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# LIQUIDITY MANAGEMENT AND FINANCIAL PERFORMANCE OF LISTED DEPOSIT MONEY BANKS IN NIGERIA

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## **Abstract**

*The study investigates the effect of liquidity management on financial performance of listed deposit money banks in Nigeria. Liquidity management was measured and proxy with capital adequacy ratio, liquidity ratio and loan to deposit ratio, however financial performance was proxy with Tobin's Q. Secondary data source was utilized and it was extracted via the audited published annual reports and accounts of the banks selected covering the period from 2010-2019. Panel multiple regression technique was adopted as the technique of data analysis, while Stata 13 was used as the tool for analysis of data. Robustness tests which include heteroscedasticity, multicollinearity and normality test of standard error were conducted. Findings revealed that capital adequacy ratio have positive and significant effect on financial performance of listed deposit money banks in Nigeria. Liquidity ratio has significant but negative effect on financial performance of banks in Nigeria which connotes that high level of liquidity ratio will lead to low level of performance strategically for banks. Loan to deposit ratio has positive but insignificant effect on financial performance. It is therefore recommended that management of board should pursue increased capital with the Central Bank of Nigeria and the CBN should also make sure that banks met and continually meet the requirements in respect of capital adequacy before giving the license to operate. The management of the banks should ensure that most idle cash are investment into short term portfolios to attract higher returns which will eventually increase the value of the banks.*

**Keywords:** Financial Performance, Liquidity, Shiftability Theory, Capital Adequacy

## **1. Introduction**

The world nowadays has changed due to the growing aim of companies to maximize profit to improve the value of their firm, preserving high liquidity level to attain the highest level of net worth for the shareholders of the organization, together with the achievement of other aims and objectives. Therefore, the liquidity

management in an organization is very important due to the role it plays in their success. Liquidity management is very critical to the survival and growth of any financial system. Numerous studies have been conducted on this concept in some organizations over the years, therefore its importance cannot be overemphasized in terms of the banking sector particularly the deposit money banks in Nigeria. The significance of having effective liquidity management cannot be overemphasized when it comes to financial systems like deposit money banks. The Importance of liquidity management came about during the global financial crisis of 2007 through 2008, when the banking industry was affected by serious liquidity strain. The global financial crisis revealed the fact that liquidity can disappear in a thin air like a mirage; so also, it can stay for a longer time (Terseer, Henry, & Mkuma, 2010).

Liquidity management in all organizations is their ability to effectively convert current business assets to cash. Cash is usually considered very important in any intuition because it ensures that business components are sustained (Patjoshi, 2016). On the other hand, liquidity in banking is the ability of a bank to make funds that can be used to pay for obligation as it progressively becomes due (Onyekwelu, Chukwuani, & Onyeka, 2018). If working capital is managed properly in any organization, it makes it easy to maintain liquidity which guarantees daily operation and meeting of business obligations without any hindrance (Ibe, 2013). One of the major challenges affecting the continuous survival of many businesses or financial organizations is credit risk. The likelihood that the credit clients of a bank whether in organization or person will not meet up with payment of loan as it gets due is referred to as credit risk.

Credit risk can also be referred to as “the risk of default” (Gambo, Bambale, Ibrahim, & Sulaiman, 2019). Banks can fall into loan default when they give out credit and don’t monitor it, to ensure that is paid back. Banks mainly make use of money deposits to create loans for borrowers. If these loans go to default, the banks are exposed to default risk which can lead to financial crisis (Nwude & Okeke, 2018). Proper management of credit risk through its careful assessment and weighing can reduce the negative it might have on the performance of an organization. So also, effective credit management serves as source of income for banks and when it managed properly it leads to their survival and robust growth. Though, credit risk plays a vital role on the growth of commercial banks because it accounts for a large portion of its profits through the interest rates being charged from the loans granted. However, the interest can be linked directly to credit risk; this means that when interest rate is higher it can lead to nonpayment of loan .

Again, the main aim of listed deposit money banks of maximizing profit is to enable them accept cash from customers such as deposit to give it out as credit. When there is increase in the amount of credits borrowed out to customers who in turn refuse to pay, it might affect the cash balance of the bank by resulting in a decrease which can weaken liquidity level. Therefore, attaining balance between liquidity and credit risk is of major importance. When banking sector is performing well financially in any economy, it promotes growth and development in that economy. Any financial institution that is strong financially can be able to withstand all forms of crisis that can emerge, and its financial strength can also strengthen other sectors or institutions by providing financial aid. According to Rajkumar and Hanitha (2015), the Assessment of financial performance of any organization that can generate resources from daily operations at given time is done through cash from operations and net income. Therefore, liquidity management is understood as important variable to the financial performance of banks. The inclusion of suitable strategy to effectively manage both variables will help banks in the long term to better serve its customers and ensure growth. Furthermore, despite the significance of liquidity management on financial performance of Nigerian banks, there is very little existing literature in accounting and finance that can be use adequately to investigate the effect of liquidity management on the financial performance of listed banks in Nigeria. It is against this backdrop the current study is designed.

The main objective of this study is to determine the effect of liquidity management on the financial performance of listed deposit money banks in Nigeria. The specific objectives are:

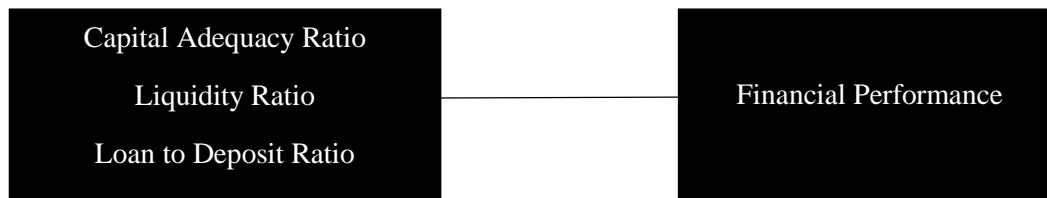
- i. Determine the impact of capital adequacy ratio on financial performance of listed deposit money banks in Nigeria.
- ii. Examine the impact of liquidity ratio on financial performance of listed deposit money banks in Nigeria.
- iii. Determine the impact of loan to deposit ratio on financial performance of listed deposit money banks in Nigeria.

## **2. Literature Review**

This section includes the conceptual framework which link between concepts used within this research and also include empirical review the gives proper understanding of the links between financial performance and management

**Liquidity Management**

**Financial performance**



**Source:** Authors’ Conceptual Model (2022)

## 2.1 Empirical Review of Previous Study

The research in the impact of liquidity management on financial performance of commercial banks in Botswana by Sathyamoorthi, Mapharing and Dzimiri (2020), examined the nine (9) commercial banks in the country which comprised the studies population in the period that covered between 2011 to 2011; a secondary data was sources from Bank of Botswana’s financial statistics database; descriptive statistics, correlation and regression analyses were also applied to analyze the data. Results from regression analysis showed there are significant relationships for loan to total assets ratio and liquid assets to total assets ratio with return on assets and return on equity; Loans to deposits ratio and Liquid assets to deposits ratio had statistically significant negative relationships with return on assets and return on equity; Cash and cash equivalents to total assets ratio had statistically insignificant positive relationship with return on assets and return on equity while cash to deposits ratio had statistically insignificant negative relationship with return on assets and return on equity”.

Adhikari (2020) studied the impact of liquidity on profitability in Nepalese commercial banks. 27 out of 28 commercial banks in Nepal were used for the analysis. A cross-sectional secondary data of the banks was employed. For data analysis, causal comparative and descriptive approaches for research were used. Furthermore, to determine the relationship between the variable’s multiple general linear regression and correlation analysis were used. Findings from the study showed that statically the association between the driver’s liquidity and profitability of Nepal commercial banks is insignificant. This study carried out in regard to the commercial banks in Nepal, however the current study is centered on commercial banks in Nigeria to serve as a guide or aid in their decision making and policy implementation.

Terseer et al., (2020) examined the effect of liquidity management on financial performance of banks in Nigeria from 2010-2018. Secondary source of data was employed for 5 banks that were listed on the Nigerian Stock Exchange. Estimation

of model and Hausman test is done using panel regression analysis whilst determining to choose between the random and fixed effect model. It revealed that the effect of liquidity ratio on drivers of profitability of deposit money banks is significant and positive. This study was limited or used little number of banks for its study. Therefore, it can't generalize its finding to all the deposit money banks in Nigeria.

Dadepo and Afolabi (2020) assessed the impact of the liquidity management on the performance of ten manufacturing companies from 2012 to 2016 which covered the period of 5 years. Findings of the study showed that the effect of current ratio on profitability measured by return on assets is negative and significant while, the relationship between cash and quick ratio on return on assets of the selected companies is negligible but positive. Also, Emmanuel and Stephen (2020) conducted a study on liquidity management and performance of deposit money banks in Nigeria with six (6) banks that are part of an international association. Secondary data were obtained from the bank's annual books from 2013 to 2019. The findings showed that there is positive relationship between capital adequacy and return on equity likewise; liquidity and current ratio showed very low negative relationship with return on equity and bank size had a strong positive relationship with return on equity. Hence the need for broader study on the field.

Chinweoda et al., (2020) studied the effect of liquidity management on the performance of banks in Nigeria. The population sample for the study was eighteen (18) banks that are listed on Nigeria's stock exchange between 2011 to 2017. The study revealed that liquidity management has a positive and serious impact on profitability of those banks being studied. Also, the study showed that capital adequacy has a significant effect on return on assets, return of equity, and return on capital being employed. Similarly, asset quality was found to have a positive and high effect on the drivers of performance. The main shortcoming of Chiwendo's work was the scope which involved banks in Nigeria and limited its findings on deposit money banks while ignoring development banks like Bank of Industry, Bank of Agriculture and Mortgage banks therefore his findings cannot be generalized due its broad scope and limited sample size.

Anandasayanan and Subramaniam (2020) assessed the effect of liquidity management on banks profitability in Sri Lanka. The research work used 26 commercial banks in Sri Lanka from 1998 to 2017, making it a period of 20 years. The findings of the research showed that there is positive association between return on asset and capitalization ratio, whilst a negative relationship was found

between capital adequacy ratio and return on asset and the results from the regression analysis also identified that liquidity has a very high impact on profitability.

A study carried out by Ali (2020) about the impact of liquidity on financial performance of ten commercial banks whose shares are listed in Kuwaiti stock Exchange from 2010 to 2018, shows that “statistically, there is very high and direct relationship among return on asset and ratio of loans to total assets, the ratio of loans and deposit and ratio of the financing deficit to total assets”. The analysis also shows an inverse relationship the is significant existed between return on asset of liquid assets and the total assets and the ratio of liquid assets and deposits. Therefore, return on equity had a very high response only on liquid assets, deposits, and deficit of funding the asset.

A study on the impact of liquidity on profitability in textile sector in Pakistan by Sattar (2020) whose result from the simple regression using Stata 12 showed that current ratio has a significant and positive impact on return on equity and return on capital deployed in 2014. So also in 2015, current ratio has reasonable but positive effect on return on capital employed and return on equity.

Mwambui and Koori (2019) assessed the effect of liquidity management and financial performance of microfinance banks in Nairobi City County for the period 2011 to 2017. Thirteen microfinance banks made up the population of the study. For the secondary and primary data, a descriptive survey research design was employed for them. Data analysis for the study was carried out with the use of SPSS version 22.0. The it was discovered in the study that there is no reasonable but weak and positive relationship between capital sufficiency and financial performance, whereas the relationship between loan repayments and cash management is significant and positive with microfinance banks financial performance.

Kitere, Namusonge and Makokha (2019) analyzed the effect of Liquidity management on performance of commercial banks in Kenya where a mixed research design was adopted for the study. The population of the study was made up by the 6913 employees in management and supervisory cadres in commercial banks in Kenya. The sampling approach used was stratified and unstructured and structured questionnaires were the tool for data collection and the source of data were both secondary and primary. The SPSS version 21 was used for analyzing of the data. The significant levels of the variables were tested using regression analysis and hypotheses were tested by ANOVA to test the significant levels of one variable

to the other in the study. The results showed that the effect of liquidity management on the performance of commercial banks in Kenya is positive and significant.

There was an attempt by Satyakama and Bhusan (2019) to analyze the impact the liquidity management on the profitability of private sector banks in India where they use ten (10) banks privately owned by individuals from 2013 to 2017. It was showed in the study that there exists a significant negative effect of cash to deposit ratio and investment to deposit ratio on return on assets, while the relationship between liquidity and profitability of the variables under study was significant in the case of return on equity.

Otekunrin et al (2019) studied the performance of selected deposit banks in Nigeria and liquidity management where he used secondary data source obtained from the annual reports of fifteen deposit money banks from the total of 17 deposit money banks in Nigeria that are listed in Nigerian Stock Exchange from 2012 to 2017. According to the study, it was discovered that liquidity management measured with capital ratio, and current ratio and cash ratio has a positive relationship performance measure with return on assets. Therefore, the study revealed that liquidity management is vital to profitability of any business.

The study conducted by Sanyaolu, Aloa and Ojunrongbe (2019) examined the effect of liquidity management on profitability of ten (10) Nigerian deposit banks from 2008 to 2017. The study's random effects generalized least square estimate showed that a positive and statistically significant relationship exists between the two indicators liquidity management proxies (current ratio and liquidity ratio) and return on asset, however the study did not find empirical evidence in support of loan to deposit ratio ( $t = 1.0650$ ,  $p = 0.2896$ ) and deposit to asset ratio ( $t = -6507$ ,  $p = 0.5168$ ) as having influence on profitability of the selected banks, as results produced insignificant relationship with profitability.

Waswa, Mukras and Oima (2018) examined the effects of liquidity management on the performance of firm, sampling five (5) sugar companies from 2005 – 2016 in Kenya. The estimation from the random effect regression showed there is negative association between liquidity management and financial performance of the firms being studied. The research also suggests that when liquidity is funded carefully, will lead to a good financial performance.

The study carried out by Dadebo and Afolabi (2020) focused on liquidity management of ten (10) manufacturing companies in Nigeria which differs with



this research that focused on effect of liquidity management on the financial performance of deposit money banks in Nigeria. So also, some of the previous research works dealt with the impact of liquidity management on financial performance of commercial banks in Botswana, Nepal, Sri Lanka, Kuwait, Pakistan, Kenya, India; whose findings are not applicable to Nigeria but can only be used as a guide for this work. From the review above, the following hypothesis have been deduced in null form to be tested.

H<sub>01</sub>: Capital adequacy ratio has no significant impact on financial performance of listed deposit money banks in Nigeria.

H<sub>02</sub>: Liquidity ratio has no impact on financial performance of listed deposit money banks in Nigeria.

H<sub>03</sub>: Loan to deposit ratio has no impact on financial performance of listed deposit money banks in Nigeria.

The study chose shiftability and anticipated income theory to explain the variables link. Shiftability theory states that liquidity crisis in banks not mainly caused by loans or credit default but however their ability to possess assets that can be sold to other banks or institution at a pleasing price (Udoka, 2012). This theory explains that facts that by the banks start going through liquidity or financial crisis, they should not be bordered by the level or assets they have which can easily be sold off to boost their liquidity position. According to Oloruntoba, Zaid and Oluwafolakemi (2018) shiftability theory asserts profitable transactions that last for a period and matures at an appropriate time. This helps banks in a situation that will enables them to meet the needs of their customers. The aim of any commercial bank is profit maximization and survival in the long run, it is therefore a known fact that the shiftability theory is good approach in helping them stay liquid because helps the sale or shift of assets to other banks that have higher level of liquidity. So also, it makes it possible for the financial systems to operate efficiently, also preventing liquidity shortage because of their ability to sell the assets of the bank at prices that are relatively good.

Anticipated income theory states the source of liquidity in the bank should be dependent on the credit or advance portfolio (Udoka, 2012). The theory shows that closing of “a term loan is planned based on the anticipated income of the debtor irrespective of the conditions of his business”. Therefore, payment of the loan obtained from the bank by debtor is done in a form of installment which could be on monthly or quarterly basis depending on the agreed time and dates by both parties instead of paying a huge or all the amount obtained on the day of maturity.

Alshatti (2014) states that anticipated income theory is the ability of the bank liquidity to be handled appropriately based on credit that is being given out. Ibe (2013) also argues that liquidity should be planned to use the anticipated income of the borrower. Therefore, this study is challenged towards the anticipated income theory because it takes care of the major objectives of any banks which are liquidity, safety and profitability. Banks can be sure of their liquidity because the debtor is paying in installment not a lump sum amount at a particular time.

### 3. Methods of the study

This study has adopted the ex-post facto research design. The ex-post facto research design was chosen for this study because it helps in ascertaining the effect of independent variable on the dependent variable to be able to make predictions. Secondary source of data was used, and the data were obtained via the annual reports of the banks. It covered period between 2010-2019. There were nineteen (19) commercial banks in Nigeria on the central bank with national and international authorization, but only 14 of the commercial banks are listed on the Nigerian Stock Exchange from 2010 to 2019. In addition, out of the 14 commercial banks listed in the Nigeria Stock Exchange only 12 have remained listed on the Nigerian Stock Exchange within the study period. Therefore 12 banks were used based on the availability of their annual reports and other account required for data to be extracted. Panel multiple regression technique was adopted, and Stata 13 was used for the analysis of data. Also, a post estimation test such as multicollinearity, normality of standard error, heteroscedasticity, hausman specification and long-range multiplier tests were conducted to validate the results.

The model to be used for the regression analysis was formulated from the variables of the study and to be tested based on hypotheses formulated in section one of the paper:

$$EPS_{it} = \beta_0 + \beta_1 CAR_{it} + \beta_2 LDR_{it} + \beta_3 LTD + BS_{it} + \varepsilon$$

Where EPS = Earnings Per Share, CAR = Capital adequacy ratio, LDR = Liquidity ratio, LTD = Loan to deposit ratio, BS = Bank Size,  $\beta_0$  = Model constant,  $\varepsilon$  = Error time, it = Banks and time

**Table 1: Variable Measurement**

Variable	Proxy (ies)	Measurement
Liquidity Management	Capital Adequacy Ratio	Total equity divided by Total assets
	Liquidity Ratio	Cash to Total assets

	Loan to Deposit Ratio	Loans divided by Deposits (AlAli, 2020)
<b>Financial performance</b>	Earnings Per Share (EPS)	Profit after tax divided by outstanding ordinary Shares in issue (Pandy, 2009)
<b>Control Variable</b>	Leverage	Total debt to Total Assets. (Emmanuel & Stephen, 2020).

**Source: compiled by Authors (2022)**

#### 4. Results and Discussion

This includes presentation, interpretation, analyses and discussion of the descriptive statistics, correlation result and the summary of the regression results.

**Table 2: Descriptive Statistics**

Variables	Min	Max	Mean	Std. Dev.	Sktest
<b>Tobin's Q</b>	0.63	2.55	0.870	0.247	0.0000
<b>CAR</b>	2.97	95.2	14.89	8.474	0.0000
<b>LDR</b>	1.57	34.3	14.15	7.178	0.3818
<b>LTD</b>	3.55	99.1	62.94	18.66	0.1535
<b>DTA</b>	71.7	254.7	89.29	21.62	0.0000

**Source: Descriptive Statistic Results Using STATA 13**

Table 2 shows the minimum value of Tobin's Q to be 0.63; this implies that some of the banks were not having high value as they have market value less than one. However, when compared to the highest level of Tobin's Q of banks 2.55 shows that there were banks whose financial performance in the marketplace was more than the nominal value of their shares. On the overall, most of the banks have a very low value within the study period which implies that their financial performance was low. The capital adequacy ratio had a minimum value of 2.97 and a maximum value of 95.2. This implies that the banks even with low capital adequacy had 2 times what is required in terms of capitalization. Meanwhile, the highest was 95 times the required capital. On average, majority of the banks had 14 times what is required by law to be saved with Central Bank of Nigeria. In other words, this means that all the banks had reserved at most 14.89% ratio of total qualifying capital to total risk weighted assets.

Liquidity ratio recorded a minimum value of 1.57 and maximum value of 34.3. This shows that the lowest liquidity ratio for the banks during the study period was 1.57 percent, while the highest percentage of liquidity ratio was 34.32%. Also, on average the liquidity ratio for all the banks was about 14.15. Loan to deposit ratio shows a minimum value of 3.55 and maximum value of 99.1. This implies that

some banks had total loans that were more than the deposits received. The highest value indicates their banks that had 99% of total loans more than their total deposits. The mean value was 62.94 means that on average, total loans from the banks outgrew its total deposits by 62.94%.

**Table 3: Correlation Analysis**

	Tobin's Q	CAR	LDR	LTD	DTA
Tobin's Q	1				
CAR	0.3832*	1			
LDR	-0.4735*	-0.2045*	1		
LTD	-0.1422*	0.1620	-0.0836	1	
DTA	0.8421*	0.2996*	-0.1937*	-0.2692*	1

**Source: Correlation Matrix Results Using STATA 13**

\*. Correlation significance is at 0.01 or 0.05 level

Table 3 shows that financial performance is positively and significantly correlated with capital adequacy ratio to the level of 38%. This implies that financial performance of the banks is directly correlated with capital adequacy ratio. Liquidity ratio is found to have a negative and significant relationship with financial performance to the tune of about 47% level implying that there is an inverse correlation between the two variables. Financial performance recorded a negative but significant relationship with loan to deposit ratio at a magnitude of 14%. This shows that there is correlation between the two variables moves in different direction. For the association between the independent variables, multicollinearity test was used to determine whether the level of association was grievous. However, a mean VIF Value of 1.18 is an indication that presence of multicollinearity is not a problem.

#### **4.2 Post Estimation Tests**

This section includes hetroscedascity, multicollinearity and normality test of error term will be discussed. Heteroscedasticity test result showed that the chi-square value of 0.36 which is considered small and the probability value of 0.2649 was greater than 5%. This implies that the absence of hetroscedascity. Therefore, the use of Ordinary Least Square (OLS) is advisable due to the non-violation of the classical assumptions of OLS. Multicollinearity test results for VIF and tolerance values were found to be consistently less than ten and one respectively (see appendix). Normality of error term revealed that most residual of the error term was mild and tolerable. Hence, the low level of abnormality of error term was achieved.

### 4.3 Presentation and Interpretation of Result

In this section, the relationship between the dependent and independent variables using the coefficient, the t-statistics and probability to describe the pattern and the strength of association that exist among the variables.

**Table 4: Summary of Regression Result (Ordinary Least Square)**

<b>Variables</b>	<b>Coefficient</b>	<b>T-Statistics</b>	<b>Prob. Value</b>	<b>Cumulative</b>
<b>Results</b>				
Constant	0.1831	2.57	0.011	
CAR	0.0025	2.03	0.045	
LDR	-0.0105	-7.40	0.000	
LDT	0.0003	0.54	0.592	
DTA	0.0087	16.9	0.000	
R <sup>2</sup>				0.8176
Adjusted R <sup>2</sup>				0.8113
Fisher Exact Statistics	128.87			
F-Significance				0.0000
Hetroscedasticity (Chi <sup>2</sup> )				1.24
Hettest Probability (Chi <sup>2</sup> )				0.2649
Mean VIF				1.18

**Source: Result output from STATA 13**

The cumulative R<sup>2</sup> of 0.8113 signifies that 81.13% of total variation in financial performance of listed deposit money banks in Nigeria is driven by its capital adequacy ratio, liquidity ratio and loan to deposit ratio and leverage used in this study. The Fisher Exact Statistics value of 128.87 with a significant value of 1% shows that the model of the study is appropriate and well fitted. It further implies that there is 99.9% probability that the association between the variables was not due to mere chance and as such the inferences drawn from the research could be relied upon.

Capital adequacy ratio had a coefficient value of 0.0025, t-value of 2.03 that is significant at 5% level. This means that capital adequacy ratio has significant and positive effect on the financial performance of banks in Nigeria which further implies that an increase in capital adequacy ratio will significantly increase the financial performance of banks. This may be as a result of the fact that when most banks are faced with any financial risk and having enough capital with the central bank will enable them to absorb the shocks due to adequate funds or capital.

Liquidity ratio had a t-value of -7.40 and coefficient value of -0.0105 at a significance level of 1%. This connotes that liquidity ratio has a negative and

significant effect on the financial performance of listed bank in Nigeria. Therefore, an increase in the level of banks liquidity ratio, will lead to decrease in their financial performance due to holding down of capital, under investing and overcapitalization. Keeping idle cash without investing them will lead to less or no returns.

The loan to deposit ratio recorded a t-value of 0.54, a coefficient value of 0.0003 with a value that is not significant at 5%. This implies that loan to deposit ratio has a positive but weak effect on the financial performance of listed banks in Nigeria. This means that for every increase in loan to deposit ratio, there will be little or no increase in the level of financial performance for listed banks in Nigeria. This could be resulting from the fact that when more loans are given out from the bank's deposits and there is high rate of default from borrowers, it then connects that the loan is non-performing, and the banks cash is being held without receiving the principal nor the interest due and thus this will affect the banks financial performance.

## **5. Conclusion and Recommendations**

The study concludes that liquidity management is a major driver to achieving high financial performance in the banking sector. Banks that want their presence to be appreciated require proper management of their liquidity. It also concludes that based on the variables in the study, capital adequacy ratio and liquidity ratio are the main drivers of high value in the banking sector. This study therefore recommends that management of board should pursue increased capital with the Central Bank of Nigeria and CBN should as well make sure that banks continually meet the requirements with respect to capital adequacy before giving them license to operate. The management of the banks should guarantee that most inactive cash are invested into short term portfolios to attract higher returns because it will eventually increase the value of the banks. The ratio of loan to deposit should be significantly reduced to 50% or even less to avoid putting the liquidity and survival of the banks in the hands of the borrowers. When a balance is achieved or maintained, that will put the banks in a better position to address their liquidity need and attract interest from the loan advances given. Regulators should formulate policies where interest on loans is bearable and at minimal level. if the interest rate is made lower it will reduce the rate of defaulters and increase the profitability of banks.

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