# THE IMPACT OF LIQUIDITY MANAGEMENT ON PROFITABILITY PERFORMANCE OF COMMERCIAL BANKS IN MALAYSIA

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## ABSTRACT

There are various types of measurements to calculate or to determine of how well the company or banking institutions utilize their resources to generate profits. Liquidity ratio is one of the important components or measurements to measure of how well the organization manage their liquidity position in order to achieve better performance of the organization. Liquidity is a bank's capabilities to increase in assets and meet both expected and unexpected cash and collateral obligations at reasonable cost and without incurring unacceptable losses. Effective liquidity risk management helps ensure a bank's ability to meet its obligation as they fall due and reduces the probability of an adverse situation developing. This study determines the sound practices for the liquidity risk management in banks. In this study also, will be explained about the liquidity management and the impact of the liquidity management toward the banking profitability. The population of the study consists of ten selected commercial banks in Malaysia and the period of study covered from 2010 to 2014. The data collected is analyzed by using number of basic statistical techniques such as T-test and multiple regression model. The previous researcher recommend that more frequent and monitoring and forecasting on liquidity levels and making more short-term investments can provide gains in profitability.

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# CHAPTER 1

## 1. 0 Introduction

Banking sectors are one of the important financial institutions that help economic growth in Malaysia. The dynamic role banks play in a country's macroeconomic and monetary policy as vehicles though which currency and credit flow into a nation's stream of commerce and financial system. There are 27 commercial banks in Malaysia in which consists of foreign commercial banks and local commercial banks. Nowadays, the government is devoted for improvements across the banking sector and ensuring that it is also internationally competitive as possible.

Commercial banking undertakings are dissimilar than those of investment banking, which include underwriting, acting as an intercessor between an issuer of securities and the investing public, facilitating mergers and other corporate restructurings, and also acting as a broker for institutional clients. Commercial banks provide several facilities to customers to save their money and to generate more money by savings in the bank.

According to Bank Negara Malaysia, bank plays an important role to develop progressive and comprehensive financial sector to domain the main foundation financial stability, and to give efficient and effective financial intermediation. One of the banks activities is to channel surplus funds to the person who needs funds where they called as deficit users. In this activities, banks will give lower interest to those who is risk adverse and gain a higher interest from borrowers to comprehend profits. This financial sector is to develop stable economic growth in real sector.