



## Investigating Relationship between Liquidity and Profitability Ratios in Banks

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### **Abstract**

There is no doubt that with the intensification of the financial and political crisis in recent years in Afghanistan, many banks faced a severe financial and profitability crisis, in general, among many registered and official banks in the Central Bank of Afghanistan, a large number of them suffers from liquidity problem and lack of profitability. Liquidity refers to how assets can be converted into cash at the earliest time or at the lowest cost, which is called an asset with high liquidity. In terms of liquidity, the asset's liquidity is high, so it can be converted into cash at a very low cost and quickly. The higher the liquidity of an asset, the more useful it will be. Also, profitability shows the bank's ability to earn income from its assets. After examining variables such as (benefit or profitability, return on capital and liquid assets), this research examines the relationship between banks' liquidity ratios and profitability using multivariable linear regression during the years (2016-2020). The research findings show a weak but positive relationship between liquidity ratios and profitability of banks, considering the research results  $R^2(\text{Bank-e-Mili})=0.235$  and also  $R^2(\text{Azizi Bank})=0.45$  smaller than  $\alpha=0.05$ , so the null hypothesis can be rejected and the alternative hypothesis can be confirmed.

**Keywords:** Bank; Current Assets; Current Debt; Liquidity; Profitability; Return on Equity

### **Introduction**

The banking industry is one of the most important and prominent industries in the world. Today, banks in advanced countries act as guides and professional consultants, experts in increasing the financial resources of companies, collecting and exchanging the necessary information for their customers, and are one of the economic drivers every country is considered (Alizadeh, 2017).

To properly supervise the banking system and improve banking safe in the world, the Ball Banking Supervision Committee, which was formed in Latecomers 1974 by the governors of the central banks of 10 countries, the Ball Committee meets regularly four times a year and has 25 working groups. Its specialization also has regular meetings. Committee meetings are usually held at the location of the International Settlement Bank (the permanent residence of the secretariat) (Fattahi, Rezai & Jahed, 2016). One of the factors influencing the increase in income and decrease in bank expenses is the issue of liquidity in commercial banks. Liquidity risk arises as a result of the bank's inability to pay and reduce debts or provide resources to increase assets. When the bank does not have enough liquidity, it cannot provide the necessary resources quickly and with a reasonable effect on the profitability of banks, in critical conditions lack of sufficient liquidity even caused the bankruptcy of banks.

Liquidity and profitability are important components of information about the efficiency of an institution. Maximizing the wealth of shareholders is one of the important goals of a for-profit institution, and another goal of a for-profit institution is to maintain and acquire liquid assets and liquidity to create a balance between conflicting goals. The most important point of view about liquidity is that liquidity should be provided simultaneously (Alizadeh, 2017). Profit is obtained from the difference between income and expenses, which is vital for commercial banks. Effective and fruitful activity can lead to the creation of suitable income for commercial banks. The profitability of banks as a whole is measured by ratios of the return on assets, return on equity, and net margin.

The ratios mentioned above provide very important financial information for financial decision-makers regarding the profitability of for-profit institutions and commercial banks.

### **Research and Methodology**

In the current research, the effect of liquidity on the profitability of banks has been examined and it is of the practical type in terms of its purpose. Its research design is similar to experimental research and it has been done using post-event data (historical data). This research has tried to determine the effects of liquidity on banks' profitability using a regression model. In addition, an effort has been made to determine the relationship of each of the mentioned variables with the return on capital using the regression model. Computer programs were used to draw the graphs and SPSS software was used to analyze the data. The necessary data for this research consists of library data and time series data and is derived from the financial statements of commercial banks, Bank-e-Mili Afghan, Azizi Bank, and authoritative scientific books and articles written in this section, without the direct involvement of the researcher. The implementation method of research is the set of activities of financial institutions or banks.

### **Information on Needed Collected Data for Research**

Table 1. Information on Liabilities, capital, current assets, and net profit of Bank-e-Mili Afghan

Years	Total bank capital	Current assets	Current liabilities	Net Profit
2016	8782359709	29128000243	29179675015	3526921309
2017	9260112402	36209827690	37335962762	335964633
2018	7256373168	36079966909	34622978506	683204365
2019	8111599209	30631308996	33649670465	855226041
2020	8234157342	33847876636	33730825712	122558132

Source: Annual report of Bank-e-Mili Afghan

Table 2. Information on current ratio, quick ratio, and return on Equity of Bank-e-Mili Afghan

Years	Current ratio	Quick ratio	Return on Equity
2016	0.998	0.906	0.401
2017	0.969	0.892	0.036
2018	1.042	0.843	0.094
2019	0.910	0.459	0.105
2020	1.003	0.433	0.014

Source: Results of Financial Analysis of Balance Sheet

Table 3. Information of Capital, Current assets, Current Liabilities, and Net Profit of Azizi Bank

Years	Total bank capital	Current assets	Current liabilities	Net profit
2016	5659424	27867812	27335924	21719
2017	5830883	31534476	31609852	171459
2018	5959293	32980725	46296646	194640
2019	5914756	60687280	52146360	427009
2020	6290587	68145103	57241588	364151

Source: Annual Report of Azizi Bank

Table 4. Information on current ratio, quick ratio, and return on Equity of Azizi Bank

Years	Current ratio	Quick ratio	Return on Equity
2016	1.019	0.630	0.003
2017	0.997	0.628	0.029
2018	0.712	0.605	0.032
2019	1.163	0.703	0.072
2020	1.190	0.631	0.057

Source: Results of Financial Analysis of Balance Sheet

### **Findings and Discussions**

The bank as a place of preservation and storage of valuables has long and old roots. For example, in ancient Greece, the rich used to deposit their jewels and valuables to protect them from thieves by paying money to a safe place, i.e. temples, and temples are known as the first lenders. Some scientists believe that before the appearance of money, there was a bank, that is, a place to keep valuables and grant loans (Arif, 2013).

There are various theories about the date of the bank's origin, and each country considers itself more advanced than others in the field of banking. But regarding the evolution of banking, we should mention Italy in the twelfth century, in this evolution; the Lombards have a special place. After the Lombards, the role of London goldsmiths in the development of banks and banking is dependent. In this case, the Europeans consider themselves to be a pioneer and have considered the beginning date of this tumultuous phenomenon to be Europe, which they consider to be the bedrock of the beginning of science. Italians consider themselves a step above others and consider the monetary and banking movement to be the result of the thinking of scientists and the resulting business of their citizens. In their opinion, it presents a strong logic. They were the first relatives who started banking; they developed exchange as a

profitable profession for the first time. In Greece, banking dates back to 4 BC, and the temples were a forerunner in this matter, and the reason was based on the following factors.

Exchange work was one of the professions and activities of temples. Temples were considered the most reliable places for depositing people's deposits (Seyd Masoud, 2013). Bank, like other economic terminology, has been given various definitions and in a few cases scattered definitions. A bank is a place where cash deposits that have the characteristics of redistribution are transferred from people for loans and investments.

Much research has been done on the relationship between liquidity on the profitability of commercial banks in different countries. Most of the researchers have investigated the relationship between liquidity ratios (current ratio, quick ratio) and profitability ratios by using returns on assets using a multivariable regression model. In some cases, researchers have also used return on capital to investigate the relationship between the aforementioned variables, and in our current research, we use return on capital as a meaningful index in the multivariable model to investigate the relationship between liquidity and profitability.

The current research model is a simple multivariate regression model, in which the ROE is in the model is the return on capital as a dependent variable,  $\beta_0$  is the width from the origin,  $\beta_1$  is the coefficient of the current ratio CR,  $\beta_2$  is the coefficient of the quick ratio QR, and  $U_i$  is the random disturbance component.

$$ROE = \beta_0 + \beta_1(CR) + \beta_2(QR) + U_i$$

Considering the current ratio, and quick ratio and comparing it with the return on equity of each bank over five years, we wanted to know how the relationship between them was. And have the recent activities of these banks made them profitable or not?

Based on the analysis of the spss 21 program, we analyzed and compared the current ratio, quick ratio, and return on capital ratios of Bank-e-Mili and Azizi Bank separately in order to show their effects on the relevant variables.

If we want to show all the variables in a comparative form on the graph, then it will be as follows:

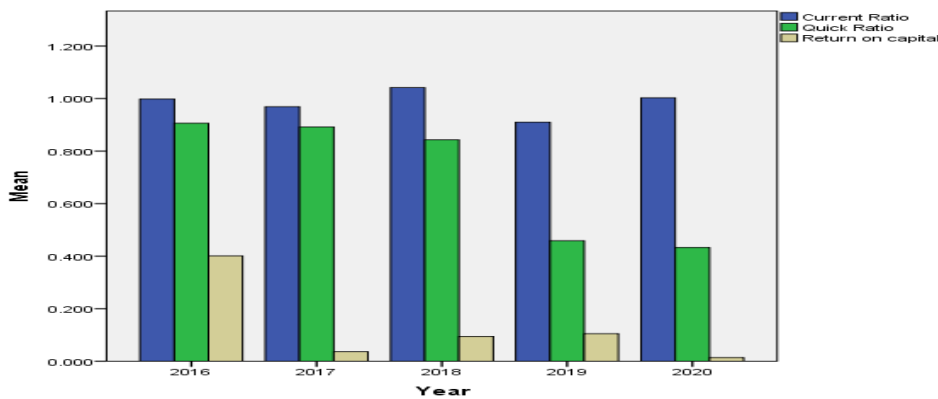


Figure 1: Comparison of return on equity ratios, current ratio, and a quick ratio

According to the above graph of Bank Mili's ratios, the lowest return on equity occurred in 2020, and the difference between them is very large. Also, it can be seen in the graph that the highest return on

equity of Bank Mili was in 2016, and in the following years, the increase is slight. Return on equity is the result of several important variables. These variables are usually analyzed by du-Pont system analysis. Because it originates from Dupont company. The idea of the Dupont system is to break down the return on equity into its important components in order to understand their different effects on the return on equity and also to help analysts in predicting the future trend of return on equity. A key component of the company's profitability is the efficiency of operations. It is that it is not affected by profit expenses, taxes, and the number of debts used by the company to finance its assets (Alizadeh, 2013). This ratio means that for one Afghani of current debt, there is one Afghani of current assets in the form of cash or accounts receivable and converted into cash in a short period. The current ratio of banks must be equal to 1 or more so that banks can pay their current liabilities from their immediate assets. The argument of analysts who consider the current ratio standard to be 1 is that this number is the boundary between the company's sufficient liquidity and insufficient liquidity. This ratio is one of the most useful ratios. It clearly shows that part of the current asset is more stable in terms of value and less likely to decrease; to what extent it can be supported by short-term creditors (Ross, Westerfield & Jordan, 2013).

In general, current ratios are in a good condition and have almost a uniform tone, but the graph of quick ratios and return on equity is irregular. One of the problems of the current ratio is the different degrees of conversion to the liquidity of current assets. To solve this problem, another ratio called the quick ratio is used. To calculate the quick or instantaneous ratio, the inventory is subtracted from the current assets, and the remainder is divided by the current liabilities:

Instant or quick ratio =  $\frac{\text{Cash} + \text{Receipt of cash equivalent}}{\text{Current liabilities}}$ , among the items of current assets, the degree of liquidity of the inventory is lower than the others, therefore, in a bankruptcy, the most likely loss is caused by these items from current assets. Therefore, the important issue is that the company can pay its short-term debts without relying on the sale of inventories. (Brigham & Earhart, 2014).

Quick assets include cash, short-term securities, and accounts receivable; items such as inventory, and advance payments are not included in the calculation of this ratio. A major problem with the current ratio is that it treats all current asset items equally in terms of liquidity. In terms of liquidity, current assets can be divided into two categories: As can be seen, the quick ratios show the highest value is 2016, while in 2020 this value has reached the lowest figure. From the above figure of liquidity and profitability ratios, it is clear that the relationship between return on capital and other independent variables of liquidity is very weak and irregular.

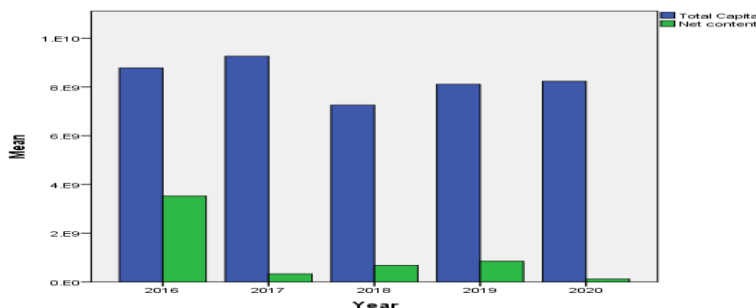


Figure2: Comparison of gross capital and net Profit of Bank-e-Mili Afghan

Profitability shows the bank's ability to earn income through its assets. Numerous types of research in the field of profitability, effectiveness, and efficiency of the bank show that ratios such as return on assets and return on equity are among the important ratios in identifying the efficiency and effectiveness of the bank. The profitability of banks is affected by internal factors such as bank management decisions, bank policies, liquidity level, capital amount, and the level of bank expenses. The

external factors affecting the bank's profitability include the development of the stock market, the state banks' market activity, market concentration, and other macroeconomic factors (Arif, 2016).

Profitability is the pure result of the application of all policies and decisions. The ratios that have been used so far can guide us in the direction of understanding the effectiveness of the company's operations, but profitability ratios show the results of the collection of liquidity effects, management of assets, and the use of loans in the operations. (Brigham & Earhart, 2014).

In the above graph, it can be seen that Bank-e-Mili obtained the lowest profit in 2020, which shows a huge difference compared to 2016. Compared to the total capital of Bank-e-Mili, this profitability is very small, and in order to increase the annual profit, the Bank-e-Mili must look for different and alternative ways. To reduce the difference between the bank's invested capital and the profit that shows fewer changes compared to 2016 and before. In addition, the above graph shows that the Bank-e-Mili has obtained the most profit in 2016, and in the following years, it adopted this downward trend, which is not in the bank's favor. Among the financial ratios, the three ratios that are introduced are the most well-known and common ratios among all financial ratios. This group measures the efficiency of the company in the use of assets and the profitability of operations.

In general, from the explanation of the above graph, it can be concluded that the relationship between the total capital and the net assets of the Bank-e-Mili is very weak and it is not enough to cover the bank's expenses. Still, comparatively, the net assets of the Bank-e-Mili are not equal to the amount of capital employed. So, as a result, we can say that the Bank-e-Mili should spend more effort to improve its profitability and obtain more profit in the coming years.

### Hypothesis Test

Before estimating the parameters of the model, to avoid a false and incorrect regression, the tests related to the time series figures must be performed. Therefore, first of all, we consider the Bank-e-Mili and perform the normality test to know if the data of the variables under our research are normal or not.

### Data Normality Test

Null hypothesis: The data does not have a normal distribution.

Alternative hypothesis: The data has a normal distribution.

### Tests of Normality

	Kolmogorov-Smirnova			Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	df	Sig.
Return on Equity	.364	5	.029	.768	5	.043
Current Ratio	.209	5	.200*	.957	5	.785
Quick Ratio	.316	5	.116	.767	5	.042

\*. This is a lower bound of the true significance.

a. Lilliefors Significance Correction

Based on the results of the normality test, as seen in the Test of Normality table, the return on capital price is equal to 0.043%. That is, it is smaller than 0.05%, and its significance level is also lower than 0.05. Therefore, the null hypothesis is confirmed and the alternative hypothesis is rejected. Because the condition of data normality states that the distribution of research data can be normal when the value of normality is higher than 0.05%, while in the above table the results of this value are equal to 0.043. we

can say that the distribution of our variable data is not normal, and if we want to show it in the figure, then it will be as follows:

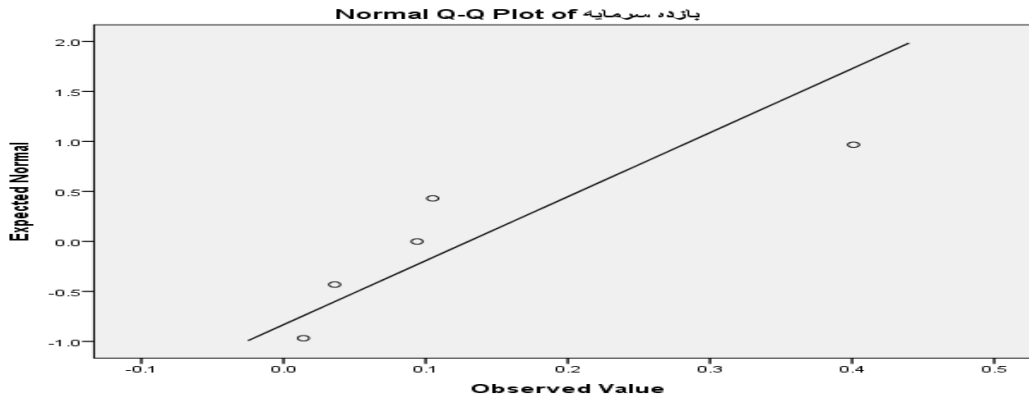


Figure3: Regression line

The small dots around the regression line indicate the non-normality of the figures. As can be seen in the figure, the dots are scattered and far away from the regression line, so we can say that the data used in examining the relationship between liquidity and profitability The Bank-e-Mili is at the level of abnormality.

**Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.350	2.049		.171	.880
	Current Ratio	-.474	2.205	-.149	-.215	.850
	Quick Ratio	.348	.452	.532	.769	.522

a. Dependent Variable: Return on Equity

According to the above table, we studied the regression coefficients; where our constant coefficient or dependent variable is equal to 0.350, it means both current and quick ratios can increase return on Equity by 35%. and the coefficients of our independent variables (current ratio & quick ratio) are -0.474 and 0.348 respectively, which means that if the coefficient of the independent variable (current ratio) increases by one percent, the dependent variable i.e. return on equity decreases by -0.47%, it shows us a kind of inverse relationship between capital return and current ratio, as well as if the coefficient of the independent variable (quick ratio) increases by one percent, the return on capital increases to the value of 0.348, which shows a kind of positive but weak relationship for us, in which case we can say that the relationship between return on capital and quick ratio is different in comparison from the relationship between current ratio and return on capital. The relationship between return on capital and quick ratio is better and stronger current ratio, but this relationship is kind of weak. Our significant level is equal to 0.880%, which is greater than 0.05% alpha, so it is not statistically valid because the condition of being valid or significant is less than 0.05% alpha. So the above results reject our null hypothesis and confirm the alternative hypothesis. We can also say that the relationship between the current ratio, quick ratio, and return on capital has been positive but weak in the mentioned five years. Liquidity is the capacity of a bank to provide cash, increase the amount of assets sold, and fulfill expected and unexpected cash and collateral obligations at a reasonable cost without incurring any unacceptable losses. Liquidity as a term is widely used; liquidity in banking is how banks can obtain cash for payments that are due.

Liquidity is how assets can be converted into cash at the earliest time or at the lowest cost, which is called assets or high liquidity (Alizadeh, 2013).

Liquidity, which is the property or characteristic of an asset, is the speed of the asset to the money. The type of asset is called having liquidity, which can be received or paid easily, without much cost, and with relative certainty of its value. All assets can be classified according to their liquidity. For example, banknotes and negotiable instruments, and demand deposits have full liquidity, and assets such as savings and time deposits are at the next level in terms of liquidity. Assets such as a house have an extremely low degree of liquidity because to obtain other goods and services with it, in most cases, it must be converted into money, and then other goods and services are obtained. This requires spending time and possibly capital loss (Akbari, 2013).

In terms of liquidity, the asset's liquidity is high, which can be converted into cash quickly and at a very low cost. The higher the liquidity of an asset, the higher its utility (provided other factors remain constant). Among the long-term bonds, US Treasury bonds have the highest liquidity, because they are widely traded, they can be sold quickly, and the cost of selling them is very low. The liquidity of corporate bonds is not as high as these bonds because a handful of these bonds are traded.

Therefore, it is not possible to sell them easily when necessary, and since it is not possible to quickly find a buyer for them, selling them is expensive (Meshkin, 2012).

Another factor that affects the profit rate of securities is their liquidity. It is a liquid asset that can easily be converted into cash. That is, if necessary, the more liquid an asset is the more desirable it will be for maintenance. US Treasury bonds are more liquid than all long-term securities because these bonds are easily and quickly sold and their sales costs are lower (Bahmanpour & Moshiri, 2012)

The liquidity and profitability of the investigated banks in Ghana decreased from 2005-2010 and it showed that there is a positive and weak relationship between the liquidity and profitability of the investigated banks in Ghana.

In order to further examine the relationships between the variables, I also study the correlation coefficient.

### Correlations

Control Variables		Current Ratio	Quick Ratio
Current Ratio	Correlation	1.000	.461
	Significance (2-tailed)	.	.539
	Df	0	2
Return on Equity	Correlation	.461	1.000
	Significance (2-tailed)	.539	.
	Df	2	0

The result of the Correlations study also shows a weak relationship between the ratios under study. Because their correlation coefficient is equal to 0.461%, which is greater than 0.05% of alpha, while the condition of the correlation coefficient is low, the number obtained from alpha is 0.05%. The intensity of the relationship between the variables of liquidity ratios and the profitability of the National Bank is weak but positive. So here we can say that our alternative hypothesis is confirmed and the null hypothesis is rejected, which means that there is a relationship between liquidity ratios and profitability ratios, but this relationship shows a kind of weak relationship.



But, Molyneux and Tornen (1992) and Godrad (2004) found evidence that there was a negative relationship between liquidity and profitability of European banks from 1980 to mid-1990.

And still, we can use the R square table to determine the relationship between the variables, which is as follows:

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. The error in the Estimate
1	.484 <sup>a</sup>	.235	-.531	.193328

a. Predictors: (Constant) Quick Ratio, Current Ratio

In carrying out the results obtained from the SPSS software, it shows that R<sup>2</sup> is equal to 0.235. According to the above table, R<sup>2</sup> represents their correlation relations, which indicates that if other factors influencing the return on the capital ratio of Bank-e-Mili are assumed constant, the quick ratio and current ratio alone can have an impact of 23 percent on the return on capital of Bank-e-Mili. Or in other words, 23% of the changes can be caused by the change of the independent variables above the dependent variable if other factors affecting the return on capital of Bank-e-Mili are assumed to be constant.

Liu and Hong (2006) studied long-term profitability in Taiwanese banks and concluded that banking services are the most important factor in profitability and profit for the studied bank branches. In the following, bank employees are considered to be the most essential factor to achieve an increase in profitability and profit.

Now we want to examine the relationship between liquidity ratios and the profitability of Azizi Bank. To find out how high liquidity ratios can be effective in the profitability of Azizi Bank. To investigate this issue, we want to perform a normality test on Aziz Bank's variables, just like the Bank-e-Mili, using time series data, to see if the data of the variables under our research has full normality or not.

The comparative graph of current ratios, quick ratio, and return on capital related to Azizi Bank is as follows:

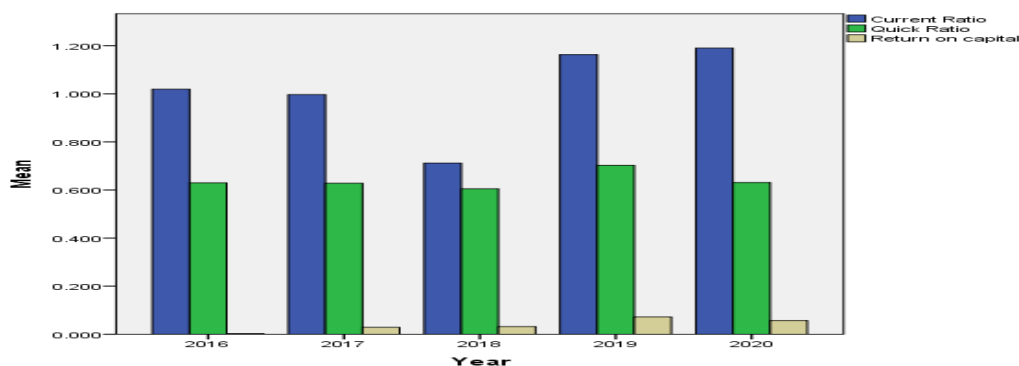


Figure 4: Comparison of current ratios, quick ratio, and return on equity

This graph was prepared considering the average of the variables under research, which shows the lowest capital return in 2016.

According to the above graph of Azizi Bank's ratios, the lowest return on equity occurred in 2016 and their difference in the following years is very large. Also, it can be seen in the graph that the highest return on equity of Azizi Bank was in 2019, which was an increase over previous years. It was less. To

measure operational efficiency, a ratio called Basic Earning Power or BEP Ratio is used. The earning power ratio of assets is calculated by dividing the profit before interest and tax (EBIT) by the total assets:

$$\text{Basic Earning Power (BEP)} = \text{Earnings before taxes and interest} / \text{Total assets}$$

Earnings before interest and taxes (EBIT), also called operating margins, and asset turnover are analyzed to determine the operating efficiency of those components. The ratio of profitability before interest and taxes (EBIT) on assets shows the operational efficiency of the company. (Brigham & Earhart, 2014). The rate of return on equity shows what return the shareholders have earned. Since the main goal of management is to benefit the shareholders, with an asset account approach, the rate of return on equity can be considered as the final criterion for evaluating the company's performance. Usually, the rate of return on equity is determined as follows.

$$\text{Return on equity (ROE)} = (\text{Net of profit}) / (\text{Total common stockholders' equity})$$

The rate of return on equity indicates that each unit of money invested by the bank's shareholders has yielded several units of money. One of the most well-known financial ratios in the field of liquidity, which is very common to use, is the current ratio, and this ratio is determined as follows:

$$\text{Current ratio} = \text{Current Assets} / \text{Current Liabilities}$$

Since current assets and liabilities are expected to be liquidated within the next twelve months, the current ratio is considered a suitable measure for short-term liquidity. From the perspective of a lender, especially a short-term lender, the larger the current ratio, the better the liquidity situation. A high current ratio indicates the liquidity of a bank. But at the same time, it can indicate inefficiency in managing cash and other current assets. Under normal conditions, the current ratio is expected to be at least equal to one, because the current ratio is less than the mean of negative net working capital. A low current ratio is not a bad sign for banks that have high borrowing power; because this shows the beneficial use of the bank's assets (Ross, Westerfield & Jordan, 2013).

In general, current ratios are in a good condition and have been on an upward trend over time. But the graph of quick ratios and return on capital has an irregular situation. As can be seen, the quick ratios reached their lowest level in 2020. It can be seen from the above figure that the relationship between return on capital and other independent variables is very weak.

In order to better understand the total capital and net profit of Azizi Bank Graph, I will draw it below.

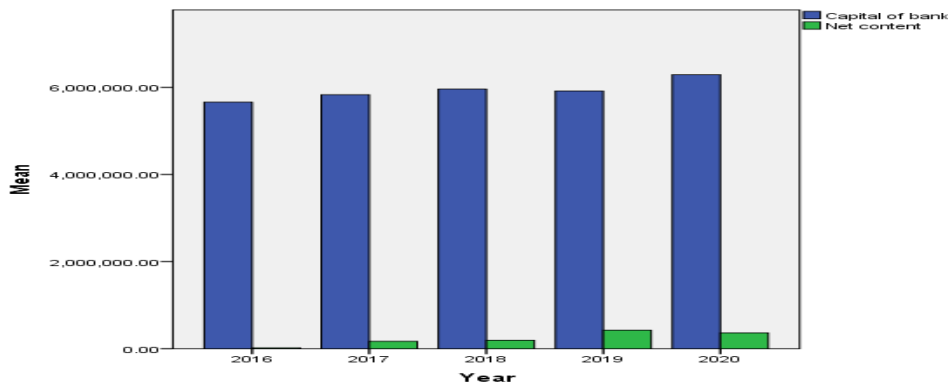


Figure 5: Comparison of total capital and net profit of Azizi Bank

In the above graph, it can be seen that Azizi Bank obtained the lowest profit in 2016, which shows a huge difference compared to 2019. Compared to the total capital of Azizi Bank, this profit is very small, and in order to increase the annual profit of Azizi Bank, it should look for different and alternative ways to increase profits. To reduce the difference between the bank's invested capital and the profitability that show fewer changes compared to the years 2020 and before. In addition, the above graph shows that Azizi Bank obtained the most profit in 2019, which adopted this downward trend in the following year. In general, it is clearly understood from the above graph that the relationship between the total capital and the net profit of Azizi Bank is very weak and the assets of Azizi Bank have not increased as much as the capital employed, and in the following years, Azizi Bank should try to reduce this gap. He spends more and earns more profit.

### Data Normality Test

Null hypothesis: The data does not have a normal distribution.

Alternative hypothesis: The data has a normal distribution.

#### Tests of Normality

	Kolmogorov-Smirnova			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Current Ratio	.260	5	.200*	.885	5	.331
Quick Ratio	.389	5	.013	.786	5	.062
Return on Equity	.198	5	.200*	.969	5	.869

\*. This is a lower bound of the true significance.

a. Lilliefors Significance Correction

According to the test of the normality table, the return on capital price is equal to 0.869, which is greater than the alpha of 0.05%. Also, the value of the current ratio and quick ratio shows a number greater than 0.05% of alpha, which means that our null hypothesis is rejected and the alternative hypothesis is confirmed. The significance level of the current ratio variable is equal to 0.331%, and it also shows the quick ratio and the return on capital of the same number greater than alpha 0.05%, which means that the data used in the researched variables is normal and in There is a normal limit, and the shape of its regression line is as follows.

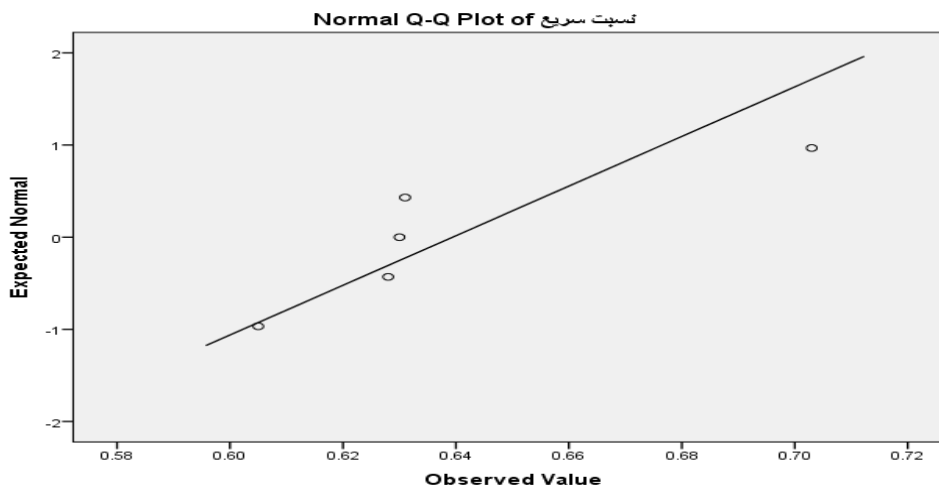


Figure 6: Regression line

In the figure above, the points around the regression line indicate the normality or non-normality of the data, which is the data used to examine the relationship between liquidity and profitability of Azizi Bank, as seen in the figure, because it is closer to the regression line, so we can say that the data is within the normal range.

After understanding the level of normality of the data, now we get the relationship between the variables using the regression table:

**Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	-.249	.266		-.938	.447
1 Current Ratio	.016	.098	.114	.164	.885
Quick Ratio	.425	.500	.590	.849	.485

a. Dependent Variable: Return on Equity

Bearing in mind the above table, the regression coefficient or dependent variable is equal to -0.249%, which means both current and quick ratios can increase Return on equity by 24%. And the value of the current ratio price variable is 0.16%. It means that with a one percent increase in the current ratio, Azizi Bank's return on equity will increase by 0.16 percent, and the variable value of the quick ratio of the price has taken 0.425%, which tells us that if the quick ratio is one percent increase, the return on equity will increase by 0.425%. From the above explanations, it appears that there is a positive but weak relationship between liquidity ratios and returns on equity, Liquidity is a property of assets that depends on the time and cost of converting them into money. In other words, the cost of exchanging an asset with money is a measure of liquidity.

Liquidity risk management and its importance for banks can be determined by liquidity ratios. Banks can consider the liquidity ratios as ceilings, which have been defined and approved by the board of directors. The banking industry average for these ratios is presented at the level of one for the information of banks. Banks can adjust their ratios based on the ability to manage liquidity risk, which can be done in the case of a particular bank. The main issue that is examined in this group of ratios is the bank's ability to pay short-term obligations. As a result, what is emphasized in the calculation of liquidity ratios are current assets and current liabilities.

Given that these ratios measure the bank's ability to pay short-term obligations, individuals and institutions that give short-term loans to banks pay special attention to them. One of the advantages of checking current assets and liabilities is that they often do not have a long life, so their market value and book value will not differ much. On the other hand, unlike long-term items and like all quasi-cash items, the amounts of current assets and liabilities may change rapidly. Based on these current amounts, they are not a good guide for the future. We examine the current ratio and the quick ratio (Ross, Westerfield & Jordan, 2013).

Liquidity management means the financing of assets with long-term receipts through obligations with short-term receipts that force the bank to resort to multiple receipts and refinance. Liquidity management with goals includes paying debts and fulfilling obligations continuously and on time, maintaining an appropriate level of liquidity to respond to unexpected cash outflows based on past experiences, and avoiding financing existence with significant costs, including forced sales. Assets and

profitability of an appropriate level of liquidity are formed according to the limits set in internal regulations (Mehrabi, 2012).

Radha and Shrestha (2013) showed that liquidity has a major role in the performance of commercial banks in Nepal; their research revealed that investment ratio, liquidity ratio, capital ratio, and quick ratio have positive effects on bank performance.

Because all the values obtained from the SPSS program are less than 0.05% alpha. If these values were higher than 0.05% alpha, it would indicate a positive and strong relationship. But comparatively, if the relationship between the current ratio and the quick ratio with the return on equity is examined below, it can be seen that compared to the current ratio, the quick ratio can increase the return on equity of Azizi Bank more and more to a greater extent, i.e. 0.425%. Its significant level is equal to 0.447%, which is greater than 0.05 percent alpha. Because the condition of being valid or significant is to be less than 0.05% alpha. So the above results reject our null hypothesis and confirm the alternative hypothesis. We can also say that the relationship between the current ratio, quick ratio, and return on capital has been positive but weak in the mentioned five years.

If we want to prove the relationship between independent and dependent variables, we can study its correlation coefficient:

**Correlations**

Control Variables		Current Ratio	Quick Ratio
Return on Equity	Current Ratio	Correlation	1.000
		Significance (2-tailed)	.499
		Df	2
	Quick Ratio	Correlation	.499
		Significance (2-tailed)	.501
		Df	2

The above table of correlation coefficients also indicates a weak positive relationship between the variables. As can be seen, the correlation coefficient is equal to 0.499, which is greater than 0.05% alpha. Also, our significance level is greater than five percent equal to 0.501. And keeping in mind the above results, we can say that the intensity of the relationship between the variables of liquidity ratios and the profitability of Azizi Bank is weak but positive and does not have a good significance level. As a result, we can confirm our alternative hypothesis and reject the null hypothesis, which means that there is a relationship between liquidity ratios and profitability ratios, but this relationship shows a kind of weak relationship.

Burke (1989) found that there is a positive relationship between high liquid assets and the profitability of 90 banks in Europe, North America, and Australia from 1972 to 1981. On the other hand, he claimed that holding liquid assets causes opportunity costs for the bank and causes low returns on other assets and as a result, it has negative effects on the bank's profitability.

In order to have a better understanding of the relationship between the variables under research and to be more confident, we can also use the R Square table, which is as follows.

### Model Summary

Model	R	R Square	Adjusted R Square	Std. The error in the Estimate
1	.671 <sup>a</sup>	.450	-.100	.028035

a. Predictors: (Constant), Quick Ratio, Current Ratio

Recently, the results obtained from the SPSS software show that  $R^2$  is equal to 0.450. According to the above table,  $R^2$  represents their correlation, which indicates that if other factors influencing the return on equity ratio of Azizi Bank are assumed constant, the ratio Fast and the current ratio alone can affect Azizi Bank's return on equity by 45 percent. In other words, the current ratio and the quick ratio can increase the bank's return on equity by 45% if other factors affecting the return on equity are assumed to be constant.

### Conclusion

Liquidity is the financial ability of a bank to fulfill financial obligations that have expired. Liquidity in banks is the concept of how banks prepare commitments that are overdue and urgent needs that require cash. In order to meet urgent needs and fulfill obligations, banks group their assets according to the degree of liquidity. Assets are categorized based on how quickly they can be converted into cash and those assets that can be converted into cash faster at a lower cost and in less time will have more liquidity. In commercial banks, liquidity is one of the important financial issues, based on which traders and customers can trust the bank. Based on the results of the research, it can be seen that our constant coefficient or the regression coefficient is equal to 0.350 and the coefficients of our independent variables are -0.474 and 0.348, respectively, which means that if our independent variable coefficient (current ratio) if a percentage increases, the dependent variable i.e. return on equity decreases by -0.47%, it shows us a type of inverse relationship between capital return and current ratio, also if the coefficient of the independent variable (quick ratio) increases by one percent. The return on capital increases to the value of 0.348, which shows a positive but weak relationship for us, in which case we can say that the relationship between return on equity and quick ratio is better and stronger than the relationship between current ratio and return on equity. The result of the Correlations study also shows a weak relationship between the ratios under study. Because their correlation coefficient is equal to 0.461%, which is greater than 0.05% of alpha, while the condition of the correlation coefficient is low, the intensity of the relationship between the variables of liquidity ratios and the profitability of Bank-e-Mili is weak but positive.

After carrying out the results obtained from SPSS software, it shows that  $R^2$  is equal to 0.235. According to the above table,  $R^2$  represents their correlation relations, which indicates that if other influencing factors on the capital return ratio of Bank-e-Mili are assumed constant, the quick ratio and current ratio alone can have an impact of 23 percent on the return on equity of Bank-e-Mili.

The research obtained from Azizi Bank also shows that with a one percent increase in the current ratio, Azizi Bank's return on equity will increase by 0.16%, and the variable value of the quick price ratio is 0.425%, which tells us that if the quick ratio increases by one percent, the return on equity will increase by 0.425%. From the above explanations, it appears that there is a positive but weak relationship between liquidity ratios and returns on equity because all the values obtained from the SPSS program are less than 0.05% alpha. If these values were higher than 0.05% alpha, it would indicate a positive and strong relationship. But comparatively, if the relationship between the current ratio and the quick ratio with the return on capital is examined below, it can be seen that compared to the current ratio, the quick ratio can increase the return on equity of Azizi Bank to a greater extent, i.e. 0.425%. Its significant level is equal to 0.447%, which is greater than 0.05 percent alpha, so its statistics are not valid and the relationships

between variables are weak. As can be seen, the correlation coefficient is equal to 0.499, which is greater than 0.05% alpha. Also, our significance level is greater than five percent equal to 0.501.

Recently, the results obtained from the SPSS software show that  $R^2$  is equal to 0.450. According to the above table,  $R^2$  represents their correlation, which indicates that if other factors influencing the return on equity ratio of Azizi Bank are assumed constant, the quick ratio and the current ratio alone can affect Azizi Bank's capital return by 45 percent.

In the graph of Bank-e-Mili's and Azizi Bank's total capital and net profit, it can be seen that Bank-e-Mili and Azizi Bank got the lowest assets in 2020, which shows a huge difference compared to 2016. Compared to the total capital of the Bank-e-Mili and Azizi Bank, this profitability is very small, and in order to increase the annual profit, the Bank-e-Mili and Azizi Bank must look for different and alternative ways.

To reduce the difference between the bank's invested capital and the profitability that show fewer changes compared to the years 2020 and before. In addition, the Bank-e-Mili and Azizi Bank obtained the most profit in 2019, which adopted this downward trend in the following year. In general, it is clearly understood from the research result that the relationship between the total capital and the net profit of Azizi Bank and Bank-e-Mili is very weak and the assets of Azizi Bank and Bank-e-Mili have not increased as much as the capital employed, and in the following years, Azizi Bank and Bank-e-Mili should try to reduce this gap. They spend more and earn more profit.

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