23 Saudi banks and Jordan banks	Financial ratios were calculated and statistical	The result shows that there is a significant positive relationship between ROA and LQR, TEA and ITA variables and Saudi banks

	arabia and Jordan.		estimations. DV: Return on assets. IV: Liquidity risk, NCA, (TIA),(TEA),(CDR), (CIR), bank size.			tools including pearsos correlation, descriptive analysis of variance and regression analysis.	meanwhile there is a significant *positive correlation between ROA and LQR,NCR,TEA and CDR on Jordanian bank, and there is a significant negative relationship between ROA with CIR, TIA and size.
30	Islamic bank profitability : a study of Islamic bank in Indonesia	Indonesia.	Objective: The aim of this study are to examine the effect of factors that contribute towards the profitability of Islamic bank in Indonesia. DV: Return on assets, return on equity. IV: Macroeconomic factor: GDP, INF Bank –specific factor : credit risk, liquidity risk, car, bank size.	Explanatory method.	12 islamic bank.	GMM techniques.	The result show that size of the bank had a significant positive effect on both ROA and ROE while capital, credit risk and liquidity had a signifncant negative effect on the profitability of islamic bank, inflation had a positive impact on profitability while GDP had a significant negative impact on profitability.
31	Determinant of profitability of listed commercial banks in developing countries: evidence from Malawi	Malawi	Objective: Evaluate the determinants of profitability of listed commercial bank in developing county. DV: Return on assets, earning yield.	……	The commercial bank that listed on Malawi stock exchange (MSE).	The study employed correlation and multivariate regression analysis.	The result shows that management efficiency had a significant negative correlation with ROA, liquidity had a positive but in-significant correlation with ROA, size had a significant positive correlation with ROA and CA had a positive but in-

			IV: Liquidity, size, capital adequacy, management efficiency.				significant correlation with ROA, management efficiency had a significant positive relationship with earning yield, liquidity had an insignificant weak positive relationship and capital adequacy ratio had an insignificant negative relationship with earning yield.
32	Credit risk management and profitability of commercial banks in Kenya	Kenya	Objective: Aimed to determine the relationship between credit risk management and profitability of commercial banks in Kenya. DV: Return on assets. IV: The total loans, the on-performing loans.	……..	All commercial banks operation in Kenya.	…… ……	The result show that total loans and NPL have no significant effect on the profitability of banks
33	Impact of credit risk on profitability; a study of Indian public sector banks.	India	Objective: Investigate the relationship between credit risk and profitability of Indian banks. DV: ROA. IV: NPLR, (LP/NPL), CAR.	…….	The sample of the study was 26 public sector banks(20 nationalized banks and 06 SBI and its associates)	…… …… .	There is an inverse relationship between ROA and NPLR while there is a positive relationship between ROA and (LP/NPL) and (CAR).

Pooled regression for model 1

Pooled OLS

ROA	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
capitaladequacyratio	-0.007	0.004	-2.02	0.046	-0.015	0	**
NPLR	-0.563	0.089	-6.31	0	-0.74	-0.386	***
LATD	0.025	0.005	5.42	0	0.016	0.033	***
LATA	0	0	-1.72	0.088	0	0	*
Size	0.004	0.001	4.34	0	0.002	0.005	***
inflation	0.144	0.057	2.53	0.013	0.031	0.257	**
growthGDP	0.014	0.013	1.02	0.308	-0.013	0.04	
type1#co : base 1	-0.031	0.03	-1.05	0.295	-0.09	0.028	
type1#co : base 1	1.498	0.526	2.84	0.005	0.454	2.541	***
type1#co : base 1	-0.019	0.017	-1.12	0.267	-0.054	0.015	
type1#co : base 1	0.001	0	1.7	0.092	0	0.001	*
Constant	-0.077	0.019	-4.07	0	-0.114	-0.039	***

Mean dependent var	0.009	SD dependent var	0.008
R-squared	0.557	Number of obs	117
F-test	12.025	Prob > F	0
Akaike crit. (AIC)	-871.361	Bayesian crit. (BIC)	-840.977

*** *p<.01,* ** *p<.05,* * *p<.1*

Appendix 1: Fixed effect model for model 1

Fixed Effects Model

ROA	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
Capital adequacy ratio	0.005	0.004	1.13	0.262	-0.004	0.014	
NPLR	-0.604	0.074	-8.19	0	-0.751	-0.458	***
LATD	0	0.007	-0.03	0.977	-0.013	0.013	
LATA	0	0	-1.41	0.163	0	0	
Size	0.001	0.002	0.6	0.551	-0.003	0.005	
Inflation	0.164	0.052	3.17	0.002	0.061	0.266	***
growthGDP	0.014	0.011	1.35	0.181	-0.007	0.035	
type1#co : base 1	-0.031	0.034	-0.91	0.367	-0.098	0.037	
type1#co : base 1	0.385	0.588	0.66	0.514	-0.782	1.553	
type1#co : base 1	0.009	0.014	0.6	0.547	-0.02	0.037	
type1#co : base 1	0.005	0.005	1.09	0.277	-0.004	0.015	
Constant	-0.031	0.038	-0.82	0.416	-0.107	0.045	

Mean dependent var	0.009	SD dependent var	0.008
R-squared	0.468	Number of obs	117
F-test	7.428	Prob > F	0
Akaike crit. (AIC)	-950.885	Bayesian crit. (BIC)	-920.501

*** p<.01, ** p<.05, * p<.1

Appendix 2: Random effect model for model 1

Random Effects Model

ROA	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
capitaladequacyratio	0.001	0.004	0.25	0.806	-0.007	0.009	
NPLR	-0.604	0.075	-8.05	0	-0.751	-0.457	***
LATD	0.01	0.006	1.71	0.087	-0.001	0.021	*
LATA	0	0	-1.5	0.134	0	0	
Size	0.004	0.001	2.87	0.004	0.001	0.006	***
inflation	0.168	0.048	3.49	0	0.074	0.262	***
growthGDP	0.016	0.011	1.54	0.123	-0.004	0.037	
type1#co : base 1	-0.044	0.024	-1.87	0.061	-0.091	0.002	*
type1#co : base 0	0.71	0.558	1.27	0.203	-0.383	1.803	
type1#co : base 0	-0.003	0.014	-0.19	0.849	-0.031	0.025	
type1#co : base 1	0	0	1.22	0.223	0	0.001	
Constant	-0.068	0.027	-2.56	0.01	-0.12	-0.016	**

Mean dependent var	0.009	SD dependent var	0.008
Overall r-squared	0.474	Number of obs	117
Chi-square	.	Prob > chi2	.
R-squared within	0.443	R-squared between	0.501

*** p<.01, ** p<.05, * p<.1*

Appendix 3: pooled regression model for model 2

Pooled OLS

ROE	Coef.	St.Err.	t-value	p-value	95% Conf	Interval]	Sig
Capitaladequacyratio	0.057	0.034	1.68	0.095	-0.01	0.124	*
NPLR	-0.693	0.826	-0.84	0.403	-2.33	0.944	
LATD	0.121	0.042	2.88	0.005	0.038	0.204	***
LATA	0	0	-1.56	0.121	0	0	
Size	0.07	0.008	8.79	0	0.054	0.086	***
Inflation	0.968	0.527	1.84	0.069	-0.077	2.013	*
growthGDP	0.117	0.124	0.94	0.348	-0.129	0.363	
type1#co : base 1	-0.275	0.274	-1	0.319	-0.819	0.269	
type1#co : base 1	8.252	4.875	1.69	0.094	-1.415	17.919	*
type1#co : base 0	-0.077	0.16	-0.48	0.632	-0.395	0.241	
type1#co : base 0	0.006	0.003	1.86	0.066	0	0.012	*
Constant	-1.462	0.175	-8.36	0	-1.809	-1.115	***

Mean dependent var	0.06	SD dependent var	0.074
R-squared	0.548	Number of obs	117
F-test	11.562	Prob > F	0
Akaike crit. (AIC)	-350.504	Bayesian crit. (BIC)	-320.12

*** *p<.01, ** p<.05, * p<.1*

Appendix 4: Fixed effects model for model 2

Fixed Effects Model

ROE	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
capitaladequacyratio	0.013	0.04	0.32	0.748	-0.067	0.093	
NPLR	-0.7	0.676	-1.04	0.303	-2.042	0.641	
LATD	-0.108	0.06	-1.79	0.076	-0.228	0.012	*
LATA	0	0	-0.78	0.435	0	0	
Size	-0.004	0.017	-0.23	0.816	-0.038	0.03	
inflation	0.837	0.473	1.77	0.08	-0.102	1.776	*
growthGDP	0.093	0.097	0.96	0.338	-0.099	0.286	
type1#co : base 1	-0.315	0.311	-1.01	0.314	-0.933	0.303	
type1#co : base 1	0.006	5.38	0	0.999	-10.679	10.69	
type1#co : base 1	0.169	0.131	1.28	0.202	-0.092	0.429	
type1#co : base 1	0.053	0.045	1.19	0.238	-0.036	0.142	
Constant	0.011	0.351	0.03	0.974	-0.685	0.708	

Mean dependent var	0.06	SD dependent var	0.074
R-squared	0.126	Number of obs	117
F-test	1.215	Prob > F	0.253
Akaike crit. (AIC)	-432.806	Bayesian crit. (BIC)	-402.422

*** p<.01, ** p<.05, * p<.1

Appendix 5: Random effect model for model 2

Random Effects Model

ROE	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
Capitaladequacyratio	0.005	0.038	0.13	0.896	-0.069	0.079	
NPLR	-0.755	0.697	-1.08	0.279	-2.121	0.611	
LATD	-0.014	0.054	-0.26	0.797	-0.119	0.092	
LATA	0	0	-1.02	0.309	0	0	
size	0.038	0.012	3.27	0.001	0.015	0.061	***
inflation	1.068	0.447	2.39	0.017	0.192	1.943	**
growthGDP	0.135	0.099	1.37	0.172	-0.059	0.328	
type1#co : base 1	-0.423	0.22	-1.92	0.055	-0.855	0.009	*
type1#co : base 0	2.366	5.191	0.46	0.649	-7.809	12.541	
type1#co : base 1	0.066	0.132	0.5	0.619	-0.193	0.325	
type1#co : base 1	0.004	0.003	1.25	0.212	-0.002	0.009	
Constant	-0.725	0.249	-2.91	0.004	-1.214	-0.236	***

Mean dependent var	0.06	SD dependent var	0.074	
Overall r-squared	0.462	Number of obs	117	
Chi-square	.	Prob > chi2	.	
R-squared within	0.072	R-squared between	0.615	

*** $p<.01$, ** $p<.05$, * $p<.1$

Appendix 6: Pooled regression model for model 3

Pooled OLS

LATD	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval	Sig
capitaladequacyratio	0.074	0.075	0.99	0.322	-0.074	0.223	
NPLR	8.978	1.859	4.83	0	5.292	12.664	***
ROA	8.352	1.823	4.58	0	4.737	11.967	***
ROE	0.313	0.213	1.47	0.145	-0.11	0.736	
Size	-0.087	0.021	-4.12	0	-0.128	-0.045	***
inflation	0.376	1.147	0.33	0.743	-1.898	2.65	
growthGDP	-0.108	0.266	-0.41	0.685	-0.636	0.42	
type1#co : base 1	0.013	1.091	0.01	0.99	-2.149	2.176	
type1#co : base 1	-5.755	15.863	-0.36	0.718	-37.212	25.703	
type1#co : base 1	1.171	39.959	0.03	0.977	-78.07	80.411	
type1#co : base 1	-1.166	5.12	-0.23	0.82	-11.32	8.987	
type1#co : base 1	0.001	0.012	0.07	0.943	-0.023	0.025	
Constant	2.106	0.438	4.81	0	1.237	2.975	***

Mean dependent var	0.503	SD dependent var	0.149
R-squared	0.509	Number of obs	117
F-test	8.99	Prob > F	0
Akaike crit. (AIC)	-171.198	Bayesian crit. (BIC)	-135.289

*** $p<.01$, ** $p<.05$, * $p<.1$

Appendix 7: fixed effect model for model 3

Fixed effects Models

LATD	Coef.	St. Err.	t-value	p-value	[95% Conf	Interval	Sig
capitaladequacyratio	0.074	0.075	1	0.322	-0.074	0.222	
NPLR	1.771	1.656	1.07	0.288	-1.519	5.06	
ROA	1.216	1.926	0.63	0.529	-2.609	5.042	
ROE	-0.369	0.207	-1.78	0.078	-0.779	0.042	*
Size	-0.091	0.03	-3.04	0.003	-0.151	-0.032	***
inflation	2.318	0.868	2.67	0.009	0.594	4.042	***
growthGDP	0.01	0.18	0.06	0.955	-0.348	0.368	
type1#co : base 1	0.834	0.816	1.02	0.31	-0.787	2.454	
type1#co : base1	7.22	10.807	0.67	0.506	-14.243	28.683	
type1#co : base 1	25.083	30.309	0.83	0.41	-35.113	85.279	
type1#co : base 1	0.971	4.323	0.22	0.823	-7.615	9.557	
type1#co : base 1	0.061	0.096	0.63	0.528	-0.13	0.252	
Constant	2.033	0.611	3.33	0.001	0.82	3.246	***

Mean dependent var	0.503	SD dependent var	0.149
R-squared	0.434	Number of obs	117
F-test	5.873	Prob > F	0
Akaike crit. (AIC)	-286.535	Bayesian crit. (BIC)	-250.627

*** *p<.01, ** p<.05, * p<.1*

Appendix 8: Randoom effect model for model 3

REM

LATD	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval	Sig
capitaladequacyratio	0.062	0.072	0.87	0.385	-0.078	0.203	
NPLR	3.109	1.667	1.86	0.062	-0.159	6.376	*
ROA	2.669	1.887	1.41	0.157	-1.03	6.367	
ROE	-0.24	0.203	-1.18	0.238	-0.638	0.158	
Size	-0.062	0.023	-2.66	0.008	-0.108	-0.016	***
inflation	2.226	0.861	2.58	0.01	0.538	3.915	***
growthGDP	0.046	0.186	0.25	0.803	-0.318	0.41	
type1#co : base 1	0.31	0.805	0.39	0.7	-1.267	1.888	
type1#co : base 1	2.691	11.113	0.24	0.809	-19.091	24.473	
type1#co : base 1	11.55	27.569	0.42	0.675	-42.484	65.583	
type1#co : base 1	0.884	3.661	0.24	0.809	-6.291	8.059	
type1#co : base 1	-0.016	0.012	-1.42	0.156	-0.039	0.006	
Constant	1.699	0.483	3.52	0	0.752	2.646	***

Mean dependent var	0.503	SD dependent var	0.149
Overall r-squared	0.339	Number of obs	117
Chi-square	66.292	Prob > chi2	0
R-squared within	0.406	R-squared between	0.317

*** p<.01, ** p<.05, * p<.1

Appendix 9: Pooled regression model for model 4

Pooled OLS

LATA	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
capitaladequacyratio	22937466	84139039	0.27	0.786	-1.44E+08	1.90E+08	
NPLR	-7.31E+08	2.09E+09	-0.35	0.727	-4.87E+09	3.41E+09	
ROA	-8.95E+08	2.05E+09	-0.44	0.663	-4.96E+09	3.16E+09	
ROE	-1.25E+08	2.40E+08	-0.52	0.602	-6.00E+08	3.50E+08	
size	19995837	23593353	0.85	0.399	-26790668	66782342	
inflation	2.13E+09	1.29E+09	1.66	0.1	-4.19E+08	4.69E+09	
growthGDP	-10111645	2.99E+08	-0.03	0.973	-6.03E+08	5.83E+08	
type1#co : base 1	1.82E+09	1.23E+09	1.48	0.141	-6.12E+08	4.25E+09	
type1#co : base 1	2.85E+10	1.78E+10	1.6	0.113	-6.83E+09	6.38E+10	
type1#co : base 1	-2.38E+11	4.49E+10	-5.3	0	-3.27E+11	-1.49E+11	***
type1#co : base 1	2.58E+10	5.75E+09	4.49	0	1.44E+10	3.72E+10	***
type1#co : base 1	-8085253	13429092	-0.6	0.548	-34715647	18545141	
Constant	-4.20E+08	4.92E+08	-0.85	0.395	-1.40E+09	5.56E+08	

Mean dependent var	22139673.06	SD dependent var	168632076.9
R-squared	0.515	Number of obs	117
F-test	9.187	Prob > F	0
Akaike crit. (AIC)	4705.183	Bayesian crit. (BIC)	4741.091

*** *p<.01*, ** *p<.05*, * *p<.1*

Appendix 10: fixed effect model for model 4

Fixed effects Models

LATA	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
capitaladequacyratio	-49221453	1.29E+08	-0.38	0.704	-3.05E+08	2.07E+08	
NPLR	-2.50E+09	2.87E+09	-0.87	0.386	-8.19E+09	3.20E+09	
ROA	-2.67E+09	3.33E+09	-0.8	0.426	-9.29E+09	3.96E+09	
ROE	-11168836	3.58E+08	-0.03	0.975	-7.22E+08	7.00E+08	
size	63183829	51833988	1.22	0.226	-39762946	1.66E+08	
inflation	3.68E+09	1.50E+09	2.45	0.016	6.93E+08	6.66E+09	**
growthGDP	62164001	3.12E+08	0.2	0.842	-5.57E+08	6.82E+08	
type1#co : base 1	2.36E+09	1.41E+09	1.67	0.098	-4.44E+08	5.17E+09	*
type1#co : base 1	2.74E+10	1.87E+10	1.46	0.147	-9.78E+09	6.45E+10	
type1#co : base 1	-1.50E+11	5.25E+10	-2.86	0.005	-2.54E+11	-4.60E+10	***
type1#co : base 1	1.38E+10	7.48E+09	1.84	0.069	-1.11E+09	2.86E+10	*
type1#co : base 1	4.45E+08	1.67E+08	2.67	0.009	1.14E+08	7.76E+08	***
Constant	-2.68E+09	1.06E+09	-2.54	0.013	-4.78E+09	-5.82E+08	**

Mean dependent var	22139673.06	SD dependent var	168632076.9
R-squared	0.524	Number of obs	117
F-test	8.442	Prob > F	0
Akaike crit. (AIC)	4691.112	Bayesian crit. (BIC)	4727.02

*** p<.01, ** p<.05, * p<.1

Appendix 11: Randoom effect model for model 4

REM

LATA	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
capitaladequacyratio	22937466	84139039	0.27	0.785	-1.42E+08	1.88E+08	
NPLR	-7.31E+08	2.09E+09	-0.35	0.726	-4.82E+09	3.36E+09	
ROA	-8.95E+08	2.05E+09	-0.44	0.662	-4.91E+09	3.12E+09	
ROE	-1.25E+08	2.40E+08	-0.52	0.6	-5.95E+08	3.44E+08	
Size	19995837	23593353	0.85	0.397	-26246285	66237960	
inflation	2.13E+09	1.29E+09	1.66	0.097	-3.89E+08	4.66E+09	*
growthGDP	-10111645	2.99E+08	-0.03	0.973	-5.96E+08	5.76E+08	
type1#co : base 1	1.82E+09	1.23E+09	1.48	0.138	-5.83E+08	4.22E+09	
type1#co : base 1	2.85E+10	1.78E+10	1.6	0.11	-6.42E+09	6.34E+10	
type1#co : base 1	-2.38E+11	4.49E+10	-5.3	0	-3.26E+11	-1.50E+11	***
type1#co : base 1	2.58E+10	5.75E+09	4.49	0	1.45E+10	3.71E+10	***
type1#co : base 1	-8085253	13429092	-0.6	0.547	-34405790	18235284	
Constant	-4.20E+08	4.92E+08	-0.85	0.393	-1.39E+09	5.44E+08	

Mean dependent var	22139673.06	SD dependent var	168632076.9
Overall r-squared	0.515	Number of obs	117
Chi-square	110.247	Prob > chi2	0
R-squared within	0.466	R-squared between	0.972

**** p<.01, ** p<.05, * p<.1*

Appendix 13: Variables of the study

Independent variables	Variables	Measurement	Studies
Credit risk	Capital adequacy ratio (CAR)	Total capital/risk weighted assets	Select rural Ghanaian banks' abilities to manage credit risk and profitability **Afriyie&Akotey (2012).** Nordic commercial banks' profitability as influenced by credit risk management. ***Hurka (2017).*** Rural banks in the Philippines and the impact of credit risk and capital sufficiency on their profitability. ***MENDOZA & Rivera (2017).*** Factors that influence the profitability of Sri Lankan commercial banks. ***Weersainghe&Perera (2013***).
	Non-performing loan ratio (NPLR)	Non-performing loan/total loan	A study of Indian public sector banks reveals the impact of credit risk on their profitability. ***Singh & Sharma (2018).*** Bank profitability and credit risk management in Palestine's investment and traditional financial institutions ***Bayyoud&Sayyad (2015).*** A case study of Pakistani banks' experience with credit risk management. ***Hamza (2017).***
Dependent variable	Profitability	Net income/total assets (ROA)	A study of Indian public sector banks reveals the impact of credit risk on their profitability. ***Singh & Sharma (2018).*** Factors that influence the profitability of Sri Lankan commercial banks. ***Weersainghe&Perera (2013).*** The performance of Nigeria's traditional banks as measured using a panel model ***Kolapo, Ayeni&Oke (2012).*** Influences on the profitability of Sri Lankan commercial banks. ***Weersainghe&Perera (2013***). The influence of credit risk on the liquidity of deposit accepting microfinance organizations in Kenya.***Murag (2014).*** The Study is titled as "Credit Risk Management: Impact on Profitability & Liquidity in select Indian Conventional Banks".
		Net income/total equity (ROE)	
	Liquidity	Liquidity assets/total assets (LA/TA)	
		Liquidity assets/total deposit (LA/TD)	
Control variable	Banks size	Log total assets of bank	Bank performance in Turkey as influenced by credit and market risk. ***Ekincin (2016).*** Factors that influence the profitability of Sri Lankan commercial banks.
	GDP	Growth ratio	

	CPI	Inflation ratio	***Weersainghe&Perera (2013***). Ghanaian banks' credit risks and profits: a case study. **(Boahene, Dasah, & Agyei, 2012).** The impact of credit risk on deposit banks' financial performance in Turkey **(R. Ekinci & Poyraz, 2019)**
dummy variable	Type of the bank(type)	Dummy variable 0 is an conventional banks 1 is an Islamic banks.	----------

جامعة النَّجاح الوطنيَّة
كليَّة الدّراسات العليا

تأثير إدارة مخاطر الائتمان الربحية وسيولة البنوك الاسلامية والتقليدية في فلسطين

إعداد
اسيل جعفر أمين القطو

إشراف
د. رأفت الجلاد

قدمت هذه الرسالة استكمالاً لمتطلبات الحصول على درجة الماجستير في التمويل بكلية الدراسات العليا في جامعة النجاح الوطنية في نابلس، فلسطين.
2022م

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الملخص

خلفية الدراسة: تعتبر المخاطر الائتمانية من اهم المخاطر التي تواجه القطاع المصرفي.

هدف الدراسه: تهدف هذه الدراسه الى دراسة تأثير ادارة المخاطر الائتمانية على ربحية وسيولة البنوك الاسلامية والتقليدية العاملة في فلسطين.

منهجية الدراسة: عينة الدراسه شملت 13 بنكا:11 بنك تقليدي وبنكان اسلاميان إمتدت فتره الدراسة من عام 2011 حتى عام 2019 وقد تم جمع البينانات من سلطة النقد الفلسطينية والتقارير المالية السنوية للبنوك.

النتائج: تشير النتائج إلى ان مقاييس المخاطر الائتمانية لها تأثير ذو دلالة احصائية على ربحية البنوك التقليدية بينما ليس لها تأثير ذ دلالة إحصائية على ربحية البنوك الإسلامية، السيولة لها تأثير ذو دلالة إحصائية على ربحية البنوك التقليدية ولكن ليس لها تأثير ذو دلالة احصائية على ربحية البنوك الإسلامية ، الربحية لها تأثير ذو دلالة إحصائية على سيولة البنوك التقليدية ولكن ليس لها تأثير ذو دلالة إحصائية على سيولة البنوك الاسلامية، المخاطر الائتمانية لها تأثير ذو دلالة احصائية على سيولة البنوك الاسلامية وليس لها تأثير ذو دلالة احصائية على سيولة البنوك التقليدية.

التوصيات: تطوير أنظمة إسلامية من قبل الحكومة لدعم البنوك الإسلامية وايجاد التوازن ما بين السيولة والربحية من خلال كفاءة الإدارة. من أجل الدراسات المستقبلية يجب إجراء دراسات إضافية تتعلق بموضوع الرسالة بإستخدام مقاييس أخرى.

الكلمات المفتاحية: إدارة مخاطر الائتمان، مخاطر السيولة، البنك الإسلامي، البنك التجاري، بازل.