



UNIVERSITI TEKNOLOGI MARA

**THE IMPACT OF LIQUIDITY
MANAGEMENT ON
PROFITABILITY OF COMMERCIAL
BANKS IN MALAYSIA**

MUHAMMAD AMIR AIMAN BIN KAMIL

Final Year Project submitted in partial fulfillment
of the requirements for the degree of
**Bachelor of Business Administration
(Hons) Investment Management**

Faculty of Business Management

February 2022

ABSTRACT

The aim of this research is to identify the effects of liquidity risk management on commercial bank profitability in Malaysia. The research is performed using Return on Assets (ROA) to examine the relationship between Current Ratio (CR), Cash Deposit Ratio (CDR) and Loan to Total Deposit Ratio (LDR) to bank profitability. Information for this analysis were collected from the sampled companies' related databases and annual reports. This study uses secondary data from six (6) conventional banks listed in Bursa Malaysia between the year 2016 to 2020. This study uses panel data to examine the collected data. The results of this study are focused on descriptive analysis, correlation analysis, and regression analysis.

ACKNOWLEDGEMENT

Firstly, I am most grateful to Allah S.W.T for the completion of this research report as one of the requirements that need to be accomplished for the Bachelor of Business Administration (Hons) Investment Management. Special thanks to my parents, family, and friends who always supported me physically, mentally, and consistently provide encouragement along the process of this report completion.

Next, I would like to express my highest appreciation and thankfulness to my research advisor, Dr. Faridah Najuna binti Mismam as well as my second examiner En Oswald Timothy Edward for their excellent guidance, caring, patience, and providing me with an excellent atmosphere during the process of the research. Without their guidance and useful tips, I might not be able to complete this report accordingly.

Lastly, to those who had involved and contributed directly or indirectly to this report, I am very thankful to them for the effort, thoughts, and initiative that they have shown until I successfully completed my research. I hope this report can provide us with a piece of new information and knowledge.

TABLE OF CONTENTS

	Page
AUTHOR'S DECLARATION	ii
ABSTRACT	iii
ACKNOWLEDGEMENT	iv
TABLE OF CONTENTS	v
LIST OF TABLES	viii
LIST OF FIGURES	ix
CHAPTER ONE: INTRODUCTION	1
1.1 Introduction	1
1.2 Background of the study	1
1.3 Problem statement	2
1.4 Research questions	4
1.5 Research objectives	4
1.6 Significance of study	4
1.7 Scope of the study	5
1.8 Limitation of the study	5
1.9 Definition of key terms	5
1.10 Summary	6
CHAPTER TWO: LITERATURE REVIEW	7
2.1 Introduction	7
2.2 Liquidity concept	7
2.2.1 Liquidity theories	8
2.3 Probability concept	8
2.3.1 Return on asset	9
2.4 Relationship between liquidity and profitability	10
2.5 Past studies on liquidity risk and banks performance	10
2.5.1 Current ratio	10

CHAPTER ONE

INTRODUCTION

1.1 Introduction

Liquidity management is an important criterion that every company needs to meet its commitments including short-term financial and organizational expenditures. A financial institution or a corporation should be able to ensure that surplus capital is sufficient to meet short-term commitments. Therefore, because of its close relationship with the daily activities of an organization the analysis is one of the most relevant for internal and external analysts. This work is carried out to examine the liquidity management of commercial banks and determine their impact on the competitiveness of a commercial bank.

This chapter would examine the context of the research, the description of problems involved in this analysis, the nature of the study, the constraint of the study and the meaning of terms used in this study. The research focuses on the effect of liquidity management on the commercial bank's competitiveness in Malaysia.

The purpose of the study is to analyse the financial liquidity exposure of the commercial bank in Bursa Malaysia, which included 6 commercial banks in Malaysia, which will use panel details. In fact, the evaluation system of our data will be used in this analysis, using all relevant information pertaining to this research as the annual report of each of the six commercial banks, DataStream and E-views.

1.2 Background of the study

Liquidity defines how easily a property or security can be sold or bought on the market at a rate that represents its inherent value. That is to tell, the simplicity of money transfer. Money is universally regarded as the liquid asset, whereas real property, music and objects are all fairly illiquid in their tangible assets. The distribution of volatility drops at several points (Chen, 2019).

The term "liquidity" is used in order to address the bank's financial status. The liquidity in the commercial bank represents the ability to fund its obligations by the contractor at the time of maturity, which includes lending and investment commitments,