EFFECT OF LIQUIDITY ON THE PERFORMANCE OF DEPOSIT BANK IN NIGERIA

(A CASE STUDY OF UNION BANK NIGERIA PLC)

BY
ADUBI FATAI ADEMOLA
HND/23/BFN/FT/0177

BEING A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF BANKING AND FINANCE, INSTITUTE OF FINANCE AND MANAGEMENT STUDIES, KWARA STATE POLYTECHNIC ILORIN, KWARA STATE.

IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF HIGHER NATIONAL DIPLOMA (HND) IN BANKING AND FINANCE MANAGEMENT.

MAY, 2025.

CERTIFICATION

This research work has been read and approved as meeting the requirements of Department of Banking and Finance, Institute of Finance and Management Studies (IFMS), Kwara State Polytechnic, Ilorin, and was carried out by **ADUBI FATAI ADEMOLA** with Matriculation Number **HND/23/BFN/FT/0177** It was discovered to meet up with the standard required for the award of Higher National Diploma (HND) in Banking and Finance.

_____   _____

DR. OLOWONIYI O.A   **DATE**
(PROJECT SUPERVISOR)

_____   _____

MRS. OTAYOKHE E.Y   **DATE**
(PROJECT COORDINATOR)

_____   _____

MR. AJIBOYE W.T   **DATE**
(HEAD OF DEPARTMENT)

_____   _____

(EXTERNAL EXAMINER)   **DATE**

DEDICATION

This project is wholeheartedly dedicated to Almighty Allah, who made all things possible.

This project is also dedicated to my late mother **MRS. HAISHAT ADUBI**, may her soul rest in peace (Amin).

ACKNOWLEDGEMENT

My gratitude goes to Almighty God, the creator of heaven and earth, the beginning and the end, who has given me the inspiration and ability that money cannot buy, for keeping me alive and give me knowledge and opportunity to complete this programme successfully and for seeing me through my years in the Kwara State polytechnic.

I am grateful for the encouraging and challenging audience of my project supervisor; **DR. OLOWONIYI O.A.** your patience, guidance and support. I have benefitted from your wealth of knowledge, I am extremely grateful that you took me on as a student and continued to have faith in me throughout my stay. Thanks to you, may God Almighty reward you in manifold.

My gratitude goes to my department HOD; **MR. AJIBOYE W.T.** may Almighty God in His infinite mercy rewards you in manifolds. My intellectual and spiritual touch stone, whose care and thoughtful generosity and whose rigorous intellect and compass mate attention is valued immeasurably.

This project would not have been completed without the constancy and critical acumen of the departmental lecturers of Banking and Finance Management. Thanks for all you do.

I will also like to express my sincere gratitude and appreciation to all my brothers and sisters and best friends. **MR. ADUBI ARIMY, MR ADEWALE RASAQ,**

4

ADUBI KAZEEM, ADUBI ZAINAB, KEHINDE SIMIAT, ADUBI FATIMA. Thanks for the support financially, physically and spiritually.

I will also like to extend my sincere gratitude to **MR. AND MRS. OLOFINTE (MUMMY IYANIWURA)** and to my best friend; **OLORUNNISHOLA QUDUS HABEEB OLABISI.** He has been a solid supporter from the start, may Almighty Allah bless you in manifolds.

My kudos also goes to all my living and caring friends, **QUDUS, HABEEB, KABIRU, OMOGBOLAHAN** and my friend; **MR. OGUNNIYI ADEFEMI** for his support.

I say a big thanks to you all and I wish you well in all your endeavours. (Amin)

TABLE OF CONTENTS

ABSTRACT

This study appraised the effect of liquidity on financial performance of deposit money banks in Nigeria. A sample of five (5) banks was used for the study. Secondary data were collected from the firms for ten years period, 2007 - 2016. The data were analyzed using multiple regression analysis. Results show that Liquidity has positive and significant effect on banks' profitability ratios and that liquidity also has positive and significant effect on Return on Capital Employed. The study recommends that there is need to replace what is being practiced in the advance economies of the world. Investing on human capital may be beyond just employees but also frequently creating an interactive forum where bank clients could be sensitized on a variety of activities they indulge in that are capable of hindering effective liquidity management, need to invest on human capital by banks as it offers the highest returns in terms of increasing performance and it also enhances the level of competence of the employee and that the regulatory authorities should put in place appropriate policy with compliance measures to check high volume cash transaction and cash hoarding prevalent in the economy. The Central Bank of Nigeria must critically review and follow-up or monitor the effectiveness of liquidity policy tools in banks and where necessary, appropriate sanctions should be placed on erring banks to ensure effective implementation of these policy tools in an attempt to achieve desired liquidity level.

Keywords liquidity, Financial Performance, Profitability, return on Assets, Banks, Nigeria.

CHAPTER ONE

INTRODUCTION

1.0 INTRODUCTION

Corporate liquidity connotes firms' ability wither the storm when the need arises for it possess the cash and near cash equivalents that could meet up with its challenges especially the short term obligations. To this extent, liquidity is very critical for the survival of any organization especially the financial institution whose primary assignment entails keeping the deposit Agbada and Osuji (2013), as uncertainty led funding sources to evaporate, many banks quickly found themselves short on cash to cover their obligations as they came due. In extreme cases, banks in some countries failed or were forced into mergers. As a result, in the interest of broader financial stability, substantial amounts of liquidity were provided by authorities in many countries. Graham and Bordeleau (2010) added that during the early "liquidity phase" of the financial crisis that began in 2007, many banks – despite adequate capital levels – still experienced difficulties because they did not manage their liquidity in a prudent manner. The crisis drove home the importance of liquidity to the proper functioning of financial markets and the banking sector.

1.1 BACKGROUND TO THE STUDY

Banks' liquidity as simply the ability of the bank to maintain sufficient funds to pay for its maturing obligations. It is the bank's ability to immediately meet cash, cheques, other withdrawals obligations and legitimate new loan demand while abiding by existing reserve requirements. According to Elijah, Jaya and Jacklinne, (2017), liquidity management therefore involves the strategic supply or withdrawal

from the market or circulation the amount of liquidity consistent with a desired level of short-term reserve money without distorting the profit making ability and operations of the bank. It relies on the daily assessment of the liquidity conditions in the banking system, so as to determine its liquidity needs and thus the volume of liquidity to allot or withdraw from the market. In the light of this, Aburime (2009) noted that the purpose of business organization like bank is to maximize profit. Striking a balance between liquidity and bank return is of utmost importance. Many approaches have evolved over the years to measure bank performance such as the use of accounting ratio and econometric approaches. Most commonly approach is accounting ratio like return on investment, return on assets, and net interest margin among others. Raza, Farhan and Akram (2011) aver that banking performance over the years has been measured in terms Journal of Economics and Sustainable Development www.iiste.org ISSN 2222-1700 (Paper) ISSN 2222-2855 (Online) Vol.9, No.4, 2018 20 of three major indicators or variables namely Profitability, Return on Asset (ROA) and Return on Capital Employed (ROCE).

Profitability is the potential of a venture to be financially successful, the ability of an investment to make profit or the state or condition of yielding a financial profit or gain. Brealey, Myers and Marcus (2014) affirmed that manager often measure the performance of a firm by the ratio of net income to total assets, otherwise referred to as Return on Asset (ROA). Return on Capital Employed (ROCE) in Accountancy is a common method of measuring and judging the size of the return which has been made on the funds invested in a business. Omorukpe (2013) posits that ROCE is the ratio of an accounting entity for a period to capital employed in the accounting entity

during that period usually expressed as a percentage. Various measures of profit and of capital employed may be used in calculating this ratio. Hence, so many scholars have written much on the relationship between liquidity management and banks performance. Lamberg and Valming (2009) findings suggested that the adaptation of liquidity strategies do not have a significant impact on ROA. Only increased use of liquidity forecasting and short-term financing during financial crisis had a positive impact on ROA. Moreover, it was found that the importance of key ratios, which monitors companies liquidity have not changed between the studied time points. Li (2007) found that the result for liquidity on profitability is mixed and not significant, indicates that conclusion about the impact of liquidity remains questionable and further research is needed.

A study in Canada by Graham and Bordeleau (2010) suggest that a nonlinear relationship exists, whereby profitability is improved for banks that hold some liquid assets, however, there is a point beyond which holding further liquid assets diminishes a banks' profitability, all else equal. At the same time, estimation results provided some evidence that the relationship between liquid assets and profitability depends on the bank's business model and the risk of funding market difficulties. Adopting a more traditional, deposit and loan-based business model allows a bank to optimize profits with a lower level of liquid assets. If the liquidity of banks' It is in line with the above submissions that this study appraised the effect of liquidity on the financial performance of banks in Nigeria.

1.2   STATEMENT OF THE PROBLEM

The issue of liquidity for organizations is very vital to the existence of any organization especially the deposit money banks.

However, illiquidity of firms especially the banks can lead to loss of businesses thereby reducing the potentials of earnings and profitability. This is the because high liquidity position of firm helps it to meet up with obligations of which some lead to funding of loans and advances that could aid the bank to earn income inform of interests and loans. In the light of this, scholars have argued for and against liquidity as being critical in firms' life and profitability. Some scholars such as Duru and Ekwe(2013), argue found out that firms that maintain high liquidity earn high profitability. However, other authors argue that liquidity does not positively affect profitability. In other words for sustainable intermediation function, banks need to be profitable. Beyond the intermediation function, the financial performance of banks has critical implications for economic growth of countries. Good financial performance rewards the shareholders for their investment. This, in turn, encourages additional investment and brings about economic growth. On the other hand, poor banking performance can lead to banking failure and crisis which have negative repercussions on the economic growth, Ongore and Kusa (2013). Liquidity problems may adversely affect the financial performance of a bank as well as its solvency.

Some studies have shown a significant positive relationship between bank profits and liquidity while others have shown a weak positive relationship. Deposits money bank in Nigeria registered strong performance in 2013, exceeding the overall country economic growth.

The banking sector in Nigeria was rated strong in 2013 using the capital adequacy, asset quality, management quality, earnings and liquidity rating system (Banking Supervision Report, 2013). Although, studies have it that lack of adequate liquidity in a bank is often characterized by the inability to meet daily financial obligations. At time it may have the risk of losing deposits which erodes its supply of cash and thus forces the institution into disposal of its more liquid assets. As opined by Pandy (2015), managing monies of a firm in order to maximized cash availability and interest income on any idle cash is a function of liquidity management. However, the problems of weak corporate governance, poor capital base, illiquidity and insolvency, poor asset quality and low earnings are some of the constraints faced by the banking sector in Nigeria. Some worked by Johnson(2008) examined the differences in financial ratio averages between industries. The results showed that liquidity management has no effect on the firm's profitability. Moreover, Kweri (2011) examined the same problem among manufacturing firms. There is no study done so far on the effect of liquidity management on the performance of deposit money banks in Nigeria. It is the light of this, that this study has evaluated the effect of liquidity management on the financial performance of deposit money banks in Nigeria.

1.3 RESEARCH QUESTIONS

The study attempt to provide answers to the following research questions:

1. What is the effect of liquidity on the profitability of deposit money banks in Nigeria?

2. How does efficient banks' liquidity affect the return on Capital Employed?

1.4 OBJECTIVES OF THE STUDY

This study evaluated the effect of liquidity on the financial performance of deposit money banks in Nigeria. The specific objectives include:

1. To appraise the effect of liquidity on banks' profitability.

2. To ascertain the effect of liquidity on return of Capital Employed.

1.5 STATEMENT OF THE HYPOTHESES

Base on the research objectives, the following hypotheses are developed to guide the study. The hypotheses are stated in their null forms:

H0 I: Liquidity has no significant effect on banks' profitability.

H0 2:   Liquidity has no significant effect on banks' Return on Capital Employed.

1.6   SIGNIFICANCE OF THE STUDY

Working on the premise that the day of cheap profit are gradually been eclipsed and that in future, banks would need to complete more fiercely for business only those bank can show innovative approaches to treasury and fund management will be capable of surviving the competition ahead. Although the Nigeria scare as remind up till now a seller's strong balance sheets huge profit and impressive dividedness, this trend in unlikely to continue much longer, hence, it has now become expedient for banks to appraised their asset mix policy, goals and procedures, so that they are not change by the time unless new and portfolio management strategies are brought into places bank might in future be left. Apart from the foregoing considerations, the present treasury and management techniques used in Nigerian banks are often time based on haphazard and subjective factors which tends to increase the risk of goal achievement. The generally accepted of techniques

of quantitative and scientific techniques are very rarely used in publication by Adekanye Femi (1986) he noted that up fill now, there is no report of the techniques and management science/ operation research techniques in banking were as considerable integration of these technique for banking decision have been evolve in America, Europe and Japan. The main focus of this project is therefore to develop a decision model in asset mix (Treasury and fund management) for the policy making and senior management in deposit money banks using linear programming model. The model we hopefully assist banks in enhancing their profitability effectively from it present low point, this improve target planning and achievement.

1.7   SCOPE OF THE STUDY

The Control weapon of the CBN liquidity ratio affects the profitability of all banks and other financial institution but this project will be limited only the effect of liquidity on profitability of deposit money banks in Nigeria which deposit money banks because this weapon of central bank usually affect the deposit money banks more than the other financial institutions. This study is a theoretical exposition which focuses attention on the central problems of bank management reconciling the conflicting banks goals of profit ability, liquidity and solvency which in all affect the operation of the banks.

1.7.1 LIMITATION OF STUDY

Finance is the main constraints facing this research work coupled with short available of time. The research is self-sponsored and so could not afford the cost of elaborate area of courage.

Another major limitation is the difficulties in obtaining material information as there are reluctances from sources.

1.8   DEFINITION OF TERMS

Liquidity: Bank liquidity is the ability of a bank to be in a position to meet the demand of depositors and borrowers virtually all economic unit needs liquidity.

Profitability: It can be considered as the main motive of banks as it maximization ensures the survival and growth of economic unit.

Solvency: It's often used as a synonym for liquidity. It is the ability of banks to meet its day of obligation or activities to the deposition and credit customers, solvency is the ability of a banks to meet its long term obligation.

Portfolio: There are the lists of security and investment (stocks, shares) owned by a bank.

Demand deposit: These are the money saved by customers of a bank subject to recollection on demand.

Monopoly: this is the existence of one or few economic unit in a particular industry there by enhancing the few economic units to have uncompetitive control over the industry.

Expatriate banks: These are foreign owned banking institutions.

Indigenous bank: These are locally owned banking institutions.

1.9   PLAN OF THE STUDY

This research study is organized into various chapters. The logical organization of the study gives its uniqueness and make it very simple and clear for readers and researchers. The orderliness is as follows:

Chapter one talks about the introduction to the investigation. Also included in this chapter is the statement of research problem, objectives of the study, research questions, research hypotheses, scope of the study, significance of the study and definition of terms among others.

Chapter two talks about various literature related to the study. Here, emphasis is on the conceptual, theoretical and empirical reviews of the literatures.

Chapter three talks about the research methodology used in the study. Lastly, chapter five summarizes, conclusion and make recommendations for the study.

CHAPTER TWO

LITERATURE REVIEW

2.0 REVIEW OF RELATED LITERATURE

This chapter deals with literature review where the various authors that talks about liquidity and financial performance will be revealed.

2.1 CONCEPTUAL FRAMEWORK

2.1.1 LIQUIDITY

Liquidity is the ability to settle obligations with immediacy". The management of liquidity is essential for financial and non-financial firms (Drehmann and Nikolaou, 2013). This is a responsibility of the bank to pay the financial obligations; the financial obligations contain long and short-term debts and other financial expenses. Liquidity is a way which is used by the bank or banking sector to transform assets into the shape of cash to make payment in cash (Diamond and Rajan, 2005). Jagongo and Makori (2013) opined that, this is a responsibility of all banks to encounter their fiscal duties, banks convert their current assets into the shape of cash to pay the due obligations. The banks having less amount in current assets will face difficulties in ongoing its processes and if the amount of currents assets is too high, this displays that the return on investment for the bank is not in the unspoiled state.

2.1.2 FINANCIAL PERFORMANCE

Bank performance is the terms used in relation to its capacity to generate sustainable profitability. For a bank to be successful in its operations, managers must weigh complex trade-offs between growths, return and risk, favouring the adoption

of risk-adjusted metrics (Bassey, *et al*, 2016). Bank's performance measure can be classified into traditional, economic and market-based. For example Stern and Stewart developed a model called Economic Value Added (EVA) which takes into account the opportunity cost for stockholders to hold equity in a bank, measuring whether a company generates an economic rate of return higher than the cost of invested capital in order to increase the market value of the company (Raza, *et al*, 2011). There have been a large number of empirical studies on bank performance around the world especially deposit money banks but, very little has been done on bank performance in Nigeria. From the extant literature, researchers have applied several surrogates as metric measures of financial performance of banks. Such metrics according to Buba (2010) includes a combination of financial ratios analysis, benchmarking and measuring of performance against budget. Others include return on assets, returns on equity, net interest margin, and a host of others. However, the European Central Bank (ECB, 2010) cautioned that a good performance measurement framework should encompass more aspects of the performance than just profitability embedded in pure market-oriented indicators and should be less prone to the manipulation from the markets. Taken this caveat, this study employed Return on Assets (ROA) as a metric of financial performance. ROA is a key proxy measure frequently used in the literature of bank financial performance.

It shows the profit earned per naira of assets and most importantly reflects the management's ability and efficiency to utilize banks' financial and real investment resources to generate profits (Hassan & Bashir, 2003). The ROA depends on the bank's policy decisions as well as on uncontrollable factors relating to the economy

and government regulations. Rivard and Thomas (1997) asserted that bank profitability is best measured by ROA because high equity multipliers do not distort it. Guven and Onur (2009) corroborated this view by submitting that researchers focus on and make use of ROA to measure bank profitability to guard against most of the limitations associated with the use of other accounting financial performance proxies. Studying determinants of profitability of deposit money banks in Qatar, Elsayed (2013) employed ROA as a proxy measure of bank financial performance similarly Miko (2010) did the same in his study of the impact of consolidation on the profitability of banks in Nigeria. Both studies measured ROA as profit before tax over the total assets. Pandey (2009) explained that the appropriate measure of profit is a profit before tax because it shows earnings arising directly from the deposit money operations of the business without the effect of financing. Given this backdrop, this study measured ROA as the profit before tax divided by total assets and follow Elsayed (2013) and Miko (2010) in employing ROA as a proxy measure of bank profitability. (Journal of Economics and Sustainable Development).

2.1.3 PROFITABILITY

The profitability of banking sector is important with the aim to estimate the constancy and reliability of the financial and banking sector (Albertazzi and Gambacorta, 2009). Another author described profitability as the variation between expenses and revenues through a fixed period of time; generally fixed period is consisting of one financial year (Heibati, *et al*, 2009). This is essential for banks to generate sufficient amount of income that will endure and lead to additional growth and expansion. Agbada and Osuji (2013) asserted that the foremost challenging part

on the administration of the bank because numerous factors are involved in the decision. The profit planning and management is more complex in the highly challenging economic environment. The profitability is represented by three alternative variables. First and most important is profitability ratio which is the return on asset (ROA), ROA shows the ability of bank asset to produce the profit. Another ratio is the return on equity (ROE), this ratio mentions the returns to shareholders on their equity. The next one is the return on Investment (ROI), it measures the bank's efficiency by using invested capital. Scholar stated that Earnings per share (EPS) serve as a pointer of a bank's profitability. Another scholar stated that Net profit margin (NPM) and Tobin Q are bank's profitability factor.

2.1.5 RETURN ON ASSETS

Net income gives an idea of how well a bank is doing, but it suffers from one major drawback: It does not adjust for the bank's size, thereby making it difficult to compare how well one bank is doing relative to another. A basic measure of bank performance (profitability) that is correct for the size of the bank is the return on assets (ROA). It is calculated by dividing net income of the bank by the value of its assets. That is, profit before tax / total assets. ROA is a useful measure of how well a bank manager is doing on the job because it indicates how well a bank's assets are being used to generate profits. Brealey, *et al* affirmed that manager often measure the performance of a firm by the ratio of net income to total assets, otherwise referred to as Return on Asset. Although ROA provides useful information about bank profitability, it is not the most important to equity holders.

2.1.6 What are the effect of liquidity on the performance of Banks?

The markets liquidity risk is given as a ratio of liquid assets to current liabilities. Funding liquidity risk is represented by loan-to-deposit ratio.

The performance of the bank will be measured by the bank net interest margin as interest income minus interest expenses divided by total assets. A deposit money bank's profit is reduced by holding more liquid assets, and the bank's investment prospects are hampered, which could result in growth and expansion. The deposit money bank will need to maintain fewer liquid assets on its balance sheet, though, to increase profit.

An increase in the money supply can have two effects:

(i) It can reduce the real interest rate (this is called the "liquidity effect", more money, i.e. more liquidity, tends to lower the price of money which is equivalent to lowering the interest rate)

(ii) It forecasts higher future inflation

(iii) Because of higher funding costs for obtaining liquidity, liquidity risk is regarded as a discount for bank profitability, yet liquidity risk shows a premium on bank performance in terms of banks' net interest margins. Liquidity risk has reverse impacts on bank performance in a market-based financial system.

(iv) A deposit money bank's profit is reduced by holding more liquid assets, and the bank's investment prospects are hampered, which could result in growth and expansion. The deposit money bank will need to maintain fewer liquid assets on its balance sheet, though, to increase profit.

(v) The principal reason banks have a liquidity problem is that the amount of deposits is subject to constant, and sometimes unpredictable, change. Consequently any development that affects the stability of deposits directly involves the liquidity of banks

(vi) Positive relationship with bank profits. At the same time, holding liquid assets imposes an opportunity cost on the bank given their low return relative to other assets, thereby having a negative effect on profitability

2.2.0   What are the effect of liquidity on the performance of Union Bank?

2.2   THEORETICAL FRAMEWORK

Below are the relevant theories to this study:

2.2.1 SHIFTABILITY THEORY

The liquidity management theory focuses on the liability side of bank balance sheet. This theory contends that supplementary liquidity could be derived from the liabilities of a bank. According to Nwankwo (1991), the theory argues that since banks can buy all the funds they need, there is no need to store liquidity on the asset side (liquidity asset) of the balance sheet. Liquidity theory has been subjected to critical review by various authors.

The general consensus is that during the period of distress, a bank may find it difficult to obtain the desired liquidity since the confidence of the market may have seriously affected and credit worthiness would invariably be lacking. However, for a healthy bank, the liabilities (deposits, market funds and other creditors) constitute an important source of liquidity. This theory posits that a bank's liquidity is

maintained if it holds assets that could be shifted or sold to other lenders or investors for cash. This point of view contends that a bank's liquidity could be enhanced if it always has assets to sell and provided the Central Bank and the discount Market stands ready to purchase the asset offered for discount.

Thus this theory recognizes and contends that shiftability, marketability or transferability of a bank's assets is a basis for ensuring liquidity. This theory further contends that highly marketable security held by a bank is an excellent source of liquidity. Dodds (1982) contends that to ensure convertibility without delay and appreciable loss, such assets must meet three requisites. Liability Management Theory and Liquidity management theory according to Dodds (1982) consist of the activities involved in obtaining funds from depositors and other creditors (from the market especially) and determining the appropriate mix of funds for a particular bank. This point of view contends that liability management must seek to answer the following questions on how do we obtain funds from depositors, how do we obtain funds from other creditors? What is the appropriate mix of the funds for any bank? Management examines the activities involved in supplementing the liquidity needs of the bank through the use of borrowed funds.

2.2.2 LIQUIDITY PREFERENCE

Theory Bibow (2005) Keynes describes liquidity preference theory saying that people value money for both "the transaction of current business and its use as a store of wealth. Thus, they will sacrifice the ability to earn interest on money that they want to spend in the present, and that they want to have it on hand as a precaution. On the other hand, when interest rates increase, they become willing to

hold less money for these purposes in order to secure a profit. Elgar (1999) One needs money because one has expenditure plans to finance, or is speculating on the future path of the interest rate, or, finally, because one is uncertain about what the future may have in store so it is advisable to hold some fraction of one's resources in the form of pure purchasing power. These motives became Journal of Economics and Sustainable Development known as transactions-, speculative and precautionary motives to demand money.

The banks" liquidity preference approach suggests that banks pursue active balance sheet policies instead of passively accommodating the demand for credit.

2.3 EMPIRICAL REVIEW

The following are some empirical studies done so far.

2.3.1 EFFECT OF LIQUIDITY ON PROFITABILITY

Raheman and Nasr (2007) revealed a negative relationship between liquidity and profitability as well as a significant negative relationship between debts used by the firms and its profitability in a study which had average collection period, inventory turnover in days, average payment period, cash conversion cycle, current ratio, size of firm, and financial assets to total assets ratio as independent variables and net operating profit as the dependent. Benjamin and Kamalavali (2006) had current ratio, quick ratio, inventory turnover ratio, working capital turnover ratio, debtor's turnover ratio, ratio of current asset to total asset, ratio of current asset to operating income, comprehensive liquidity index, net liquid balance independent variables while the dependent variable was return on investment (ROI) in an investigation that revealed a negative association between ROI and current ratio, cash turnover ratio,

current asset to operating income and leverage. There was a positive association between ROI and quick ratio, debtor's turnover ratio, current asset to total asset and growth rate. Konadu (2009) did a study on liquidity and profitability: empirical evidence from listed banks in Ghana. The objective of the study is to determine the liquidity trend of selected banks, to ascertain the profitability trend of the selected banks and to establish and analyze the relationship between the banks liquidity and profitability levels from 2002 to 2006. The researcher considered the only banks listed on the Ghanaian stock exchange. The banks randomly selected were Standard Chartered Bank Ghana Ltd, Cal Bank Ltd and SG-SSB Ltd.

The study the researcher considered current ratio, quick ratio, cash ratio, net operating cash flow ratio under liquidity ratios. Profitability ratios comprise of net profit margin, return on equity, return on assets and net asset turnover ratios. The researcher employed trend analysis to achieve the set objectives. The researcher found no positive relationship between liquidity trend and profitability. The research paper concluded that there is a negative relationship between liquidity and profitability in the Ghana banking sector. Adebayo, Nworji and David(2011) examined liquidity management and deposit money banks' profitability in Nigeria. Findings of this study indicate that there is significant relationship between liquidity and profitability. That means profitability in deposit money banks is significantly influenced by liquidity and vice versa. Saleem and Rehman (2011) sought to reveal the relationship between liquidity and profitability. The main results of the study demonstrate that each ratio (variable) has a significant effect on the financial positions of enterprises with differing amounts and that along with the liquidity ratios

in the first place. Profitability ratios also play an important role in the financial positions of enterprises. Agbada and Osuji (2013) examined empirically the effect of efficient liquidity management on banking performance in Nigeria. Findings from the empirical analysis were quite robust and clearly indicate that there is significant relationship between efficient liquidity management and banking performance and that efficient liquidity management enhances the soundness of bank. Al-Tamimi and Obeidien (2013) identified the most important variables which affect the Capital Adequacy of Deposit money Banks of Jordan in Amman Stock Exchange for the period from 2000 –2008.

The study shows that there is a statistically significant positive correlation between the degree of capital adequacy in deposit money banks and the factors of liquidity risk, and the return on assets, and there is an inverse relationship not statistically significant between the degree of capital adequacy in deposit money banks and factors of the capital risk, credit risk, and the rate of force- revenue. Ibe (2013) examined the effect of liquidity management on the profitability of banks in Nigeria. He found that liquidity management is indeed a critical issue in the banking sector of Nigeria. Lartey, *et al* (2013) sought to find out the relationship between the liquidity and the profitability of banks listed on the Ghana Stock Exchange. It was found that for the period 2005-2010, both the liquidity and the profitability of the listed banks were declining. Again, it was also found that there was a very weak positive relationship between the liquidity and the profitability of the listed banks in Ghana. Moein Addin (2013) investigated the relationship between modern liquidity indices and stock return in companies listed on Tehran Stock Exchange. Results

indicated that there was a positive and significant relationship between comprehensive liquidity index and stock returns while there was no significant relationship between the index of cash conversion cycle as well as net liquidity balance and sock returns. Almazari (2014) investigated the internal factors that have an effect on profitability in Saudi and Jordanian banks. He found that there is a positive correlation between profitability measured by ROA of Saudi and Jordanian banks with some liquidity indicators, as well as there is a negative correlation with other liquidity indicators between profitability measured by ROA of Saudi and Jordanian banks. Journal of Economics and Sustainable Development

2.3.2 EFFECT OF LIQUIDITY ON RETURN ON CAPITAL

Nimer, *et al* (2013) did a study on the impact of Jordanian Banks profitability through their return on assets. Bank profitability is the ability of a bank to generate revenue in excess of cost, in relation to the bank's capital base. This study sought to find out whether liquidity through quick ratio has significant impact on Jordanian banks profitability through return on asset (ROA).The study noted that a profitable banking sector is better able to resist negative impact and share in to the stability of the financial system. The study used the 2005- 2011 financial reports of 15 Jordanian banks listed at Amman Stock Exchange (ASE). The return on assets (ROA) compares income with total assets (equivalently, total liabilities and equity capital). The independent variable in this was the quick ratio i.e. Cash +Short-term marketable investments +Receivables divided by current liabilities.

A simple regression was done to examine the study hypotheses. The study revealed that there is significant impact of independent variable quick ratio on dependent

variable return on asset (ROA). That means profitability through return on assets (ROA) in Jordanian banks is significantly influenced by liquidity through quick ratio. Ibe (2013) studies the impact of liquidity management on profitability on banks in Nigeria. The work was necessitated by the need to find solution to liquidity management problem in Nigerian banking industry. Three banks were randomly selected to represent the entire banking industry in Nigeria. The proxies for liquidity management include cash and short term fund, bank balances and treasury bills and certificates, while profit after tax was the proxy for profitability. Elliot Rothenberg Stock (ERS) stationary test model was used to test the run association of the variables under study while regression analysis was used to test the hypothesis. The result of this study has shown that liquidity management is indeed a crucial problem in the Nigerian banking industry. Emami , *et al* (2013) studied the effect of liquidity risk on the performance of deposit money banks in Iran. This study attempts to examine the effect of liquidity risk on the performance of deposit money banks using of panel data related to deposit money banks of Iran during the years 2003 to 2010. In the estimated research model, two groups of bank-specific variables and macroeconomic variables are used. In this research, the performance of fifteen Iranian banks is examined during an eight-year period from 2003 to 2010 using of panel data. The required data is drawn from the studied banks and the data related to macroeconomic variables including the growth of gross domestic product, consumer price index are drawn from central bank's site in order to calculate the inflation ratio. To determine the kind of estimation method in panel data, different tests are used. To select between common effects and the fixed effects, Limner's F-

test was used and to select one of the model for the fixed effects against the random effects, Haussmann test was used.

The study found that liquidity risk has a significantly negative effect on both criteria of the performance i.e. return on asset and return on equity. It means that liquidity risk will cause to weaken the performance of bank. Maaka (2013) studied the relationship between liquidity risk and performance of deposit money banks in Kenya. The objective of the study was to investigate liquidity risks faced by deposit money banks in Kenya and establish the relationship between liquidity risk and the performance of banks in Kenya. The study adopted correlation research design where data was retrieved from the balance sheets, income statements and notes of 33 Kenyan banks during 2008-2012. Multiple regressions were applied to assess the impact of liquidity risk on banks" profitability. Data was collected from annual reports submitted to the NSE and Capital Markets Authority. The F- test was used to determine the significance of the regression while the coefficient of determination, R2, was used to determine how much variation in Y is explained by X. The findings of the study were that profitability of the deposit money bank in Kenya is negatively affected due to increase in the liquidity gap and leverage. Kurawa and Abubakar (2014) examined the impact of liquidity on banks' profitability in Nigeria. The systematic random sampling method was adopted to select five banks over the period 2003 – 2012. The linear regression analysis was used to reveal the absence of a significant impact between liquidity and profitability among banks in Nigeria.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0   RESEARCH METHODOLOGY

3.1   INTRODUCTION TO METHODOLOGY

The effect of liquidity on the profitability of deposit money banks in Nigeria is fast becoming more important with each passing day. This attribute to the increasing competition in the industry and changing the micro environment.

This chapter deals with the method used in collecting data for the project it is the section of study that has adequately taken care of what the research produces and as much as possible bearing in mind that research finding should be valid and reliable.

The study was a survey research in which both primary and secondary data were used, the study also explained the research procure used to arrive at the various condition of population.

3.2   RESEARCH DESIGN

This study adopted an ex post facto research design an econometric approach of pooled least square (PLS) to analyze the effect of liquidity management on deposit money banks; profitability in Nigeria, with inclination on a purposely selected quoted deposit money banks (Union Bank of Nigeria, PLC). Its selection was premised partly on is contribution to the economy and the fact that it constitute a "Big Wig" in the banking industry in term of its size and spread, its ownership structure is also significantly unaffected by the spate of mergers and acquisitions that characterized the revolution in deposit money banking in Nigeria during the period covered. This

bank also have a large customer base and use active player on the Nigerian stock exchange (NSE). It was chosen in the banking industry based on its level of achievement and reputation over the years.

3.3   SOURCE OF DATA COLLECTION

The source of data in this study are the primary sources and secondary sources of data. The primary data consisted of the survey which are the responses from the questionnaire obtained directly from the staff and responses from the personal interview.

3.4   POPULATION OF THE STUDY

The population of the study is represented by the staff of Union Bank of Nigeria plc (challenge) Ilorin. As at the time of the study, the total state of the organization was thirty-two (32).

3.4   SAMPLING SIZE AND SAMPLING TECHNIQUE

The sample were selected using a simple random sampling method. However, all categories of staff were represented by the sample. Out of 25 questionnaires sent out, 23c were returned representing 92% of sample size.

3.5   METHOD OF DATA COLLECTION (INSTRUMENT)

The measuring instrument used in the study were:

3.6.1 QUESTIONNAIRE: These are question constructed and administered in person by the researcher to the staff?

3.6.1 PERSONAL INTERVIEW: There was no standard interview schedule, understand verbal interview was done with the company's staff, while questionnaire were been answered.

3.6 METHOD OF DATA ANALYSIS

A sample percentage was taken for respondent's answer to ask question and the result determined the effectiveness of the liquidity control. The sample average comparison was used to analyzed the data and made a comparison of the hypothesis.

The simple average comparison was adopted because of the need to avoid complications.

3.7 LIMITATION TO METHODOLOGY

The study found that liquidity risk has a significantly negative effect on both criteria of the performance i.e. return on asset and return on equity. It means that liquidity risk to weakens the performance of bank. Maaka (2013) studied the relationship between liquidity risk and performance of deposit money banks in Kenya. The objective of the study was to investigate liquidity risks faced by deposit money banks in Kenya and establish the relationship between liquidity risk and the performance of banks in Kenya. The study adopted correlation research design where data was retrieved from the balance sheets, income statements and notes of 33 Kenyan banks during 2008-2012. Multiple regressions were applied to assess the impact of liquidity risk on banks" profitability. Data was collected from annual reports submitted to the NSE and Capital Markets Authority. The F- test was used to determine the significance of the regression while the coefficient of determination, R^2, was used to determine how much variation in Y is explained by X.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.0 DATA ANALYTICAL AND FINDINGS

4.1 DATA PRESENTATION

The study is to analyze the data collected from the respondents and then test the hypothesis put forwards in this research work. The retrieval of analysis and data and information collected in this section is to show the trend and importance of regularity powers of Central Bank of Nigeria.

It should be noted that the various data gathered and collected in the course of this study form the basis of this analysis.

4.2 DATA ANALYSIS

(a) Section one: The characteristics of the respondent based on personal data as regard position heading office, educational statues, sex and year of working experience are hereby analyzed below.

Question 1.

Distribution of respondent based on position held in office.

Position	Number	Total in percentage
Managers	3	13%
Head of department	6	26%
Officers	14	61%
Total	23	100%

Source: Researcher's Field survey, 2025

Source: Administration Questionnaire

The above represents the position held by staff in question 1 shows that out of 23 respondents, 14 are the officers which represent the highest figure. There are also three (3) Managers and six (6) Head of Departments.

Question 2.

Distribution of respondent based on education status.

Qualification	Number	Total in percentage
Professionals	3	13%
Post graduates	2	9%
1st Degree / HND	12	52%
NCE / HSC / HND	5	22%
WEAC / GCE	1	4%
Total	23	100%

Source: Researcher's Field survey, 2025

Question 3.

Qualification	Male	Female
Professionals	2	1
Post graduates	2	_
1st Degree / HND	9	3
NCE / HSC / HND	2	3
WAEC / GCE	1	_

Source: Researcher's Field survey, 2025

The Education and response shows that out of 23 respondents, 12 are 1st Degree / HND holder which is the highest figure. It can be seen that the majority of

the respondents fall within a reasonable educated people. The implication of this is that these categories of respondents have second educational status, therefore information provided by them on banking operation and various regulatory controls of CBN on liquidity of deposit money banks can be relied on.

Question 4.

For noncompliant of deposit money banks with C.B.N liquidity control are they penalized according to the provision of banking Act?

Alternative answer	Respondent	Percentage
Certainly	19	83%
Partially	4	17%
Not at all	_	_
Total	23	100%

Source: Researcher's Field survey, 2025

The highest figure is respondent by 19 respondents which implied that deposit money banks noncompliance with CBN liquidity controls are penalized according to the banking Act provision.

Question 5.

Has there been any time when you think the control of CBN on deposit money banks is excessive?

Regular answer	Respondent	Percentage
Regularly	7	30%
Occasionally	15	66%

Not at all	1	4%
Total	23	100%

Source: Researcher's Field survey, 2025

15 respondents represent the highest figure which shows that there are time the control of CBN on deposit money banks are excessive.

Question 6.

Are there indication the economic which make CBN aware that there is need to increase liquidity requirement of deposit money banks?

Alternative Answer	Respondent	Percentage
Yes	23	100%
No	–	–
Total	23	100%

Source: Researcher's Field survey, 2025

This shows that they agitated towards increasing or decreasing liquidity requirement of deposit money banks by economy indications.

Question 7.

What are the instruments of liquidity control that the CBN used to regulate the activities of deposit money banks to prevent bank failure?

Liquidity Ratio.

(i)   Loan Analysis.

(ii)   Capital Adequacy.

(iii) Periodic Returns to CBN.

(iv) Minimum Reserve Requirement.

Question 8.   Are all instrument used at the same time?

Alternative Answer	Respondent	Percentage
Regularly	5	22%
Occasionally	11	48%
No	7	30%
Total	23	100%

Source: Researcher's Field survey, 2025

Question 9.

If this response is no, state the requirement which are commonly used at the same time to prevent bank failure.

(i)   Minimum Reserve Requirement.

(ii)   Capital Adequacy.

(iii)   Periodic Return.

Question 10.

Did the CBN give adequate time to the banks to complied with the liquidity regulation?

Alternative Answer	Respondent	Percentage
Certainly	14	61%
Partially	7	30%
Not at all	2	9%
Total	23	100%

Source: Researcher's Field survey, 2025

This shows that the CBN gives adequate time to comply with the liquidity regulation.

Question 11.

Despite all these controls is there any bank failure since the inception of CBN ordinance of 1958?

Alternative Answer	Respondent	Percentage
Certainly	13	57%
Partially	10	43%
Not at all	_	_
Total	23	100%

Source: Researcher's Field survey, 2025

This include that certainly there are bank failure since the inception of CBN ordinance of 1998, but only a little above average as some respondent ticks "partially"

Question 12.

If the answer is certainly do you think CBN liquidity controls are effective?

Alternative Answer	Respondent	Percentage
Yes	19	82%
No	4	18%
Total	23	100%

Source: Researcher's Field survey, 2025

Majority of the respondents (82%) accept that CBN liquidity controls are certainly effective

INTERPRETATION OF RESULT

The result were obtained from the research carried out and were explicitly interpreted to evaluate that viability of the hypothesis. Based on the result obtained useful suggestions were necessary.

Two hypothesis were explicitly covered.

i.   Liquidity control prevents banks failure in Nigeria.

ii.   The control weapon of CBN (reserve ratio) affect the efficiency of deposit money banks in Nigeria.

The two hypothesis will be tested using information from the questionnaire and contingency table formed the observer frequencies.

The main statistical technique that is going to be the simple average comprise.

DECISION   (HYPOTHESIS 1)

(i)   HO: Liquidity control prevent banks failure in Nigeria.

H1:   Liquidity control does not prevent banks failure in Nigeria using the simple average comprise 82.6% of the respondent are in affirmation (i.e. Yes)   while only 17.4% degree (based on question 12) (i.e. No). This confirm the acceptance of null (Ho) hypothesis and rejection of the alternative hypothesis (Hi).

Some other supportive question show that liquidity control, prevents banks failure in Nigeria are as follows:

Question 4. For non-compliance of deposit money banks with the CBN liquidity control, are they penalized according to banking Acts "83%" of the respondent certainly accepted and remaining 17% partially accepted.

Question 5. Has there been any time when you think control of CBN of deposit money banks excessive. 66% of respondent accept that the CBN control are occasionally excessive. i.e. not frequent and this makes the highest representation. Hence, it is conclude that liquidity control prevents banks failure.

HYPOTHESIS

Ho: The control weapon (reserve ratio) of CBN affect the efficiency of deposit money banks.

Hi: The control weapon does not affect the efficiency of deposit money banks. Using their simple average composition. 100% of the respondents are affirmation (i.e. yes) that the control of CBN affects the efficiency of deposit money banks. Hence their probability. (based on question 6), the CBN fashion it control weapon with regard to indications in the economy especially in the banking industry). This confirms the acceptance of the null hypothesis (Ho) which the alternative hypothesis is rejected. Other supportive questions are questions 2, 3, and 10.

The acceptance of these two hypothesis signifies that the CBN control is inventible for the survival of deposit money banks in Nigeria.

CHAPTER FIVE

SUMMARY, RECOMMENDATIONS AND CONCLUSION

5.1 SUMMARY OF FINDINGS

Following the analysis, the following findings have ensued:

1. Liquidity has positive and significant effect on banks' profitability ratios.

2. Liquidity has positive and significant effect on Return on Capital Employed.

5.2 CONCLUSION

This research study underpins or supports with evidence the fact that there exist a strong positive relationship between efficient liquidity management and banking performance in terms of Profitability and Return on Capital Employed (ROCE). Therefore the need for efficient liquidity management in the banking industry cannot be over emphasized particularly for reasons of maximizing profit levels and concurrently remaining liquid. For the banking industry in Nigeria, there is the need to emphasize 'the need to remain liquid'. The study buttresses the fact that efficient liquidity management can significantly influence returns on capital employed by a bank and as well impact positively on the bank's profitability and thus its stability. The high number of illiquid banks in the Nigerian banking industry as seen in recent times appears to attest to the fact that most bank management in Nigeria do not either place emphasis on strategic liquidity management or are deficient in it. Even though they may be efficient, most businesses in the Nigerian economy are transacted purely on cash basis such that managing liquidity effectively becomes cumbersome. Effective liquidity management creates good public confidence in the financial system of a country and good public confidence prevents a 'run' on the

banking system and consequently on the liquidity state of banks. Since economic laws and variables from this study and other related researches have attested to the fact that there is correlation between efficient liquidity management and banking performance, the poor liquidity state of Nigerian banks could be hinged on management. Therefore, there is the need to formulate policies that will enhance effective liquidity management in the banking industry in Nigeria and the public usage of cash.

5.3 RECOMMENDATIONS

 Below are the recommendations of the study:

1. The need to replace being practiced in the advance economies of the world. Investing on human capital may be beyond just employees but also frequently creating an interactive forum where bank clients could be sensitize on a variety of activities they indulge in that are capable of hindering effective liquidity management.

2. The need to invest on human capital by banks as it offers the highest returns in terms of increasing performance and it also enhances the level of competence of the employee.

3. Regulatory authority should put in place appropriate policy with compliance measures to check high volume cash transaction and cash hoarding prevalent in the economy. This is important because liquidity management is cumbersome and may be ineffective in an economy that operate solely on large volume of cash transaction or conducts a large proportion of its transactions in cash. The Central Bank of Nigeria must critically review and follow-up or monitor the effectiveness of liquidity policy

tools in banks and where necessary, appropriate sanctions placed on erring banks. This may be so in order to ensure effective implementation of these policy tools in an attempt to achieve desired liquidity level. While it may be true that CBN is effectively enacting and reviewing liquidity management tools such as the Open Market Operation, Cash Reserve Requirement, Liquidity ratios , Monetary Policy Rate among as often been stated in their Annual and Economic reports, compliance by the beneficiary banks is not guaranteed as bank returns to the regulatory authority has been reportedly falsified over times.

REFERENCES

Aburime.U.T. (2021). Impact of political affliction on bank profitability in Nigeria. African Journal of Accounting, Economics, Finance and Banking Research 4(4), 61-75.

Agbada,A.O & Osyi ,C.C. (2022). The efficacy of liquidity management and Banking performance in Nigeria .International Review of Management and Business Research 2(1), 223-233.

Albertazzi .U. and Gambacorta .L. (2020). Bank Profitability and business cycle. Journal of Financial Stability. 5, (4), 393-409.

Ali SuliemanAlshatti (2023). The effect of the liquidity management on profitability in the Jordianian Deposit money Banks. International Journal of Business and Management; 10, 1;62.

Bibow.J. (2021). Liquidity preference theory revised .The levy economics institute working paper No.427.

Brealy. R.A .Myers S.C & Marcus A.J (2020). Fundamentals of corporate finance. 3rd Ed.

Dodds, J.C (2022). The term structure of interest rates: A survey of the theories and empirical evidence .Management Finance, 8(2), 22-31.

Edem O.B. (2021). Impact of Efficient Liquidity Management on Deposit money Banks in Nigeria. An MSc. Thesis

Elger,E. (2022). Full employment and price stability in a global economy Chelteaham publication.

Emami,M,Ahmadi ,M.& Tabari ,N.A.Y. (2021).The effect of liquidity risk on

the performance of deposit money Banks .International Research journal of Applied and Basic Sciences 4(6),1624-1631.

Graham.C.& Bordeleau, E. (2020). The impact of liquidity on profitability Bank of Canada working paper, (38)6-22.

Ibe .S.O. (2020).The impact of liquidity management on the profitability of Banks in Nigeria. Journal of Finance and Bank Management, 1(1), 37-48.

Neupane.B. &Subadi, S.(2022).Determinants of Banks liquidity and their impacts on financial performance on Nepadese deposit money Banks. Pokhara University.

Nimer, M. Warrd, L. & Omari, R. (2021). The impact of liquidity on Jordanian Banks profitability through return on Assets. International journal of contemporary research in business 5(7), 70-76.

Maaka,Z.A (2020),The relationship between liquidity risk and Financial performance of Deposit money Banks in Kenya. University of Nairobi.

Makori, D. & Jagongo .A. (2022). Working Capital Management and from profitability: International Journal of Accounting and Taxation, 1(1), 1-14

Olajunju. A, Adeyanju, O.S & Olabode, O.S (2021) Liquidity Management and Deposit money Banks, profitability in Nigeria Research Journal of Finance and Accountancy ,2(7),2222-2847.

Ongore,V.O & Kusa, G.B (2023). Determination of financial performance of

  deposit money Banks in Kenya. International Journal of Economics and

  Financial Issues,3(1)237-252.

Pandy, L.M. (2022). Financial Management, New Delhi: Vikas Publishing

  House.

Raza.A.Farhan M. & Akran.M. (2021)A composition of financial

  performance in investment banking sector .International Journal of

  Business and Social Science, 2(9)72-81