IMPACT OF LOANS AND ADVANCES TO TOTAL ASSETS ON FINANCIAL PERFORMANCE OF DEPOSIT MONEY BANKS IN NIGERIA.

Oluwafunmike OBASESAN
iYunivesithi Walter Sisulu, South Africa
oluobasesan@gmail.com

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Abstract

Research Problem: *Liquidity management has gained increasing attention globally, particularly following recent financial crises, as deposit money banks must balance profitability with adequate liquidity and asset security. This study examined the impact of loans and advances to total assets on the financial performance of deposit money banks in Nigeria, with particular emphasis on how effective liquidity risk management can enhance profitability.*
Methods/Theory: *Anchored on the Shiftability Theory, the study adopted an ex-post facto research design. Historical accounting data were extracted from the annual reports of deposit money banks listed on the Nigerian Exchange Group (NGX). Multiple regression analysis was employed to examine the effect of liquidity risk management, measured by loans and advances to total assets, on financial performance, measured by return on assets (ROA).*
Results: *Findings revealed that loans and advances to total assets had a positive impact on the financial performance of deposit money banks in Nigeria. This indicates that efficient allocation of loans relative to total assets contributes to improved returns and provides an avenue for enhancing bank profitability.*
Conclusion: *The study concluded that liquidity risk management is an important determinant of the financial performance of Nigerian deposit money banks. Effective management of loans and advances relative to total assets can contribute to improved profitability by promoting the efficient utilization of bank resources.*
Key Contribution to Knowledge: *The study contributes to the literature on liquidity risk management by providing empirical evidence that the effective allocation of loans and advances relative to total assets is positively associated with the financial performance of deposit money banks in Nigeria.*
Recommendation: *Deposit money banks should improve the quality of their assets through thorough credit assessments and maintain diversified loan portfolios to minimize the risk of non-performing loans. Banks should also optimize the utilization of their assets by aligning the level of loans and advances with their overall asset management strategies to ensure efficient resource allocation and improved financial performance.*

Introduction

The concept of liquidity (total assets) is gaining significant attention worldwide, particularly considering the recent global financial crisis. Notable corporate objectives include the need to maximize profit, maintain a high level of liquidity to ensure safety, and reach the highest level of owner's net worth (Abba, 2023). Since interest income makes up most deposit money banks' revenues in Nigeria, loans and advances are their main source of income (Jimoh & Ahmed, 2023). However, an economy that is vulnerable to loan defaults because of unpredictable macroeconomic conditions is more vulnerable to credit risk when assets are overly concentrated in loans. Therefore, a bank's strength in financial intermediation may be shown by loans and advances to total assets, but they also reveal the bank's susceptibility to credit risk and possible liquidity problems. This ratio is consequently used by investors and regulators to evaluate risk exposure as well as profitability potential (Jacob, 2020).

A company's financial situation and structure typically determine its financial performance. The financial statement, which serves as the benchmark for assessing and tracking performance, is the source of this data. Financial statements are used by business executives to create a thorough financial plan that would optimize shareholder value and reduce potential hazards (Abdalla, Mefleh, Adnan & Amer, 2024). Profitability, which assesses a bank's capacity to generate wealth for shareholders while maintaining financial stability, is one of the most popular indicators of financial success (Ganiyu, Usiomoifoh, Adesola & Bola, 2025). Effective resource allocation, risk management techniques, and the capacity to produce interest income from loans while reducing non-performing loans are key factors in Nigerian deposit money banks' profitability. This suggests that the management of liquidity and credit risks is closely related to financial performance. According to studies, banks with higher profitability are better positioned to assist wider economic development and are more resilient during economic downturns (Alalade, Ogbebor & Akwe, 2020) (Edem, 2020).

Asset quality, which assesses the condition of a bank's loan portfolio, has an impact on financial performance. Bank solvency and profitability are threatened by poor asset quality, which is frequently manifested in an increase in non-performing loans (Natufe & Evbayiro-Osagie, 2023). Macroeconomic shocks, volatile oil prices, and foreign exchange fluctuations frequently expose Nigerian banks to increased credit risks, which have a direct impact on their financial performance. Because banks with excellent credit evaluation and monitoring systems frequently report better financial outcomes than those with inadequate standards, risk management is a critical factor in determining asset quality (Poroye & Okolie, 2024).

A ratio of loans and advances to total assets greater than 70% is considered high and may indicate a company's heavy reliance on debt financing, according to Moses, Tobias, and Margaret (2019). A ratio below 50%, on the other hand, would suggest that the company is being unduly cautious in its lending activities and may be losing out on opportunities to make money. The ratio of loans and advances to total assets indicates the portion of a company's assets allocated to customer loans and advances. This ratio is a valuable measure of the liquidity and credit risk of a firm. A higher ratio indicates that a company has a larger portion of its assets in loans and advances, which may put it at risk of default or non-repayment (Onyekwelu, Chukwuani, & Onyeka, 2019). A crucial financial ratio used to assess how much of a bank's assets are utilized to provide loans and advances to clients is loans and advances to total assets. It calculates the percentage of a bank's entire

asset base that has been transformed into income-producing loans (Hauwa, Bamanga, & Salihu, 2022). The ability of the bank to direct deposits and other obligations into profitable lending activities, which are essential to its function as a financial intermediary, makes this ratio noteworthy. According to Caja, Akpastor, and Nsuhoridem (2024) (Adam & Ayagi, 2024), a higher ratio typically denotes a more aggressive lending stance, whilst a lower ratio indicates better asset diversification or prudent lending.

Research indicates that Nigerian banks with well-managed loan portfolios outperform those with poorly constructed loan-to-asset ratios in terms of returns on equity and assets (Nwankwo & Okechukwu, 2023; Danmulki, Agbi & Mustapha, 2023; Daniel, 2017). This implies that the quantity of loans made is not as significant as the effectiveness with which banks allocate assets to loans. In order to ensure that loans result in sustainable earnings without endangering asset quality, proper credit appraisal, monitoring, and diversification measures are essential. Therefore, the ratio of loans and advances to total assets functions as a performance and risk indicator in addition to being a measure of intermediation. Additionally, the ratio is crucial in determining if a bank complies with international norms and prudential requirements. According to Ogundele and Nzama (2025), the Basel III framework highlights the necessity for banks to balance lending with sufficient liquidity reserves and capital adequacy criteria. To stop banks from over lending and putting themselves at risk of insolvency, Nigeria's Central Bank enforces loan-to-deposit and asset-quality regulations. Therefore, loans and advances to total assets continue to be a crucial metric for assessing how well Nigerian deposit money banks allocate resources to attain profitability while preserving resilience in a financial climate that is becoming increasingly unpredictable (Edwin, 2020) (Afolabi & Oyetayo, 2023).

However, there may be problems with liquidity if loans have longer maturities than the bank's funding sources. A bank's liquidity position may be strained by unexpected withdrawals or an inability to roll over short-term funding. Banks' lending processes are impacted by compliance risks brought on by frequent changes in regulations or insufficient enforcement. A high loan-to-deposit ratio may put banks at risk of interest rate changes. Hence, this study seeks to examine the impact of loans and advances to total assets on financial performance of deposits money banks in Nigeria.

Literature Review

Jalal & Helyoth (2024) investigated the impact on the profitability of credit unions in the United States of various decisions related to asset allocation and the weights assigned to specific loan kinds. The study used biannual data from a sizable sample of US credit unions to perform statistical analysis and panel regressions. The study examined how decisions on how to allocate certain assets and liabilities represented by ratios affect credit union profits in the US over a 20-year period, as indicated by the return on assets. Our analysis's findings allow us to draw the conclusion that these credit unions would be more profitable if they attracted larger deposits. As regards loan types, the increase of the first mortgage loans weight is a profitable strategy.

Mingming Wang (2022) Research studies on commercial bank liquidity risk from the perspective of contrasting Chinese and American commercial banks. Demand deposits and loan projects were the study's independent variables. Return on equity served as a stand-in for the dependent variable. The results showed that demand deposits, committed loan projects, and traditional loan projects are significant sources of liquidity risk; Liquidity risk is still a significant risk that China's commercial banks must deal with even

though the country's banks have a high level of liquidity. This is because of the country's high demand deposit rate, low core capital ratio, rapid loan growth, high non-performing rate, and lack of understanding about risk prevention. However, the study was only conducted over a few years.

Abdalla, Mefleh & Amer (2024) examined the liquidity risk exposure of Malaysian banks and its effects on the banks' performance. High liquidity risk is thot to have a negative impact on bank performance. Three liquidity risk indicators were employed in this study, which was limited to the years 2005–2021. The findings imply that Malaysian banks have solid capital position, a respectable amount of liquid assets, and do not engage in excessive lending. But not all the liquidity risk indicators have an impact on the banks' performance, according to the regression results. While the capital to asset ratio yields inconsistent findings with the performance metrics, the loan to deposit ratio has no discernible impact on changes in the bank's performance. Liquid assets to total assets-imposed opportunity costs on the banks. Overall, the regression results show that the effects of liquidity risk on Malaysian banks' performance are not clear-cut and vary with the performance measures used.

Edwin, Benedict & Maniagi (2023) determined the effect of liquidity risk management on the financial performance of Kenyan commercial banks. The theory of shiftability in liquidity management was the subject of the inquiry. Deposits, non-performing loans, liquidity, and loans and advances were the study's independent variables. Total bank assets were used as a proxy for the dependent variable. The inquiry was philosophically grounded in the positivist paradigm. The study's methodology used both longitudinal and explanatory research designs. 32 Kenyan commercial banks made up the study's target population. The study used panel data, which included cross-sectional and time series data during a ten-year period from 2010 to 2019. Descriptive and inferential statistics were applied using E-views to analyse the data, which was then displayed in tables and figures. According to the analysis, there was a negligible negative correlation between ROE and liquidity risk management ($F=0.583912$, $p<0.05$). The study was however restricted to 32 Commercial Banks in Kenya.

Saifullah, Rashed & Alamgir (2019) examined the impact of liquidity risk on banking performance: evidence from the emerging market. Panel data analysis was used to conduct a study for a sample of the Dhaka stock market that included all 31 commercial banks between 2010 and 2017. The outcome demonstrates that return on equity (ROE), return on assets (ROA), and financial performance are not significantly impacted by liquidity. Liquidity risk exhibits similar behaviors across several dependent variables.

Margarit, Halim, Agustin and Rorlen (2020) examined the effects of capital adequacy, credit risk, and liquidity risk on banks' financial distress in Indonesia; using secondary data through the use of logit regression equation, the results show that the variables of credit risk and liquidity risk have positive and significant effects on banks' financial distress, while the capital adequacy has a negative and not significant effect on banks' financial distress.

A study by Saif-Alyousfi (2021) involving 2,446 banks sought to determine the factors that influence bank profitability in 47 Asian nations. A dataset covering the years 1995–2017 was created by the author using 41,582 observations. The study's findings demonstrated that the bank's return on assets is positively correlated with the liquidity risk, capital adequacy ratio, loan-to-total assets, bank size, GDP growth, and inflation rate using the Generalized Methods of Moments (GMM) estimate technique. Bank profitability

is also being adversely affected by other factors like cost-to-income, non-performing loans, and loan loss provisions.

Alzubi & Marashdeh (2024) investigated the impact of International Financial Reporting Standard (IFRS) 9, liquidity risk, credit risk, and capital on Jordanian banks' performance. The analysis also sought to provide sufficient capital ratios to avoid bankruptcy while reducing credit and liquidity concerns. Quantitative analysis of data from 13 banks listed on the Amman Stock Exchange's annual reports between 2012 and 2021 was conducted, with an emphasis on profitability indicators like as return on equity (ROE) and return on assets (ROA). The findings show that the adoption of IFRS 9 had a major impact while liquidity risk had no influence. Notably, both ROA and ROE are negatively impacted by an increase in credit risk.

Bashar & Antoine (2024) examined how liquidity risk affects the Middle East and North Africa (MENA) bank profitability. Liquidity risk gauges the long-term health of a business, yet banks require profitability to thrive. To support the theoretical analysis, quantitative data for 71 MENA banks was gathered over an 11-year period, from 2012 to 2022, using Refinitiv Eikon. Liquidity risk is the independent variable and controls for size, loan quality, inflation, GDP, revenue diversification, operational efficiency, capital adequacy, and growth. Return on Equity (ROE), a profitability indicator, is the dependent variable. This study uses panel regression (fixed and random factors) and OLS to quantify the influence of liquidity risk on MENA bank profitability. Numerous findings were discovered, such that non-performing loans, bank size, and operational effectiveness all have a negative impact on profitability. These findings imply that large banks have greater operating costs and could erode profitability in MENA. Besides, additional non-performing loans increase the bank's costs and thus diminish profitability.

Udenwa, Suberu & Jacob (2023) examined the effect of liquidity risk on the financial performance of quoted deposit money banks in Nigeria. Return on Assets (ROA) was used to gauge financial performance, while the ratios of loans and advances to total assets and loans and advances to total deposits were used to gauge liquidity risk. Information was gathered from each deposit money bank's yearly financial report. The data from a sample of eleven (11) quoted deposit money banks on the Nigerian Exchange Group from 2014 to 2021 was analysed using panel regression. The panel regression's findings showed that the performance of Nigeria's quoted deposit money banks is significantly impacted by loans and advances to total assets as well as loans and advances to deposits.

Ayinuola and Gumel (2023) examined the nexus between liquidity and credit risks and their impact on bank stability in Nigeria. To achieve the research objectives, this study utilizes secondary data, which covers 12 Nigerian banks from 2010 to 2021. The Generalized Method of Moment (GMM) was estimated using the Arellano and Bond estimation technique. The results revealed that credit and liquidity risks negatively and significantly impacted bank stability individually and jointly in Nigeria. Furthermore, we deduced a positive correlation between credit and liquidity risks, with the correlation result statistically significant. Further investigation using the Pairwise Dumitrescu-Hurlin Panel Causality Tests indicated one-way (uni-directional) causality from liquidity to credit risk.

Abba, Hafsat and Umar (2023) examined the relationship between liquidity and performance of deposits money banks in Nigeria. The study's specific goals are to ascertain the correlation between the current ratio and the performance of deposit money

banks in Nigeria and to investigate the correlation between the ratio of loans to deposits and the performance of deposit money banks. The information utilized was secondary. The bank's annual report and the Nigerian Stock Exchange fact book provided the panel data. The results of the analysis of the panel data indicate that the performance of deposit money banks in Nigeria has a negligible negative correlation with the current ratio.

Ibianga & Enyi (2024) investigated the relationship between risk management and financial performance of deposit money banks in Nigeria. The researcher formulated four precise objectives, four research questions and four hypotheses that led the investigation. The research design used in the study was ex post facto. This design is selected and implemented due to the researcher's lack of control over the many parts of the design. Since the study's data already exists, it is used for secondary data analysis. Twenty-two (22) Nigerian designated deposit money banks made up the study's population. The judgemental sampling technique was used in this investigation. Two (2) DMBs, United Bank for Africa Plc and Fidelity, comprise the sample size. The published financial statements of the selected publicly traded deposit money banks in Nigeria provided the data for this study. This study employed an estimated technique that involved the use of descriptive statistics and Ordinary Least Squares (OLS) regression analysis. The E-view-9 software was utilized to carry out the analysis.

Edewusi (2020) investigated the impact of liquidity risk management on bank performance in Nigeria. They looked at the connections between bank liquidity and return on assets of deposit money banks as well as the connections between bank liquidity and loans and advances of deposit money banks. The current ratio, liquid assets to total assets ratio, loans and advances to deposits ratio, cash to total deposits ratio, and loans and advances to total assets ratio were used in the study as proxies for managing liquidity. The study also adopted pool regression of ordinary least squares and specified return on asset as a proxy for bank performance. The findings demonstrated a significant relationship between return on asset, loans and advances to total assets ratio, and loans and advances to deposits ratio variables, whereas there was no correlation with the deposit money banks in Nigeria for the current ratio, liquid assets to total assets ratio, and cash to total deposits ratio. According to the study's findings, deposit money banks in Nigeria perform significantly better when liquidity risk management is implemented.

Methods

This study relied extensively on secondary data which were sourced from the audited annual report of selected deposit money banks in Nigeria. Annual reports are audited by independent external auditors, ensuring the accuracy and reliability of the financial data. This increases the credibility of the information used in the study. Regulatory Compliance reports comply with the regulatory requirements of the Nigerian Exchange Group (NGX) and the Central Bank of Nigeria (CBN), ensuring standardized and consistent reporting practices. Annual reports provide comprehensive details about the banks' financial performance, including balance sheets, income statements, cash flow statements, and notes to the financial statements. This depth of information is crucial for thorough analysis.

Finally, relying on secondary data sourced from the audited annual reports of deposit money banks in Nigeria ensures the study is based on accurate, comprehensive, and relevant financial information. This approach provides a cost-effective and efficient means to conduct a thorough analysis of liquidity risk

management practices and their impact on financial performance, ensuring the findings are reliable, relevant, and actionable.

Panel regression analysis is a powerful and flexible method that effectively addresses the complexities associated with studying the impact of liquidity risk management practices on the financial performance of deposit money banks. Its ability to handle time-series and cross-sectional dimensions, control individual heterogeneity, and address various statistical concerns makes it a suitable approach for such studies.

Definition and measurement of variables

VARIABLES	ACRONYMS	MEASUREMENTS	SOURCE
INDEPENDENT VARIABLES			
capital adequacy ratio	CAR	Measured by dividing a bank's capital by its risk weighted assets	Oganda(2019)
loan to deposit ratio	LDR	Total number of loans to deposit ratio	Oganda(2019)
Loans and Advances to Total Assets (LATA)	LATA	Measured by Loans and advance/ Total assets	Edewusi, (2020)
Leverage ratio	LR	The Leverage Ratio is calculated by dividing a bank's Tier 1 by its total exposure (on balance cheet and off balance sheet items)	Basel III, (2010)
Dependent Variables			
Return on assets	ROA	Measured as net profit after tax divided by Total assets of deposit money banks.	Edewusi (2020), Jacob (2022),

Source: Authors review on literature (2026)

Model Specification

To evaluate the objectives of this study and test the hypotheses, the regression model was adapted from the study of Udenwa (2023) of the form: The rationale for undertaking this study lies in its alignment with the research objectives and the identified need for further investigation.

$PERFit = \beta0 + \beta1LATAit + \beta2LATDit + \beta3LDRit + \beta4CARit + \beta5NSFRit + \mu i$

Where:

PERFit = Financial Performance in i year t

β0 = Coefficient of the constant variable

LATAit = Loans and Advances to Total Assets in i year t

LATDit = Loans and Advances to Total Deposit in i year t

LDRit = Loans to Deposit Ratio in i year t

CARit = Capital Adequacy Ratio in i year t

NSFRit = Net Stable Funding Ratio in i year t

The model was further formulated as follows:

$PERFit = \beta0 + \beta1LATAit + \beta2LATDit + \beta3LDRIT + \beta4CARit + \beta5NSFRit + \varepsilon it$

Where:

ROA =Return on Assets

LATA= Loans and Advances to Total Assets

CAR = Capital Adequacy Ratio

LATD = Loans and Advances to Total Deposit

LDR = Loan to Deposit Ratio

NSFR = Net Stable Funding Ratio

$\beta 0$ = Beta coefficient

$\beta 1$, $\beta 2$, $\beta 3$, $\beta 4$, $\beta 5$ = Coefficients of each independent variable in the model

ε= Error term

it= Panel data

$\beta 1, \beta 2, \beta 3, \beta 4, \beta 5 > 0$

Results and Discussion

Descriptive Statistics

The summary statistics results consist of the mean, standard deviation, minimum and maximum of the variables. The mean is used to show the average values of the variables within the period of investigation, standard deviation shows the spread of the variables over the average period, the minimum and maximum shows the lowest and highest value of the variables over the periods. This is shown below

Table1 shows the summary statistics of the variables adopted for this research. The mean value of return on assets is 3.97, standard deviation of 0.19, minimum of 3.66 and maximum of 4.39. This implies the return on assets as the measurement for the financial performance of the commercial banks is 3.97 percent with the spread of 0.19 percent from the average behavior. The lowest and highest value of return on assets recorded in the period were 3.66 percent and 4.39 percent respectively. capital adequacy ratio has a mean of 3.68, standard deviation of 0.56, minimum and maxim um of 2.72 and 4.39 respectively. This implies that the average capital adequacy ratio within the period of investigation is 3.68 percent with the spread of 0.56 percent from the average behavior. The highest and lowest capital adequacy ratio recorded within the period were 4.39 percent and 2.72 percent.

Loans and Advances to Total Assets to Total Assets have the mean of 3.92, standard deviation of 0.31, minimum and maximum 3.20 and 4.44. This indicates the average Loans and Advances to Total Assets to Total Assets within the period was 3.92 percent with the spread of 0.31 percent from this average behavior. The lowest and highest Loans and Advances to Total Assets to Total Assets recorded within the period were 3.20 percent and 4.44 percent respectively. Loan to deposit ratio has mean of 2.11, standard deviation of 0.40. The minimum and maximum of 0.40 and 1.70. This denotes that the average 2.11 percent, spread of 0.40. The lowest and highest value of 0.40 percent and 1.70 percent respectively.

Table 1: Descriptive Statistics

Variable	Mean	Maximum	Minimum	Std.Dev.
ROA	3.970160	4.393337	3.663562	0.189534
CAR	3.684164	4.393337	2.721295	0.463629
LATA	3.915618	4.445001	3.202746	0.308530
LDR	2.105000	1.700000	0.400000	0.403796

Source: Author's compilation 2026

The results in the correlation matrix presents above show that return on assets has negative coefficients Loans and Advances to Total Assets to Total Assets (-0.039861) while it has positive correlation coefficients with capital adequacy ratio (0.145641) and Loan to deposit ratio (0.068413). This means return on assets move in the same direction with capital adequacy ratio and Loan to deposit ratio while it moves in opposite direction with loan loss provision and Loans and Advances to Total Assets to Total Assets. In order words, higher levels of return on assets are associated with higher level of capital adequacy ratio and Loan to deposit ratio but with lower level of loan loss provision and Loans and Advances to Total Assets. Capital adequacy ratio has negative correlation coefficients with all the variables; Loans and Advances to Total Assets (-0.019228) and Loan to deposit ratio (-0.084848). This implies that capital adequacy ratio moves in opposite direction with loan loss provision, Loans and Advances to Total Assets and Loan to deposit ratio. Therefore, higher level of capital adequacy ratio is associated with lower Loans and Advances to Total Assets-to Total Assets and Loan to deposit ratio. Loans and Advances to Total Assets to Total Assets have positive correlation coefficient with Loan to deposit ratio. Therefore, higher level of loan loss provision is associated with higher level of Loan to deposit ratio.

Table 2: Correlation Analysis

Correlation Probability	LROA	LCAR	LLA	LLATA
LROA	1			
LCAR	0.145641 0.3699	1		
LLATA	-0.039861 0.8071	-0.019228 0.9063	1 1	
J LDR	0.068413 0.6749	-0.084848 0.6027	0.549560 0.0002	1

Source: Author's compilation, 2026

This section examines the impact of liquidity risk management practices and financial performance of commercial banks in Nigeria. The analysis was carried out with pooled OLS, fixed effect, and random effect estimation techniques. Also, the Hausman test was used to determine the choice between the fixed effect and random effect estimation method.

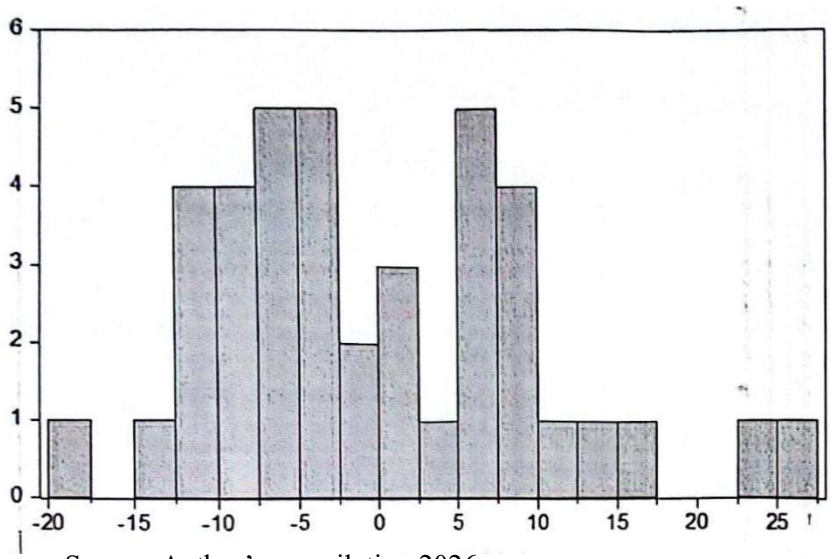
Table 3: Pooled Ordinary Least Square (OLS)

Variable	Coefficient	Std.Error	t-Statistic	Prob.
LDR	1.045080	5.348183	0.195408	0.8462
LATA	-0.075744	0.136575	-0.554597	0.5827
CAR	0.024781	0.107135	0.231305	0.8184
C	59.86859	8.561253	6.992971	0.0000
R-Squared	0.035175			
F-statistic	0.319007			
P-value of F-statistic	0.863320			

Source: Author's compilation, 2026.

Post Estimation Test

Some post-estimation diagnostics were conducted and presented here to verify if the fixed effect regression result of this study does not violate some classical linear regression model assumptions and are thus valid to make relevant conclusions and generalizations. These tests include Cross-sectional dependence test and the normality 'of residuals test (through the Jarque-Bera normality test).



Series: Standardized Residuals	
Mean	-3.33e-16
Median	-2.513691
Maximum	27.34666
Minimum	-18.15841
Std.Dev.	10.13859
Skewness	0.708413
Kurtosis	3.246308
Jarque-Bera	3.446770
Probability	0.178461

Source: Author's compilation 2026.

Fig 1: Normality Test

The diagram presented in Figure 1 is the histogram which is meant to show the distribution of the residual of the regression model. This is important to verify if the normality assumption of the classical linear regression model is not violated in the estimated result. Since a precise conclusion may not be achieved looking at the diagram, the Jarque-Bera normality statistic is presented alongside the diagram to examine if the residual of the model is normally distributed. With the Jarque-Bera normality statistic value being 3.446770 and its p-value being 0.178461 and greater than 0.05, the statistic is not significant at 5% significance level. Therefore, the test's null hypothesis which states that the residual series is normally distributed could not be rejected and hence, the residual series of the regression result is normally distributed, and the normality assumption of the classical linear regression model is not violated.

Table 4: Homogeneity Test

F-test of Homogeneity	1.08	0.006
Hausman test	26.858874	0.000

Source: Author's compilation,2026.

The F-test of homogeneity has a statistic value of 1.08 and a p-value of 0.006 when the regression diagnostics in Table 2 are examined. The significance of the statistics is indicated by this test result. With the null hypothesis of the test being that there is no heterogeneity among panel members, the significant test statistic shows that such hypothesis should be rejected in favor of the alternative that panel members are heterogeneous. This suggests that the pooled OLS approach that presupposes homogeneity among panel members is not acceptable for this model and consequently, heterogeneous panel methods such as the fixed and random effects-methods are preferable.

The Hausman test yields a statistic value of 26.858874 and a p-value of 0.000, indicating that the test is statistically significant. The Hausman test null hypothesis is that "the difference in the-coefficient of the fixed and random effects results is not systematic" (i.e., the random effects result is preferred), and the test result indicates that this null hypothesis could be rejected because the Hausman test statistics are significant. As a result, the fixed effects strategy produces the best results.

Table 5: Panel Fixed Effect

Variable	Coefficient	Std.Error	t-Statistic	Prob.
LDR	6.731165	4.497150	-1.496762	0.0446
LATA	0.039671	0.111208	0.356726	0.7237
CAR	0.243355	0.134320	1.811755	0.0797
C	47.10679	9.826226	4.793987	0.0000
R-Squared	0.514645			
F-statistic	4.108839			
P-value of F-statistic	0.001967			

Source: Author's compilation, 2026.

Table 6: Panel Random Effect

Variable	Coefficient	Std.Error	t-Statistic	Prob.
LR	1.317090	5.063772	0.260100	0.7967
LA	-0.068488	0.113325	-0.604352	0.5505
CAR	0.024706	0.088106	0.280409	0.7812
C	59.87252	7.326713	8.171812	0.0000
R-Squared	0.072544			
Wald Chi-squared	0.199102	1		
P-value of W-statistic	0.996296			

Source: Author's compilation,2026.

By examining the independent variables in Table 4, the fixed effects model result shows that Loan to deposit ratio, Loans and Advances to Total Assets to Total Assets and capital adequacy-ratio have positive coefficients of 6.731165, 0.039671 and 0.243355 respectively, the positive coefficients of Loan to deposit ratio and capital adequacy ratio are significant at 0.1 (10%significant level).

Specifically, the significantly positive coefficients of Loan to deposit ratio means that Loan to deposit ratio has significant positive coefficient on return on assets. Therefore, a percentage increase in Loan to deposit ratio will lead to rise in return on assets by 6.731165 percent points vice versa. Also, the significantly positive coefficients of capital adequacy ratio means-that-capital adequacy ratio has significant positive coefficient on return on assets. Therefore, a percentage point increase in capital adequacy ratio will lead to rise in return on assets by 0.243355 percent points vice versa.

Cross section dependence

Cross-sectional dependence will be used to test the dependence of panel regression on each of the variables. The table below shows the cross-sectional dependence of the variables.

Table 7: Cross-Sectional Dependence

Cross-section means were removed during computation of correlations

Test	Statistic	d.f.	Prob.
Breusch-Pagan LM	18.08574	10	0.0535
Pesaran scaled LM	0.689993		0.4902
Pesaran CD	-1.726717		0.0842

Source: Author's compilation, 2026.

The pesaran CD test of the cross-sectional dependence will be used to test the cross-sectional dependence of the panel regression. Given the Pesaran CD T-statistics of 18.08574 and the probability value of 0.0535. Since the P-value is greater the 0.05 (5% significant level), the null hypothesis of no Cross-sectional dependence of the panel regression will not be rejected. Thus, the panel regressions are free from cross-sectional dependence.

Discussion of Findings

The positive coefficient of LDR on the return on assets (ROA) indicates that higher loan issuance relative to deposits enhances profitability. This suggests that banks can boost their financial performance by optimizing their lending activities, provided they manage associated risks effectively. The significant positive impact of CAR on ROA highlights the importance of a strong capital base for bank performance. A higher CAR provides a buffer against losses, enhancing financial stability and investor confidence. Also, the positive coefficient of LATA on-ROA indicates that higher proportions of loans and advances relative to total assets contribute to better financial performance. This underscores the importance of productive asset utilization.

Comparison with the study of (Ishaq, Abir & Khadra, 2021). The study found a negative impact-of liquidity risk (measured by LDR and CTD) on financial performance (measured by ROE) in Saudi Arabian banks. This contrasts with the positive impact found in the current study for Nigerian banks. The difference may be due to varying regulatory environments, economic conditions, and banking practices between the two regions.

Furthermore, comparison with the study of (Yee, 2022). Yee's study on ANZ banks highlighted that liquidity risk arises from maturity transformation and affects bank stability. While not directly comparable, it aligns with the current study's emphasis on managing liquidity risk to enhance performance. The findings reinforce the importance of balancing short-term liabilities and long-term assets to mitigate liquidity risk. Likewise, Comparison with Mingming Wang (2022) Wang's study on Chinese and American banks highlighted the significance of traditional loan projects and demand deposits in driving liquidity risk. The current study's findings that loans and advances positively impact ROA align with the importance of loan projects in bank performance. Both studies underscore the need for effective loan management and risk awareness.

Also, comparison with Ismail & Ahmed (2023): Ismail & Ahmed found that liquidity risk did not significantly influence Jordanian bank stability, contrasting with the significant positive impact on Nigerian banks' performance in the current study. The difference may arise from varying market dynamics and risk management practices. Comparison with (Alzubi & Marashdeh. 2024; Moses, Tobias & Margaret, 2019; Sidhu & Rebecca, 2022). They found negligible effects of liquidity risk on Jordanian banks' performance, whereas the current study found a significant positive impact on Nigerian banks. The differences highlight the need for context-specific strategies in liquidity risk management. Also, comparison with Udenwa, Suberu & Jacob (2023). The significant effect of loans and advances on Nigerian banks' performance aligns with the current study's findings. Both studies underscore-the importance of effective loan management in enhancing bank performance in Nigeria.

Comparison with (Ayinuola & Gumel, 2023; Li, 2019; Shoaib & Ali, 2020) They highlighted the negative impact of liquidity and credit risks on bank stability in Nigeria. The current study's findings of positive impacts on performance suggest that while liquidity management is crucial for profitability, it must be balanced with risk mitigation to ensure overall stability. Finally, comparison with (Okeke Lawrence & Nnamdi, 2024; Azzam & Almaleeh, 2022) the studies concluded that liquidity management significantly impacts Union Bank Plc's ROE. This aligns with the current study's findings on the importance of liquidity management for enhancing shareholder returns, underscoring the need for banks to maintain adequate liquidity.

The findings of this study align with the Shiftability Theory, which posits that banks can manage liquidity risk by holding assets that can

be easily shifted or sold in the secondary market. The positive impact of LDR, CAR, and LATA on financial performance suggests that banks' ability to manage liquidity through loan issuance, capital adequacy, and asset utilization aligns with the theory's premise. By maintaining liquid assets and a strong capital base, banks can effectively navigate liquidity challenges, enhancing their profitability and stability.

Conclusively, the study provides valuable insights into the impact of liquidity risk management on the financial performance of listed commercial banks in Nigeria. The positive effects of LDR, CAR, and LATA on ROA underscore the importance of effective liquidity and capital management in enhancing bank profitability. These findings contribute to the existing literature, highlighting the need for context-specific strategies in liquidity risk management and reinforcing the relevance of the Shiftability Theory in modern banking practices.

Conclusion and Recommendation

This study investigated impact of loans and advances to total assets on financial performance of deposit money banks in Nigeria. This study was anchored on shiftability theory, which posits that banks may defend themselves from large-scale deposit withdrawals by keeping credit instruments with a ready secondary market as a sort of liquidity reserve. The approach is predicated on the idea that holding assets that might be transferred or sold to other lenders or investors for cash helps a bank preserve its liquidity. The findings of this study show that loan to deposit ratio has significant positive coefficient on the return in assets of the sampled deposit money banks. This implies that a percentage point increase in Loan to deposit ratio will lead to increase in return on assets of the deposit money banks.

In conclusion, the results indicate that the loan-to-deposit ratio has a significant positive impact on the performance of deposit money banks, suggesting that an increase in this ratio is associated with improved bank performance.

Based on the findings of this study and the conclusion that emerged from them, this study provides the following recommendations which are important to increase the performance of the deposit money banks. These recommendations are as follows:

Increase in the Loan to deposit ratio will lead to rise in the performance of the deposit money banks. Thus, the study recommends that Banks should aim to maintain an optimal LDR by carefully balancing loan issuance and deposit levels. Too high an LDR may increase the risk of liquidity shortfalls, while too low an LDR might indicate underutilized resources. Also, implement robust risk management policies to assess and mitigate the risks associated with high LDRs, including stress testing and scenario analysis.

It is recommended in this study that the capital adequacy ratio of the deposit money banks should be increased to increase their performance. Banks should maintain a strong capital buffer that exceeds regulatory requirements to absorb potential losses and enhance financial stability. Also, develop comprehensive capital planning strategies that include raising additional capital through equity or debt instruments when necessary.

Increase in Loans and Advances to Total Assets to Total Assets will lead to an increase in-the performance of the deposit money banks. The study recommends that the deposit money banks should focus on improving the quality of assets by conducting thorough credit assessments and maintaining a diversified loan portfolio to minimize the risk of non-performing loans. Also, optimize the use of assets by aligning loan and advance levels with the bank's overall asset management strategy, ensuring efficient use of resources.

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