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Impact of Liquidity on Financial Performance of Deposit Money Banks in Nigeria

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Abstract: *The study examined the relationship between liquidity and performance of deposits money banks in Nigeria. The specific objectives of the study are to: determine the relationship between current ratio and performance of deposits money banks; examine the relationship between loans to deposit ratio and performance of deposits money banks in Nigeria. Deposits to total asset ratio and performance of deposits money banks in Nigeria. The data used were secondary data. The panel data used were sourced from the bank's annual report and Nigerian Stock Exchange fact book. The panel data collected were analyzed and the results show that current ratio have insignificant negative relationship with performance of deposits money banks in Nigeria. The study, therefore among others recommends that the Regulatory agency such as the Central Bank of Nigeria and the Nigerian Deposit Insurance Corporation should enforce policies that will ensure efficient liquidity management by banks so as to improve their performance.*

Keywords: *Liquidity, performance, liquid assets, Banks, Nigeria.*

INTRODUCTION

Commercial banks play a vital role in the economic resource allocation of countries. They channel funds from depositors to investors. They can do so, if they generate necessary income to cover their operational cost they incurred In the course of their operation. In other words, for sustainable, intermediation function, banks need to be profitable. The finance, performance of commercial banks has critical implications for economy, 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 & Kusa, 2013).,Liquidity is a concept that is receiving serious attention all over the world, especially with the recent global financial crisis that has just been witnessed., Some of the striking corporate goals include the need to maximize profit, maintain high level of liquidity in order to guarantee safety and attain the, highest level of owner's net worth. The importance of liquidity as it affects, corporate profitability in today's business cannot be over emphasized. Liquidity plays a significant role in the successful functioning of a business, firm. A firm should ensure that it does not suffer from lack-of or excess, liquidity to meet its short-term compulsions. A study of liquidity is of major, importance to both the internal and the external analysts because of its close, relationship with day- to-day operations of a business (Bhunia, 2012)., Dilemma in liquidity management is how to achieve desired trade-off, between

liquidity and profitability (Nahum, 2007).Liquidity problems may, adversely affect the financial performance of a bank as well as its solvency. On the other hand, commercial banks like many other economic ·organizations are expected to generate profit through effective and efficient utilization of resources to create asset portfolio and ensure continuity. The position of bank therefore in the nation is seen as the oil of the engine of economic growth through financial intermediation and advisory services. Bank makes profit from the spread between interest charged on deposit and loan interest rate. Commercial banks performance therefore, could be seen in term of how the management operates or the result of their actions. In view of the later, performance could be seen in terms of the absolute profits, rate of return, earnings per share, the quality of asset portfolio, level of liquidity and net contribution to the economic growth of the nation. Performance however is not determined by inputs alone but is also dependent on the environment within which the bank operates. The level of banks performance is determined also on how the institution can positively influence these environmental factors and effective survive in a driven competitive environment. One principal objective of commercial bank is to increase financial performance. It is essential for the purpose of paying corporation tax like any other company, pay interest to depositors, salaries to the staff, dividend to shareholders and meeting other expenses. So, unless Banks earn profit, which is a good indicator of financial performance, they cannot perform their role effectively. Profitability is essential for a bank to maintain ongoing activity and for its investors to obtain fair returns; but it is also crucial for Supervisors, as it guarantees more resilient solvency ratios, even in the face, of competitive business environment (Iswatia. & Anshoria, 2007).Financial, performance is a bank's first line of defense against unexpected losses, as it, strengthens its capital position and improves future profitability through the, investment of retained earnings. An institution that persistently makes a loss, will ultimately deplete its capital base, which in turn puts equity and debt, holders at risk. Moreover, since the ultimate purpose of any profit-sacking, organization is to preserve and create wealth for its owners, the bank's, return on equity (ROE) needs to be greater than its cost of equity in order to, create shareholder value and its ROA also need to be high in order to create, shareholders return. Therefore there is need to investigate the effects of, liquidity on the financial performance of commercial banks in Nigeria, considering the divergent results of prior studies.

Problem Statement/Justification

Liquidity challenge exists when there is a mismatch between assets, liabilities, this may expose a financial institution to financial losses. This, risk stems from the banking operations, it might affect the overall capital, and earnings of the financial institution adversely. The financial institutions, may face serious consequences if it is not properly managed. The banks and, the regulatory authorities are becoming increasingly vigilant to the liquidity positions held by financial institutions (Muranaga & Ohsawa,2002)、The Deposits are the lifeline of the banking business. Most of the banking operations are run through deposits. If the depositors start withdrawing their deposits from the bank, it will create a liquidity trap for the bank forcing the bank to borrow funds from the central bank or the inter-bank market at higher costs (Plochan, 2007).Most commercial banks in Nigeria try to keep up sufficient funds to meet the unexpected demands from depositors but maintaining the cash is extremely ·expensive. This is achieved through maintaining a large cash reserve that may not only lose a number of opportunities in the market but also have to bear the high costs associated with cash (Olagunji, Adenanju &

Olabode, 2011).The major cause of liquidity risk is the maturity mismatch between assets and liabilities. The majority of the assets are funded by deposits most of which are on calls. This situation is known as the mismatch between assets and liabilities. This mismatch can be measured with the help of the maturity gap between assets and liabilities. This is also called maturity gap. Higher liquidity gap might create liquidity risk to most deposit money banks in Nigeria.

Referring to previous studies, the results concerning liquidity are mixed such as Ibe (2013); Agbada and Osuji (2013); Sunny (2013); Godwin and Comfort (2015); have shown a significant positive relationship between bank profits and liquidity while others have shown a weak positive relationship. Kosmidou and Pasiouras (2005) found a significant positive relationship between liquidity and bank profits. 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 bank 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 business model and the risk of funding market difficulties. Olagunju, Adenanju and Olabode (2011) did a study in Nigeria and concluded that for the success of operations and survival, deposit money banks should not compromise efficient and effective liquidity management and that both illiquidity and excess liquidity are financial diseases that can easily erode the profit base of a bank as they affect bank& attempt to attain high profitability-level. Lartey, Antwil and Boadi (2013) found a weak positive relationship between the liquidity and the profitability of the listed banks in Ghana. It is therefore necessary to find what the relationship is in Nigeria.

OBJECTIVES OF THE STUDY.

The major objective of this study is to examine the impact of liquidity on financial

Performance of deposit money banks in Nigeria. The specific objectives of this study are to:

i. Assess the impact of deposit to total asset ratio on financial performance of listed commercial banks in Nigeria.

ii. Examine the impact of loans to deposit ratio on financial performance of, listed commercial banks in Nigeria.

iii. Determine the impact of current ratio on financial performance of listed, commercial banks in Nigeria

LITERATURE REVIEW

Concept of Liquidity

Liquidity is a financial term that means the amount of capital that is available for investment. Maturing obligations. It is the bank ability to immediately meet cash, cheese, other withdrawals obligations and legitimate new loan demand while abiding by existing reserve requirements. Nwaezeaku (2008) defined liquidity as the degree of convertibility to cash or the ease with which any asset can be converted to cash. The liquidity needs of the banking system are usually defined by the sum of reserve requirements imposed on banks by a monetary authority (CBN, 2012). According to Olagunji, Adenanju and Olabode (2011), liquidity refers to the ability of a bank to ensuren the availability of funds to meet financial commitments or maturing obligations at a reasonable price at all times. Put differently, bank liquidity means banks having money when they need it particularly to satisfy the withdrawal needs of their customers. The survival of

deposit money banks depends greatly on how liquid they are. Since illiquidity, being a sign of imminent distress, can easily erode the confidence of the public in the banking system and results to run on deposit. Liquidity refers to the ability of the bank to fulfill its obligations, mainly of depositors. According to Dang (2011), adequate level of liquidity is positively related with bank profitability. Thus banks that maintain adequate levels of liquidity tend to be more profitable. The most common financial ratios that reflect the liquidity position of' a bank are customer deposit to total asset and total loan to customer deposits. Others are cash to deposit ratio (Ongore & Kusa, 2013).

Liquidity is the term used to describe how easy it is to convert assets to cash. The most liquid asset, and what everything else is compared to, is cash. This is because it can always be used easily and immediately. Liquid assets are important to have in times of crisis or emergency because they are easily converted into cash. Without liquidity, money can become tied up in systems that are difficult to cash out of and even more difficult to assess for actual cash value. During times of emergency, large financial institutions shut down, making it difficult for people to access the cash they need to buy essentials like food, gasoline and other emergency supplies (Chaplin, Emblow&Michael,2000). Moore (2009) opined that a bank needs to hold liquid assets to meet the cash requirements of its customers, if the institution does not have the resources to satisfy its customers; demand, then it either has to borrow on the inter-bank market or the central bank. It follows therefore that a bank unable to meet its customers' demands leaves itself exposed to a run.

The term liquidity is often used in multiple contexts. An assets liquidity can be used to describe how quickly, easily and costy it is to convert that asset into cash (Berger & Bouwman, 2008).Liquidity can also be used to describe a company by the amount of cash or near cash asseis a company has; the more liquid asseis, the higher a company;s liquidity. Financial ratios that measure liquidity are referred to as a company& liquidity ratios. One such ratio is the current ratio which determines a company;s ability to pay short term debts as they come due (Van Ness,2009).

Liquidity risk has many definitions but the one that can be derived from the ratio is the probability that a company will not be able to pay its short term obligations as they come due. This inability can lead a company to face serious financial problems. In addition to this, liquidity risk can also be defined in terms of the counterparty to a transaction. In this sense the term means the risk inherent in the fact that the counterparty may not be able to pay or seitle the transaction even if they are in good financial standing, because of a lack of liquidity (Petria & Petria, 2009).Liquidity risk for a bank is especially prevalent as it is easy for a bank to lose its liquidity because depositors can withdraw funds when they choose. In addition to depositors, banks face another way in which their cash reserves can be strained by fulfilling obligations to companies. These companies have previously established loan commitments, called credit lines that can be borrowed from the bank when needed (Gatev,Schuermann & Strahan, 2007). Historically, runs on banks have shown certain banks predisposition to liquidity risk and the severity of impact this risk can have on the economy. This risk is intricately tied to the nature of banking. This is why banks, governmental entities, and private industry have tried to understand liquidity risk and implement public policy, regulations, and risk assessment policies to mitigate this risk. Liquid assets should be marketable or transferable. This means,they are expected to be converted to cash easily and promptly, and are redeemable prior to maturity. Another quality of liquid assets is price stability. Based on this characteristic, bank deposits and short term securities are

more liquid than equity investments due to the fact that the prices of the former are fixed than the prices and value of the later (Richard, 2013) The liquidity in the commercial bank represents the ability to fund its obligations by the contractor at the time of maturity. Which includes lending and investment commitments, withdrawals, deposits,and accrued liabilities (Amengor, 2010). With respect to finance and financial institutions, liquidity may be defined as the banks ability to meet maturing obligations without incurring unacceptable losses. A study of liquidity is of major importance to both the internal and external environments of a financial institution and analysts because of its close relationship with day to day operations of a business (Bhunia, 2010). According to Bank for International Settlements (2008), liquidity is defined as banks ability to acquire funds required to meei obligations when due without incurring any substantial losses. Liquidity is a bank capacity to fund increase in assets and meet both expected and unexpected cash and collateral obligations at reasonable cost and without incurring unacceptable losses. Liquidity is also used to determine the financial health of a business or personal investment portfolio. Three liquidity ratios are used for this purpose, including the current ratio, the quick ratio and the capital ratio. Liquidity not only helps ensure that a person or business always has a reliable supply of cash close at hand, but it is a powerful tool when it comes to determining the financial health of future investments as well (Clementi,2001). Prudent bank management requires that the liquidity position of a bank should be ascertained accurately during operations, in other words, every working day. The liquidity of a firm is measured by liquidity ratios; a class of financial metrics that is used to determine a company's ability to pay off its short-term debt obligations. From regulatory authority point of view, liquidity ratio refers to the reserve requirement which is a bank regulation that sets the minimum reserve each bank must hold. Commonly used liquidity ratios are the current ratio and the quick (or acid test) ratio. Vishnani and Bhupesh (2007) affirmed that the most common measure of liquidity is current ratio and return on investment for profitability. The current ratio is used to test a firm's liquidity, that is, its current or working capital position by deriving the proportion of the firm's current assets available to cover its current liability. A higher current ratio indicates a larger investment in current assets which means, a low rate of return on investment for the firm, as excess investment in current assets will not yield enough return. A low current ratio means smaller investment in current assets which means a high rate of return on investment for the firm, as no unused investment is tied up in current assets. However, there is consensus in theoretical literatures that the higher the ratio, the better. The concept behind this ratio is to ascertain whether a company's short-term assets are readily available to pay off its short-term liabilities (Loth,2012).

In summary, banks face two central issues regarding liquidity. Banks are responsible for managing liquidity creation and liquidity risk. Liquidity creation helps depositors and companies stay liquid, for companies especially when other forms of financing become difficult. Managing liquidity risk is to ensure the banks own liquidity so that the bank can continue to serve its function.

Concept of Financial Performance

Financial performance of a firm normally originates from the financial position and structure of the firm. This information is derived from the financial statement which is the yard stick to evaluate and monitor performance. Business executives use financial statements to draft a comprehensive financial plan that will maximize shareholders wealth and minimize possible risks that may preexist. Financial Statements evaluate the financial position and performance of a

firm. These statements are prepared and produced for external stakeholders for example: shareholders, government agencies and lender (Rahaman, 2010). Financial performance measures how well a firm generates value for the owners. It can be measured through various financial measures such as profit after tax, return on assets (ROA), return on equity (ROE), earnings per share and any market value ratio that is generally accepted (Pandey, 1985).The financial performance of financial institutions can been measured using a combination of financial ratios analysis, benchmarking, and measuring performance against budget or a mix of these methodologies. The financial statements of financial institutions commonly contain a variety of financial ratios designed to give an indication of the corporation's performance (Oye, 2006). Profit is the ultimate goal of commercial banks. To measure the profitability of commercial banks there are variety of ratios used of which ROA, ROE and Net Interest Margin (NIM) are the major ones (Murthy & Sree, 2003). This study only looked at the financial performance of commercial bank and not at the non-financial performance. Financial performance has implications on organizations health and ultimately its survival. The Firms management effectiveness and efficiency in making use of company's resources is highly reflected by high financial performance and this in turn contributes to the country's economy at large (Naser & Mokhtar, 2004). Company financial performance is very essential to management and other stakeholders such as shareholders, debt holders and the government as it is an outcome which has been achieved by an individual or a group of individuals in an organization related to its authority and responsibility in achieving the goal legally, not against the law and conforming to the morale and ethic (Iswatia, & Anshoria, 2007). Financial performance which assesses the fulfillment of a firms economic goals has long being an issue of interest in managerial researches. Firm financial performance relates to the various subjective measures of how well a firm can use its given assets from primary mode of operation to generate profit. The concept of firm performance implies measuring the results of a firm's policies and operations in monetary terms. These results are reflected in the firms return on investment, return on assets, and net profit after tax etc. Performance differences in terms are often the subject of academic research and government analysis (Verreynne & Meyer, 2008).Kothari (2001) defined the value of a firm as the present value of the expected future cash flows after adjusting for risk at an appropriate rate of return. According to Eyenubo (2013), it is the success in meeting pre- defined objectives, targets and goal within a specified time target. Qureshi(2007) put forward four different approaches in which the value of a firm has been identified in corporate finance literature. These are: the financial management approach which focus on the evaluation of cash flows and investment levels before identifying and assessing the impact of financing sources on firm value; the capital structure approach which studies the impact of capital structure changes on the value of firm and how different factors impact directly or inversely the debt and equity component of the firm capital structure; the resource based approach which explains the value of firm as an outcome of firms resources; and finally, the sustainable growth approach which is a summary of the above three approaches to firm value, taking into account the firms operating performance, its investment and financing needs, the financing sources, and its financing and dividend policies for sustainable development of firms resources and maximization of firm value. This study examines one key accounting measures of firm's financial performance which is ROA. Financial performance is measured by its capacity to maximize returns on investors' funds. In the Nigerian economy, bank performance is determined by a number of factors, namely lending rates, deposit rate, management effect,

ownership and control, market structure (Somayo & Ilo,2008). Performance measurement and reporting is now widespread across the private sector as well as public sector of many industrialized and industrializing countries (Williams, 2003). The main indicators used in the appreciation of bank financial performance are: ROE (Net income/Average Equity), ROA (Net income/Total assets) and the indicator of financial leverage or (Equity/Total Assets) (Dardac & Barbu,2005). One of the widely used accounting based measures of corporate performance in literature is ROA (Finkelstein &;Aveni, 1994; Weir & Laing,1999).It assesses the effectiveness of capital employed and provides a basis in which investors can measure the earnings generated by the firm from its investment in capital assets (Epps & Cereola, 2008). The ROA is a measure which shows the amount of earnings that have been generated from invested capital. It is an indication of the number of kobo earned on each naira worth of assets. It allows users, stakeholders and monitoring agencies to assess how well a firm's corporate governance mechanism is in securing and motivating efficient management of the firm (Chagbadari, 2011). The ROA is the ratio of annual net income to total assets of a business during a financial year. It is measured thus:

ROA = Annual Net Income/Total Assets A commonly used measure of bank performance is the level of bank profits (Ceylan,Emre &Asl,2008). Bank profitability can be measured by the ROA, a ratio of a bank's profits lo its total assets. The income statements of commercial banks report profits before and after taxes. Another good measure on bank performance is the ratio of pre-tax profits to equity (ROE) rather than total assets since banks with higher equity ratio should also have a higher return on assets (Ceylan, Emre & Asl, 2008). Return on assets and return on equity are two financial ratios which are commonly used to measure a firm's financial performance. According to Price Water House Coopers (2008),key performance indicators for banks is its ROA and ROE ratios as they are composed of some very important variables which can measure performance quite effectively.

EMPIRICAL REVIEW

DEPOSITS TO TOTAL ASSET RATIO AND FINANCIAL PERFORMANCE

Naceur and Goiaed (2001) investigated the determinants of the Tunisian banks performances during the period 1980-1995.Empirical evidence indicated that the best performing banks are those who maintained a high level of deposit accounts relative to their assets. Increasing the ratio of total deposits to total assets means increasing the funds available to use by the bank in different profitable ways such as investments and lending activities. The study of Grigorian and Manole (2002) applied data envelopment analysis to bank-level data on some 17 transition economies between 1995-1998. Their results suggested that well capitalized banks ranked higher in terms of their ability to collect deposits than their poorly capitalized counterparts. This they attributed to the possibility of implicit deposit insurance which in turn encourages more deposits. They however, found less evidence linking capitalization to revenues. On the other hand, their investigations found some evidence that foreign banks were able to attract more deposits by paying lower rates. This they attributed to implicit deposit insurance. The ability to attract deposits at lower rates would mean higher net interest margins and hence higher profitability. Nafula(2003) conducted an econometric analysis on the bank portfolios and bank earnings in Kenya.The study results revealed that except for customer deposits and investments in subsidiary companies, all other factors such as loans and advances; certificate of deposit; government securities; deposit balances from other banks; placements, loans and advances to building;

societies and other banking institutions; other assets affect bank earnings positively. Generally, customer deposits, which include demand deposits. Savings deposits and time deposits, are a proxy for receivable deposits. These deposits also constitute the cheapest source of funds available to commercial banks. Therefore, the performance of a commercial bank is related to its ability to attract individual deposits. Therefore, one way to improve a bank's profitability or earnings is to formulate aggressive policies for attracting personal deposits. However, the Central Bank of Kenya requires that banks retain a certain proportion of their deposits (liquid cash) with themselves. In her study results, the customer deposits variable enters the equation negatively with very significant coefficients in all the regressions. Dietrich and Wanzeried (2009) using 1919 observations from 453 banks in Switzerland included the yearly growth in deposits in the independent variables that they used to investigate the determinants of commercial banks profitability in Switzerland. Their results showed that the yearly growth in deposits did not affect profitability significantly. The study found no empirical evidence that commercial banks in Switzerland were able to convert at an increasing amount of deposit liabilities into significantly higher income earning assets. Equally, Ratnovski and Huang (2009) found out that Canadian bank compared to other large commercial banks in OECD countries were more resilient during the 2008 economic turmoil since they relied more on depository funding as compared to the other banks that relied more on wholesale funding. The study found out that Canadian banks compared to other large commercial banks in OECD countries were more resilient during the 2008 economic turmoil since they relied more on depository funding as compared to the other banks that relied more on wholesale funding. Kamoyo(2010) empirically analyzed the determinants of the liquidity of the commercial banks in Kenya using a multiple linear regression model. The motivation was to establish whether the determinants of liquidity are empirically robust. The focus was exclusively on a cross section of 30 commercial banks in Kenya. The study employed linear regression model uncovered an economically meaningful relationship between bank liquidity and its determinants. The findings from a cross sectional analyses indicate that significant factors that determine the liquidity of the commercial banks in Kenya are liquid liabilities, growth and maturity. Liquid liabilities and maturity have a positive impact on liquidity whereas growth has a negative impact. The other factors such as liquid assets and cash flows have a positive but insignificant effect on the liquidity of commercial banks. Similarly, leverage, size, profitability and loan commitments have an insignificant negative effect on banks 'liquidity. Gul et al.,(2011) used data on top fifteen Pakistani commercial banks over a period 2005- 2009,the study investigated the impact of assets, loans, equity, deposits, economic growth, inflation and market capitalization on profitability indicators i.e. ROA,ROE,ROCE and NIM.Their results showed that deposits, among other had positive correlation with ROA. Deposits however, had negative relationship with ROCE. Similarly total deposits to total assets had negative correlation with ROCE, which shows that banks that rely on deposits for their funding are less profitable. A related study in Kenya conducted by Gikonyo (2011) conducted a study on the asset liability management and profitability of commercial banks in Kenya. The study drew out the importance minimizing the opportunity costs of holding deposit reserves and the incidence of non-performing loan portfolio. The study suggested that effective credit risk management practices such as credit assessments, information gathering and aggressive debt collection practices many be used as part of the management of the quality of assets and the minimization of exposures from liabilities. However, the study did not isolate the effect of deposit levels on the financial performance of commercial banks.

LOANS TO DEPOSIT RATIO AND FINANCIAL PERFORMANCE

Alzorqan (2014) studied the relationship between bank liquidity risk and performance in Jordan. The study regarded liquidity risk as an endogenous determinant of bank performance, and applied panel data instrumental variables regression to estimate the impact of liquidity risk on banks performance. The study established that there is a significant relationship between Loan-deposit ratio,current ratio and banks performance. Rengasamy (2014) examined the impact of Loan Deposit ratio on the profitability of Malaysian commercial banks for the period of 2009 to 2013. The study included all the eight locally owned commercial banks in Malaysia. Loan deposit ratio of the banks was the independent variable of the study. The dependent variable was profitability which measures through ROA. Data were obtained from the annual reports of the banks. The ratio analysis along with descriptive, correlation analysis, paired T-test and regression analysis were used in this study. The result of the study indicated that there was a positive and non-significant impact of LDR on ROA. Further the study revealed that only one bank had a negative and non- significant impact of LDR on ROA and the other banks had positive and significant impact. Godwin and Comfort (2015) examined the liquidity-profitability trade off of deposit money banks in Nigeria. The study was carried on fifteen deposit money banks in Nigeria and covered a panel data of 2010 to 2012. Two models were specified and estimated using OLS technique. The empirical results revealed that there is a statistically significant relationship between bank liquidity measures-current ratio, liquid ratio, cash ratio, loans to deposit ratio, loans to asset ratio- and return on equity.However.when return on asset was used as proxy for profitability, the relationship became statistically insignificant. The study of Nwite (2015) evaluated various risks and liquidity management issues in Nigerian banks. The study further examined the various strategies used by CBN to combat these challenges. These Open Market Operation, Cash Reserve Requirement, discount window operations, Interest Rate Regulation, Deposit Insurance and the withdrawal of public sector funds from Deposit Money Banks to the CBN. The study discovered that the major challenges confronting monetary policy liquidity management in Nigeria are excess liquidity and dearth of appropriate intervention securities. Liquidity and the distress syndrome in Nigerian banks were traced, while stating the implications of effective liquidity management in Nigerian banks.

CURRENT RATIO AND FINANCIAL PERFORMANCE

Tianwei and Paul (2006) investigated the effect of liquidity on financial performance in agricultural firms, a descriptive study was conducted and 50, firms were studied. The lenders of these firms strived to improve their credit, risk management. Internal management was interested in understanding the, financial impacts of alternative strategic decisions. And policy makers often, assessed the magnitude and distributional effects of alternative policies on, the future financial performance of farm business. Data was analyzed using, a Z-score model, this model was applied to farm accounting data for the, deflection of farm operating and financial difficulties. The results of this, analysis showed that credit risk management significantly led to financial, performance of agricultural firms. Chen,Kao,Shen and Yeh (2009) investigated the relationship between, banks liquidity risk and its performance of 12 commercial banks in, advanced economic countries (Australia, Canada, France, Germany, Italy,, Japan, Luxembourg, Netherlands, Switzerland, Taiwan, United Kingdom, and United States) during the years 1994-2006. The study noted that, liquidity risk is an endogenous determinant of bank performance measured, by measured by return on assets average, return on equity average and net, interest

margins. The study carried out by Konadu (2009) did a study on, liquidity and profitability of 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 only banks listed on the Ghanaian stock, exchange. The banks randomly selected were Standard Chartered Bank Ghana Ltd, Cal Bank Lid and SG-SSB Ltd. The study 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 study revealed that there is a negative relationship between liquidity and profitability in the Ghana banking sector. Heibati, Nourani and Dadkhah (2009) examined and compared the performance of private banks in Iran and Arabic countries of Persian Gulf area. The empirical results from regression analysis of cross-country panel data of the banks showed statistically significant relationship between liquidity and profitability of the banks especially during initial years of their activity. In the same manner, Étienne (2010) analyzed the impact of liquid asset holdings on bank profitability for a sample of large U.S. and Canadian banks. Results suggest that profitability is improved for banks that hold some liquid assets, however, there is a point at which holding further liquid assets diminishes a bank's profitability, all else equal. Moreover, empirical evidence also suggests that this relationship varies depending on a bank's business model and the state of the economy. Graham and Bordeleau (2010) did a study on the impact of liquidity on profitability of banks in Canada. The study was aimed helping to distinguish empirically, whether banks holdings of liquid assets have a significant impact on their Profitability. Since liquid assets such as cash and government securities generally have a relatively low return, holding them imposes an opportunity cost on a bank. In the absence of regulation, it is reasonable to expect banks will hold liquid assets to the extent they help to maximize the firm profitability. Profitability is regressed as a non-linear expression of relative liquid asset holdings as well as a set of control variables. The relationship is a function of the liquid assets ratio, a measure of short-term funding reliance and general macroeconomic conditions while controlling for other factors,the study found evidence, based on a panel of Canadian and American banks from 1997 to the end of 2009, that profitability is improved for banks that hold some liquid assets, however, there is a point at 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 banks business model and the risk of funding market difficulties. Bordeleau (2010) investigated the effect of liquid asset holdings on the profitability of U.S. and Canadian banks. The empirical results from ordinary least squares regression analysis of panel data of the banks suggested that profitability is improved for banks that hold some liquid assets. However, there is a point at which holding-further liquid asserts assetsminimizes a bank's profitability, all else equal. Furthermore, the empirical results from the study also indicated that this relationship varies depending on a bank's business model and the state of the economy, A study which investigated the relationship between liquidity and, profitability of some selected banks and companies quoted in NSE was that, of Obiakor and Okwu (2011). The central objective of the study was to, examine the effect of current ratio on profitability and also to determine, whether any cause and effect relationship existed between the two variables. Analysis was based on

accounts of the banks and the companies for the, relevant period. A model of perceived functional relationship was specified, and estimated using correlation and regression analysis. The results, indicated that while a trade-off existed between liquidity and profitability in, the banks with a negative but insignificant impact, the two variables were, positively correlated. Adebayo, David and Samuel (2011) examined liquidity management and, commercial banks, profitability in Nigeria. Findings of this study indicate, that there is significant relationship between liquidity and profitability. That, means profitability in commercial banks is significantly influenced by, liquidity and vice versa. Saleem and Rehman (2011) sought to reveal the, relationship between liquidity and profitability. The main resulis of the study, demonstrate that current ratio has a significant effect on them 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.,Olagunju, Adeyanju and Olabode (2011) examined liquidity management, and commercial banks profitability in Nigeria, The major aims of the study, Were to find empirical evidence of the degree to which effective liquidity, management affects profitability in commercial banks and how commercial, banks can enhance their liquidity and profitability positions. Considering the, nature of the survey, quantitative methods of research were applied. In, aleph to achieve the objectives of the study, several findings were made, through the analysis of both the structured and unstructured questionnaire on, the management of banks and the financial reports of the sampled banks., The data obtained from the Primary and Secondary sources were analyzed, through collection, sorting and grouping of the data in tables of percentages, and frequency distribution. The study formulated a hypothesis, which was, statistically tested through Pearson correlation data analysis. Findings from, the testing of this hypothesis indicate that there is significant relationship, between liquidity and profitability. That means profitability in commercial, banks is significantly influenced by liquidity and vice versa.,Imad, Kilani and Kaddumi (2011) studied a balanced panel data set of, Jordanian banks for the purpose of investigating the nature of the, relationship between the profitability of banks and their liquidity level for, ten banks over the period 2001 lo 2010. Using two measures of banks, profitability: the rate of ROA and the rate of ROE, the results showed that, the Jordanian banks liquidity explains a significant part of the variation in, banks; profitability. High Jordanian bank profitability lends to be associated, with well-capitalized banks, high lending activities, low credit risk, and the, efficiency of credit management. Results also showed that the estimated effect of size did not support significant scale economies for Jordanian Banks. Oludhe (2011) did a study on causal research design was undertaken in the study and this was facilitated by the use of secondary data which was obtained from the CBK publications on banking sector survey. The study used multiple regression analysis in the analysis of data and the findings have been presented in the form of tables and regression equations. The study also found that there is a strong impact between the CAMEL components on the financial performance of commercial banks with the. The study also established that capital adequacy, asset quality, management efficiency and liquidity had weak relationship with financial performance whereas earnings had a strong relationship with financial performance. This study concludes that CAMEL model can be used as a proxy for credit risk management. Ravi and Sharma (2012) explored various parameters pertinent to credit risk management as it affect banks ‘financial performance. Such parameters covered in the study were; default rate, cost per loan assets and capital adequacy ratio. Financial report of 31 banks were used to analyze for eleven years (2001-2011) comparing the profitability ratio to default

rate, cost of per loan assets and capital adequacy ratio which was presented in descriptive, correlation and regression was used to analyze the data.

The study revealed that all these parameters have an inverse impact on banks financial performance; however, the default rate is the most predictor of bank financial performance. Nyanga (2012) used an explanatory study. The population was all the 43 commercial banks by December 2011.All the banks were used in the study. A ten year secondary data from 2001 to 2010 was collected from Banking Survey and the Central Bank of Kenya. Descriptive analysis, correlation analysis and regression analysis were used to perform the data analysis. Significance was tested and the study found that capital adequacy and exchange rates were negatively correlated with ROE while liquidity, operating cost efficiency, size, risk, GDP, and inflation had a positive influence on ROE. Overall, the independent variables accounted for a significant proportion of the variance in ROE. Further, the results revealed that exchange rate was negatively related with ROA while capital adequacy, liquidity, operating cost efficiency, size, risk, GDP, and inflation had positive effects on ROA. It was noted that the independent variables accounted for a significant variations in ROA. Tseganesh (2012) examined the determinants of commercial banks liquidity in Ethiopia and their impact on financial performance. Balanced fixed effect panel regression was used for the data of eight commercial banks in the sample covered the period from 2000 to 2011. Eight factors affecting banks liquidity were selected and analyzed. The results of panel data regression analysis showed that capital adequacy, bank size, share of non- performing loans in the total volume of loans, interest rate margin, inflation rate and short term interest rate had positive and statistically significant impact on banks liquidity. Real GDP growth rate and loan growth had statistically insignificant impact on banks liquidity. Among the statistically significant factors affecting banks liquidity capital adequacy and bank size had positive impact on financial performance whereas, on- performing loans and short term interest rate had negative impact on financial performance. Interest rate margin and inflation had negative but statistically insignificant impact on financial performance. Therefore, the impact of bank liquidity on financial performance was non-linear/positive and negative.

Mahshid (2012) examined the impact of liquid asset holdings on bank profitability for a sample of Iranian banks.Using the Generalized Method of Moment (GMM),this study analyzes the profitability of listed banks using unbalanced panel data over the period of 2002-2009. The study used the liquidity asset and liquidity asset ratio square for estimating liquid asset and profitability relationship. The estimated relationship between liquid assets and bank profitability is as expected. Coefficients for the liquid assets ratio, its square, business cycle, regulation and its product are all statistically significant. As expected, the study found evidence of a non-linear relationship between profitability and liquid asset holdings. An important finding of this study is that the business cycle significantly affects bank profits. The coefficient of business cycle has a positive and statistically significant impact on bank profitability in results of the model; this suggests that profitability exhibits pro-cyclical behavior. The coefficient of regulation is negative and significant. Therefore, if regulators reduce the constraints imposed on banks, banks can make profits. Charity (2012) examined the impact of liquidity performance in commercial using First Bank of Nigeria Ple as case study. Findings indicate that there was a positive relationship between liquidity management and the existence of any banks. Al-Tamimi and Obeidat (2013) identified the most important variables which affect the Capital Adequacy of Commercial 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

commercial 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 commercial banks and factors of the capital risk, credit risk, and the rate of force-revenue. Victor, Samuel and Eric (2013) did a study that sought to find out the relationship between the liquidity and the profitability of banks listed on the Ghana Stock Exchange. Seven out of the nine listed banks were involved in the study. The study was descriptive in nature. It adopted the longitudinal time dimension, specifically, the panel method. Document analysis was the main research procedure adopted to collect secondary data for the study. The financial reports of the seven listed banks were studied and relevant liquidity and profitability ratios were computed. The trend in liquidity and profitability were determined by the use of time series analysis. The main liquidity ratio was regressed on the profitability ratio. 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. The relationship between liquidity and the profitability of banks listed on the Ghanaian Stock Exchange was investigated by Lartey, Antwil and Boadi (2013). The study was carried out on seven of the nine listed banks. The researchers made use of the longitudinal time dimension model. Specifically the panel method time series analysis and profitability ratios were computed from the annual financial reports of the seven banks. The trend in liquidity and profitability were determined by the use of time series analysis. It was revealed that for the period 2005 lo 2010, both liquidity and profitability had a downward trend. The main liquidity ratio was regressed on the profitability ratio. The result revealed that there was a positive and statistically significant relationship between liquidity and profitability of the listed banks. Emami (2013) studied the effect of liquidity risk on the performance of commercial banks in Iran. This study attempts to examine the effect of liquidity risk on the performance of commercial banks using of panel data related to commercial 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 banks 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, Houseman 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. Ibe (2013) investigated that impact of liquidity management on the profitability of banks in Nigeria. 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 Rosenberg Stock stationary test model was used to test the association of the variables under study, while regression analysis was used to test the hypothesis. The result showed that there is a statistically significant relationship between the variables of liquidity management and profitability of the selected banks. Kehinde (2013) critically examined the relationship between credit management, liquidity position and profitability of selected banks in Nigeria using annual data of ten banks over the period of 2006

and 2010.The results from ordinary least squares estimate found that liquidity has significant positive effect on ROA. The study of Agbada and Osuji (2013) explored the efficacy of liquidity management and banking performance in Nigeria. Profitability and Return on Capital Employed (ROCE) were adopted as our performance indicators or dependent variables. The research design is survey design, accomplished through the administration of structured questionnaires. Data obtained were first presented in tables of percentages and pie charts and were empirically analyzed by Pearson product-moment correlation coefficient. 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 enhanced the soundness of bank. These findings which may have re-echoed results from similar researches re-emphasize that efficient liquidity management have important policy implications for developing and emerging economies. Nimer,Warrad and Omari (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. The study used the 2005-2011 financial reports of 15 Jordanian banks listed at Amman Stock Exchange. The ROA compares income with total assets (equivalently, total liabilities and equity capital).The independent variable in this was the quick ratio that is, 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 ROA. That means profitability through ROA in Jordanian banks is significantly influenced by liquidity through quick ratio.

THEORETICAL FRAMEWORK

LIQUIDITY PREFERENCE THEORY:

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.

According to 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 resources in the form of pure These motives became known as transactions, Purchasing Power 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. Liquidity and risk transformation are the two central roles performed by Commercial banks in the economy according to modern theory of financial intermediation. Analysis of banks role in creating liquidity and thereby spurring economic growth have a long tradition dating back to Adam smith (1776). The theory argues that commercial banks create liquidity on the balance sheet by financing relatively illiquid assets with relatively liquid liabilities. Keynes presents liquidity preference theory there as a liquidity preference theory of interest, a theory that is supposed to fill the vacuum left by what he regarded as a flawed classical savings theory of interest. In the early post General Theory literature, the notion of liquidity preference quickly became a synonym for the demand for money. Together with constant stock of money liquidity preference was the factor that determined the rate of interest in the money market of Hicks;(1937) seminal investment saving to liquidity preference Money supply model (Jorg,

2005).Working capital management practice contradicts with the theory. It involves managing the relationship between a firms short-term assets and its short-term liabilities. The goal of working capital management is to ensure that the firm is able to continue its operations and that it has sufficient cash flow to satisfy both maturing short-term debt and upcoming operational expenses. For sufficient funds to satisfy both maturing short-term debt and upcoming operational expenses positive working capital is desirable (Afza & Nazit, 2009), Compliance to solvency issues need be given another consideration. Solvency ratios are financial indicators that show the banks' ability and capacity to meet its liabilities from its assets. Solvency indicators are concerned with how much the commercial bank owe in relation to their asset valise, whether they are getting into heavier debt or improving their situation and whether their debt burden seems heavy or light. The Sharpe ratio characterizes how well the return of an asset compensates the commercial bank for the risk taken. Tobin;s q is the ratio between a physical assets market value and its replacement value. These ratios are important at managing liquidity risk.

THE LOANABLE FUNDS THEORY:

The classical theory of interest was developed at the time of classical economists like Adam Smith, David Ricardo and Thomas Malthus, who held the view that economic activities were guided by some kind of invisible hand through the self-interest motive and the price mechanism and Government interference was unnecessary and should be kept at minimum. Loanable funds theorists believe that higher saving through lower consumption and lower deficits would lead to a higher credit supply, lower interest rates, more investment and thus a higher capital stock and higher future income (Lindner, 2013). They explained the met of interest in terms of the demand for money and supply of loanable funds. The demand comes from firms wishing to invest. As the rate of interest gels low the number of profitable projects increase. Thus, the demand curve for funds will slope downwards from left to right. The supply of loanable funds comes from savings. If people are to save they will require a reward interest to compensate them for forgoing present consumption. If the interest rate is high, people will be encouraged to save and lend. If the interest rate is low. People will be discouraged from saving and lending. Hence, the supply curve of loanable funds slopes upwards. The hypothesis of the loanable funds theory is that Individuals care only about real variables (output gains or losses, purchasing-power gains or losses). The marginal productivity of capital assets (MPk) is given and determined by the technical characteristics of the productive assets. The time preference of individuals is given by the taste of individuals. Entrepreneurs want to maximize their real profit Individuals want to maximize their utility by arbitraging between present consumption and future consumption (and so saving). In the loanable funds market, the supply of loanable funds comes from the individuals who want to save. They are the lenders. The demand for loanable funds comes from the entrepreneurs who want to buy capital assets (i.e. to invest). They are the borrowers. Negotiations in the loanable market are made in terms of real rate of interest: savers can lend at r. and entrepreneurs have to borrow at r. Thus for the entrepreneurs where marginal gain is greater than r they invest more and vice versa. For individuals where marginal gain is greater cost they save and vice versa. An increase in investment will increase interest rates automatically. The demand for commercial bank loans represents the willingness to borrow, and the supply curve for commercial bank loans represents the willingness to lend or save. The demanders of loans are households and firms. The quantity borrowed is inversely related to the interest rate, and the quantity lent is directly related to the interest rate (Mishkin, 2004). The market rate of interest is therefore determined where the demand for and supply of loanable funds are equal. Geometrically this corresponds to the point

of intersection between the supply curve and the demand curve for loanable funds. Changes in demand or supply will cause shifts in the relevant curves and changes in the equilibrium rate of interest. In order for this demand and supply to be effectively met liquidity risk management practices remain relevant also the influence of this liquidity risk management on profitability must be examined. Commercial bank loans are subject to significantly lesser transaction costs than retail profit seeking banks leading to high demand for credit the resultant is increased exposures of liquidity risks in cases of insufficient mobilization of savings for on Lending (Mwandia, 2014).

Shift ability Theory:

This theory posits that a banks 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 banks 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 shift ability, marketability or transferability of a banks' assets is a basis for ensuring liquidity, this theory, excellent source of liquidity. Dodd's (1982) contends that to ensure, convertibility without delay and appreciable loss, such assets must meet, three requisites. Liability Management Theory Liquidity management theory, according to Dodd's (1982) consists 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 particularly 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., Shift ability theory argues that liquidity of a commercial bank is guaranteed when, it has assets which can be shifted to other banks before maturity when needed., Shift ability is this sense implies transfer of assets to the central bank and not to her banks. The central bank here is the lender of last resort (Clifford, 2008)., haft ability involves an approach whereby a proportionate mix of liquid, securities and illiquid loans is maintained by depository institutions. The liquid, securities form an additional reserve for any unknown future liquidity problems., secondary reserve is defined in this perspective to mean any security held for, version during liquidity crisis where cash assets from the primary reserves, (Roger et al., 2004). Shift ability is an approach to keep banks liquid by supporting the shifting of asseis. When a bank is short of ready money, it is able to sell its assets to a more liquid bank. The approach lets the system of banks run more efficiently: with fewer reserves or investing in long-term assets. Under shift ability, the banking system tries to avoid liquidity crises by enabling banks to always sell or repo at good prices. Methodology (Should include description of study area/site/subjects, data collection and data analysis this study will utilize expo falcon and causal research design is adopted. This is because the research is aimed at investigating the cause-effect of liquidity on performance of listed DMBs in Nigeria. The data will be obtained from secondary sources through the banks audited annual reports and accounts. This study also made use of expo facto research design since this study relied heavily on secondary data that are quantitative in nature and these data had already been collected by the study population.

POPULATION, SAMPLE AND SAMPLING TECHNIQUE

The population of this study is made up of the 15 commercial banks listed on the floor of the Nigerian Stock Exchange from year 2013 to 2021.This period is considered important due to the

fact that the Industry witnessed a lot of challenges as a result of the global economic meltdown that occurred in 2009. Because the population is not large, the fifteen listed commercial banks form the sample size. In this study statistical sampling is not used due to the small size of the population;

METHOD OF DATA COLLECTION

The source of data used in this study is basically secondary data generated from the financial reports and accounts of commercial banks listed on the Nigeria Stock Exchange for the periods of 2013 to 2021.

TECHNIQUES FOR DATA ANALYSIS AND MODEL SPECIFICATION

Panel regression techniques are used to analyze this study. This is because this study involves the combination of time series and cross sectional data. Houseman specification test was utilized to test whether the fixed or random effect model is appropriate. Thus, the technique is consistent with the research design employed in the study and the objective of his study. Multiple panel regression technique is used to analyze the impact of liquidity management as measured through liquidity ratios on financial performance of Commercial Banks through the use of Eview 10. This is because the research is highly descriptive and empirical as it embraces the use of panel regression analysis.

The recent financial crisis has undermined the importance of sound bank liquidity management. In response, regulators are devising new standards with the aim of making the financial system more stable and resilient. Liquidity problems may adversely affect the financial performance of a bank as well as its solvency. It is therefore important that industry practitioner's understand the effect liquidity have on financial performance of commercial banks. Bank senior management team will use this report to improve their effectiveness in the asset liability management committees.

Dependent variable: ROCE

	Coefficients	Standard Error	t Stat	P-value
(Constant)	0.0396929	0.041256	0.960546	0.3511
CURA	-0.044869	0.088315	-0.494748	0.7982
LATD	0.040481	0.044053	0.691909	0.4989
DOBTA	0.02062	0.020881	0.987714	0.3380

SOUREC: E VIEWS

The table above presents the regression analysis result using fixed effect model as estimation technique. There is a negative effect of -0.044869 of CURA on ROCE but it is not statistically significant at 5% level. The probability of p-value of 0.7982 is above 5% significant level. LATD and DOBTA have positive but insignificant effect of 0.040481 and 0.020624 on ROCE.

The regression using the fixed effect as estimation technique established that current ratio (CURA) has a negative or adverse effect on ROCE. The effect is not statistically significant. The implication of this result is the as there is increase in the current ratio there is a decrease in the financial performance proxy by ROCE. This result is in consistence with the trade-off theory of liquidity and profitability. It means that idle cash earns nothing which will have negative effect on profitability.

CONCLUSION

The study reveals that bank liquidity is very important as its affect their profitability. This research study underpins or supports with evidence the fact that there exist 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. 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.

RECOMMENDATIONS:

Regulatory authority should put in place appropriate policy with compliance measures to check high volume cash transaction and cash hoarding prevalent in the economy.

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