UNIVERSITI TEKNOLOGI MARA

AN EMPIRICAL ANALYSIS OF LIQUIDITY MANAGEMENT ON PROFITABILITY IN COMMERCIAL BANKS

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ABSTRACT

The purpose of this research is to see how liquidity risk management affects commercial bank profitability in Malaysia. The researchers looked at the relationship between the Current Ratio (CR), Cash Deposit Ratio (CDR), Loan to Total Deposit Ratio (LTD), Capital to Asset Ratio (CAR), and Non-Performing Loans to bank profitability using Return on Assets (ROA). The data for this research obtained from the databases and annual reports of the companies that were sampled. This study uses secondary data from the top five (5) conventional banks listed in Bursa Malaysia between the year 2011 to 2020. This study uses panel data to examine the collected data.

Keywords: ***return on assets (ROA), current ratio (CR), cash deposit ratio (CDR), loan to total deposit ratio (LTD), capital to asset ratio (CAR), non-performing loan (NPL***

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INTRODUCTION

1.1 INTRODUCTION

Liquidity management is a critical requirement that any business must adhere to satisfy its obligations, which include short-term financial and organizational expenses. An organization or financial institution should be able to ensure that its spare capital is insufficient to cover short-term obligations. Analysis is one of the most significant subjects for both internal and external analysts because of its direct link to an organization's day-to-day activities. This study will investigate the dependent variable and independent variables effect on commercial banks in Malaysia during the year 2011 until 2020.

1.2 BACKGROUND OF THE STUDY

Liquidity is defined as the ability to convert assets or securities into cash without difficulty. One of the first signs that a financial institution is in serious financial trouble is a lack of liquidity. According to Khati (2020), liquidity is a vital when it comes to determine a company's income level and sustaining liquidity is a key element when it comes to consumer convenience and satisfaction.

According to G. Bassey, et. al. (2016), stated that liquidity is always a critical aspect in meeting daily withdrawal requests. As a result, cash is a need for banks and the banking system to survive, as it is one of the criteria taken into account when assessing a firm's liquidity condition and capacity to pay its financial commitments, Umobong (2015).

Financial institution or banking liquidity risk management is a critical component of the risk management framework since it influences profitability. A well-managed liquidity management system limits fewer or more of the bank's liquidity choices in order to avoid loss.