LIQUIDITY RISK MANAGEMENT AND FINANCIAL PERFORMANCE: EVIDENCE FROM DEPOSIT MONEY BANKS IN NIGERIA

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Keywords

Liquidity Risk Management, Financial Performance, Loan to Deposit Ratio, Capital Adequacy Ratio, Deposit Money Banks

Abstract

Research Problem: *Effective liquidity risk management is essential to the financial stability and profitability of deposit money banks, particularly because banks must balance the need to meet short-term obligations with the efficient utilization of financial resources. Despite the importance of liquidity management, concerns remain regarding its effect on the financial performance of listed deposit money banks in Nigeria. This study therefore examined the effect of liquidity risk management on the financial performance of listed deposit money banks in Nigeria over the period 2014 to 2023.*
Methods/Theory: *Anchored on the Shiftability Theory, the study adopted an ex-post facto research design and utilized secondary data obtained from the annual reports of 13 quoted deposit money banks in Nigeria. Financial performance was measured using Return on Assets (ROA), while liquidity risk management was measured using Loan to Deposit Ratio (LDR), Capital Adequacy Ratio (CAR), and Loans and Advances to Total Assets (LATA). Panel data analysis was employed, and the Hausman test guided the selection of the Fixed Effects Model. Diagnostic tests for multicollinearity, heteroscedasticity, and cross-sectional dependence were also conducted.*
Results: *Findings revealed that Loan to Deposit Ratio (LDR) and Capital Adequacy Ratio (CAR) had positive and statistically significant effects on Return on Assets (ROA). Loans and Advances to Total Assets (LATA), however, had a positive but statistically insignificant effect on ROA. The findings indicate that effective management of liquidity risk indicators, particularly LDR and CAR, is associated with improved financial performance among listed deposit money banks in Nigeria.*
Conclusion: *The study concluded that liquidity risk management significantly influences the financial performance of listed deposit money banks in Nigeria. Maintaining appropriate liquidity levels and adequate capital positions can enhance banks' profitability and financial stability, while the effect of asset allocation through LATA may depend on the efficiency with which loans and advances are managed.*

Key Contribution to Knowledge: *The study contributes to the empirical literature on liquidity risk management and bank performance by providing evidence on the distinct effects of LDR, CAR, and LATA on the financial performance of listed deposit money banks in Nigeria. It further demonstrates that different liquidity risk management indicators may have varying implications for bank profitability.*

Recommendation: *Deposit money banks should maintain an optimal Loan to Deposit Ratio that supports lending activities without exposing them to excessive liquidity risk. Banks should also strengthen their capital base beyond minimum regulatory requirements to enhance financial resilience. In addition, banks should improve asset quality through rigorous credit evaluation, effective monitoring of loans, and portfolio diversification to support sustainable profitability and financial stability.*

INTRODUCTION

The significance of liquidity management for the stability of financial markets and the banking industry was highlighted by the global financial crisis (Saifullah, Rashed & Alamgir, 2019). Liquidity has since become a top priority for banks all around the world. These days, increasing shareholder value, keeping adequate liquidity to guaranty safety, and optimizing profit are core company goals (Basher & Antoine, 2024). Strong financial performance and efficient risk management are essential for the banking system's resilience, expansion, and sustainability (Tahiri, 2018). Due to variations in management approaches and the marketplaces in which they operate, bank performance differs among institutions (Effiong & Ejabu, 2020). An increase in non-performing loans may result from excessive lending. Loan defaults that degrade asset quality are frequently caused by economic downturns, industry-specific difficulties, and inadequate credit risk assessment. Downturns lower economic activity, impair borrowers' ability to repay loans, and raise credit risk in Nigeria, where the economy is extremely vulnerable to volatility. Changes in interest rates also increase the cost of capital for banks, which reduces their profitability and net interest margins (Nwankwo & Okechchukwu, 2021; Caja, Akpastor & Nsuhoridem, 2024). Financial statements are the main tool used to evaluate financial performance, which reflects a company's financial situation (Ganiyu et al., 2025; Poroye & Okolie, 2024). ROA, ROE, net interest margin, and earnings per share are important metrics for deposit money institutions. Nigerian banks face several challenges that have a direct impact on their profitability, including high regulatory expenses, interest rate volatility, and credit defaults (Igbinovia & Aigbiremolen, 2023; Danmulki, Agbi & Mustapha, 2022). Therefore, both internal efficiency and external economic conditions influence performance. Effective liquidity risk management is crucial since shortages of liquidity can impact individual banks as well as the financial sector as a whole. It entails keeping sufficient liquidity buffers and getting ready for market shocks, funding difficulties, and possible losses (Saif-Alyousfi, 2021). By increasing efficiency and lowering risk exposure, sound liquidity management improves financial performance (Abbas & Mourouj, 2015; Mingming, 2022). One of the most important issues facing contemporary banking is liquidity risk, which has drawn a lot of interest from regulators and legislators (Adam & Ayagi, 2024). Bank liquidity may be strained by sudden shocks from geopolitical events and economic crises that

could affect global financial markets. Differences in market circumstances, currencies, and regulatory frameworks make managing liquidity across borders even more difficult (Yakubu & Bello, 2023; Jalal & Helyoth, 2024). Structural flaws, especially the underdeveloped money market, exacerbate these difficulties in Nigeria (Natufe & Evbayiro-Osagie, 2023; Ogundele & Nzama, 2025). Considering this, it is imperative to investigate empirical data about the impact of liquidity risk management on the financial performance of deposit money banks in Nigeria.

Literature Reviews

Li (2019) showed that a bank's contribution to systemic risk rises with its liquidity risk after looking at 16 Chinese commercial banks. The study demonstrated that banks could reduce systemic risk through risk-taking measures and that scale does not inherently raise systemic risk using CoVaR and dynamic panel models. Instead of using loan-to-deposit ratios to manage liquidity, the study suggests employing measures of liquidity generation. Higher banking rivalry decreases liquidity creation, according to Shoaib and Ali's (2020) application of GMM to GCC banks from 2012 to 2018. The "financial fragility hypothesis"which holds that fierce competition deters lending is supported by this. Ishaq, Abir, and Khadra (2021) used LTD, CTD, and ROE to examine Saudi conventional banks from 2002 to 2019. Financial performance is significantly impacted negatively by liquidity risk, according to panel regression studies. Yee (2022) examined ANZ in Australia and discovered that maturity transformation guaranties liquidity risk endures despite more stringent capital and liquidity regulations. The study employed a multiple regression framework using loans, deposits, non-performing loans, and total assets. The Liquidity Coverage Ratio enhances technical efficiency under constant returns to scale but has a nonlinear connection with efficiency under changing returns to scale, according to Sidhu and Rebecca's (2022) evaluation of Indian banks from 2010 to 2019. Azzam and Almaleeh (2022) investigated nine Egyptian banks between 2009 and 2019. Cash-to-assets and capital strength have a good impact on ROA, deposits-to-liabilities have a positive impact on ROE, and cash-to-assets have a positive impact on EPS, according to correlation and regression analysis. Performance was also linked to the ratio of liquid assets to deposits. According to a 2019 study by Moses, Tobias, and Margaret on 135 Kenyan DT Saccos, liquidity risk has a substantial and detrimental impact on financial performance. FE, RE, and GMM were applied to thirty Islamic banks in the Middle East between 2011 and 2022 by Abdalla et al. (2024). They discovered that while NPF, capital adequacy, and size had no bearing on liquidity, financing-to-deposit ratio, inflation, economic growth, and ROA had a favorable impact. Ismail and Ahmed (2023) discovered that COVID-19 and credit risk decreased stability using panel data for Jordanian banks from 2016 to 2021. However, there was no discernible effect from operational risk, liquidity risk, or bank size.

In their 2019 study of five Nigerian DMBs from 2007 to 2016, Onyekwelu, Chukwuani, and Onyeka discovered that liquidity significantly and favorably affected ROCE and profitability. Hauwa, Bamanga, and Salihu (2024) looked at sixteen Nigerian DMBs that were listed between 2018 and 2022. Liquidity risk management had a negative but negligible impact, but credit, market, and capital adequacy risk management enhanced performance. Using sector-wide data from 2011 to 2019, Edem (2020) came to the conclusion that liquidity management has both good and negative effects on Nigerian DMB performance. Jacob (2022) examined 14 DMBs in Nigeria from 2006 to 2019. While LATA and STLLA had substantial negative effects on ROA, DTA and TLTD showed little detrimental effects. According to the study's findings, performance is greatly impacted by liquidity risk management. Okeke and Nnamdi (2024) used ex-post facto data to

concentrate on Union Bank. The study found that although liquidity is crucial for stability, its effect on shareholder returns is complicated. Liquidity management had a significant impact on ROE but not ROA or overall profitability. There are conflicting results in literature. Most international research indicates that performance and liquidity risk are negatively correlated. Studies conducted in Nigeria have yielded conflicting results, ranging from positive to negative and negligible impacts. Nigeria's inadequate money market infrastructure is not considered in much research. By offering current data on liquidity risk management and the financial performance of Nigerian deposit money institutions, this study aims to close this gap.

Methods

The data used in this study was historical, it used an ex post facto research design. In social research, ex-post facto design is suitable when changing variables is not practical or morally acceptable (Kerlinger, 1986). The design works effectively for researching phenomena that are out of the researcher's control. The audited financial statements of deposit money institutions provided the data.3.2 Population and Sample As of 2023, 21 deposit money banks were listed on the Nigerian Exchange Group (NGX, 2023). Because they offer essential services to both individuals and corporations and are subject to stringent regulatory reporting requirements, these banks are essential to Nigeria's financial system. Three listed deposit money banks make up the study sample. The choice was made based on the accessibility of the data. The Central Bank of Nigeria Statistical Bulletin and the annual reports of the banks provided ten years' worth of audited yearly financial accounts (2013–2022).

The audited annual reports of the chosen banks provided the only secondary data used in the study. Independent external auditors verify the annual reports, which are prepared in accordance with CBN and NGX regulatory standards. This guaranties the accuracy, consistency, and comparability of the data. The reports offer comprehensive data, such as balance sheets, income statements, cash flow statements, and notes, which are crucial for assessing financial performance and liquidity risk management. The analysis is based on precise and thorough financial data thanks to the utilization of audited secondary sources. Additionally, it offers an economical and effective way to carry out in-depth study.

Model

The regression model was modified from Udenwa's (2023) study to assess the goals of this investigation and test the hypotheses. This study's compatibility with the research objectives and the determined need for additional investigation serves as justification for its undertaking.

$$\mathbf{PERF_{it} = \beta_0 + \beta_1 LATA_{it} + \beta_2 LATD_{it} + \beta_3 LDR_{it} + \beta_4 CAR_{it} + \beta_5 NSFR_{it} + \mu i}$$

Where:
$PERF_{it}$ = Financial Performance in i year t
β_0 = Coefficient of the constant variable
$LATA_{it}$ = Loans and Advances to Total Assets in i year t
$LATD_{it}$ = Loans and Advances to Total Deposit in i year t
LDR_{it} = Loans to Deposit Ratio in i year t
CAR_{it} = Capital Adequacy Ratio in i year t
$NSFR_{it}$ = Net Stable Funding Ratio in i year t

The model was further formulated as follows:

$$\mathbf{PERF_{it} = \beta_0 + \beta_1 LATA_{it} + \beta_2 LATD_{it} + \beta_3 LDR_{IT} + \beta_4 CAR_{it} + \beta_5 NSFR_{it} + \varepsilon_{it}}$$

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
β_0 = Beta coefficient
β_1, β_2, β_3, β_4, β_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

Return on Assets (ROA) had a mean of 3.970160 and a standard deviation of 0.189534, according to Table 1. 4.393337 and 3.663562 are the maximum and least values, respectively. This suggests that during the reviewed period, the profitability of the sampled deposit money banks stayed comparatively steady. Among the independent variables, the Capital Adequacy Ratio (CAR) has the greatest mean value (3.684164) and the biggest standard deviation (0.463629). The values varied from a minimum of 2.721295 to a maximum of 4.393337. This implies that there are differences in the sampled banks' capital strength. The ratio of liquid assets to total assets (LATA) had a mean of 3.915618 and a standard deviation of 0.308530. 3.202746 and 4.445001 are the lowest and maximum values, respectively. This suggests that, in relation to total assets, the banks had a steady and moderate level of liquidity. The average value of the Loan to Deposit Ratio (LDR) is 2.105000, with a standard deviation of 0.403796. The ratio can be as low as 0.400000 or as high as 1.700000. Some banks took a cautious lending stance during that time, as seen by the comparatively low minimum value. Overall, all of the variables' low standard deviation values point to little departure from the mean. This suggests that the data are appropriate for additional inferential analysis because they do not show excessive volatility.

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

Correlation Analysis

Table 2 demonstrates a positive but weak association between LCAR and LROA with a correlation coefficient of 0.145641. The relationship is not statistically significant at the 5% level, with a p-value of 0.3699. With a value of -0.039861, LLATA and LROA show a slight negative connection. The connection is also statistically insignificant, with a p-value of 0.8071. In contrast, there is a weak but positive correlation between JLDR and LROA (coefficient of 0.068413), which is not statistically significant (p-value of 0.6749). The moderately positive association between LLATA and JLDR among the independent variables is statistically significant at the 1% level, with a p-value of 0.0002. The associations between LCAR and LLATA (-0.019228, p = 0.9063) and JLDR (-0.084848, p = 0.6027) are both weak and not statistically significant. The generally low correlation coefficients of the independent variables indicate that there is no multicollinearity problem. As a result, the

variables are suitable for panel regression analysis.

Table 2: Correlation Matrix

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	
JLDR	0.068413 0.6749	-0.084848 0.6027	0.549560 0.0002	1

Source: Author's compilation, 2026

The Loan to Deposit Ratio (LDR) has a positive coefficient of 1.045080, as Table 3 demonstrates. This suggests that, while all other factors are held equal, a 1% increase in LDR will result in a 1.05% rise in ROA. However, the p-value of 0.8462, which is higher than 0.05, indicates that the link is statistically insignificant. The coefficient of Liquid Assets to Total Assets (LATA) is -0.075744. This implies that ROA will drop by 0.08% for every 1% increase in LATA. With a p-value of 0.5827, the association is likewise statistically insignificant. With a positive coefficient of 0.024781, the Capital Adequacy Ratio (CAR) will boost ROA by 0.02% for every 1% rise in CAR. Nevertheless, with a p-value of 0.8184, the effect is statistically insignificant. Only 3.5% of the variation in ROA is explained by the independent variables, according to the R-squared value of 0.035175. This implies that 96.5% of the variation in financial performance can be attributed to other factors not included in the model. The total regression model is statistically insignificant, as indicated by the F-statistic value of 0.319007 and the p-value of 0.863320. This suggests that the selected banks' financial performance is not significantly impacted by LDR, LATA, or CAR. The financial performance of Nigerian deposit money banks throughout the review period was not significantly impacted by liquidity risk management indicators. This outcome is consistent with the findings of Ismail and Ahmed (2023) and Hauwa, Bamanga, and Salihu (2024), who likewise discovered a negligible impact of liquidity risk on bank performance. Onyekwelu, Chukwuani, and Onyeka (2019) and Ishaq, Abir, and Khadra (2021), who observed notable impacts, disagree. CBN's regulatory requirements, which force banks to maintain certain levels of capital and liquidity, may be the reason for the negligible impact. These regulations lessen the fluctuation of these ratios and their effect on performance.

Table 3: Pooled Ordinary Least Square (OLS)

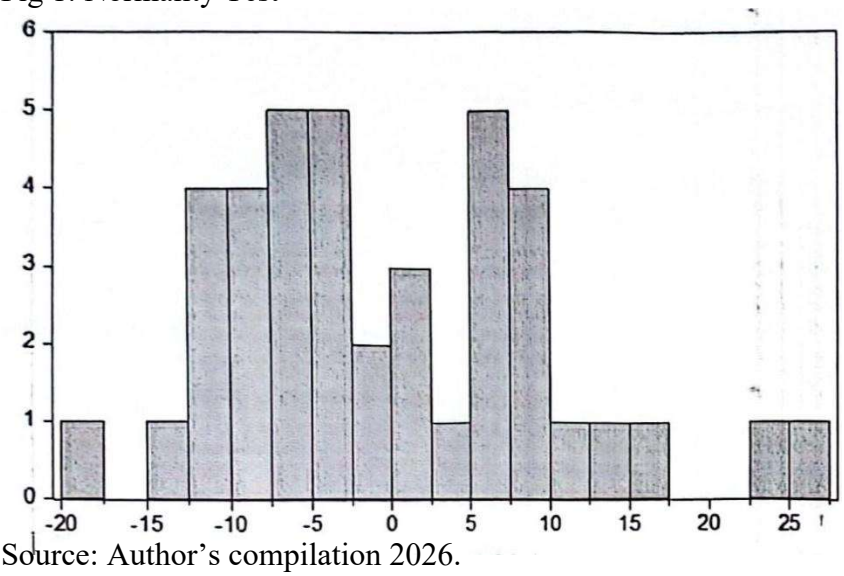
Variable	Coefficient	Std.Error	t-Statistic	Prob.
LDR	1.045080	5.348183	0.195408	0.8462
LATA	-0.075744	0.136575	-0.554597	0.5827
CAR	0.024781	0.107135	0.231305	0.8184
C	59.86859	8.561253	6.992971	0.0000
R-Squared	0.035175			
F-statistic	0.319007			
P-value of F-statistic	0.863320			

Source: Author's compilation, 2026.

Post Estimation Test

To confirm whether the fixed effect regression result of this study does not contradict certain classical linear regression model assumptions and is hence valid to draw pertinent conclusions and generalizations, various post-estimation diagnostics were carried out and provided below. These tests include the normality of residuals test (using the Jarque-Bera normality test) and the cross-sectional dependence test.

Fig 1: 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.

According to Figure 1, the probability value is 0.178461 and the Jarque-Bera statistic is 3.446770. The null hypothesis asserts that the residuals are normally distributed at the 5% level of significance. The null hypothesis cannot be rejected since the p-value of 0.178461 is higher than 0.05. This suggests that the regression model's residuals have a normal distribution.

Table 4: Stability Test

F-test of Homogeneity	1.08	0.006
Hausman test	26.858874	0.000

Source: Author's compilation,2026.

To ascertain whether the pooled Ordinary Least Squares (OLS) estimator is suitable or whether there is substantial heterogeneity among the cross-sectional units, the F-test for homogeneity was utilized. According to the null hypothesis, all panel members' slope coefficients are the same. Table 4 shows a probability value of 0.006 and an F-statistic of 1.08. The p-value is less than 0.05 at the 5% significance level. As a result, the homogeneity null hypothesis is rejected. Significant heterogeneity among the sampled deposit money banks is implied by the null hypothesis' rejection. As a result, the pooled OLS estimation method is considered unsuitable since it assumes that all entities have the same intercept and slope coefficients. Consequently, this study is better suited for heterogeneous panel estimating techniques like the Fixed Effects Model and Random Effects Model. The Hausman test was used to identify the most effective estimator between the Fixed Effects Model (FEM) and the Random Effects Model (REM) based on the results of the F-test. The Random Effects estimator is consistent and efficient, and there is no systematic difference between the coefficients of FEM and REM, according to the Hausman test's null hypothesis. A Hausman chi-square statistic of 26.858874 and a p-value of 0.0000 are shown in Table 4. The null hypothesis is rejected at the 5% level of significance since the p-value is less than 0.05. The fact that the null hypothesis was rejected implies that there is a systematic difference between the Fixed Effects and Random Effects model coefficients. As a result, the Random Effects Model is inferior to the Fixed Effects Model.

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

The Loan to Deposit Ratio (LDR) has a coefficient of 6.731165, according to Table 5. This suggests that, keeping all factors equal, a 1% increase in LDR will result in a 6.73% rise in ROA. With a p-value of 0.0446, the association is statistically significant at the 5% level. The coefficient for Liquid Assets to Total Assets (LATA) is 0.039671, which is positive. This means that ROA will rise by 0.04% for every 1% increase in LATA. The Capital Adequacy Ratio (CAR) shows a positive coefficient of 0.243355, however the effect is

statistically insignificant with a p-value of 0.7237. This implies that a 0.24% rise in ROA will result from a 1% increase in CAR. With a p-value of 0.0797, the connection is significant at the 10% level. LDR, LATA, and CAR account for 51.46% of the variation in ROA, according to the R-squared value of 0.514645. This suggests that the model fits the data well. Other factors not included in the model account for the remaining 48.54%. The total regression model is statistically significant at the 1% level, according to the F-statistic value of 4.108839 and the p-value of 0.001967. This suggests that the combined impact of LDR, LATA, and CAR on the selected institutions' financial performance is substantial. Financial performance is positively and significantly impacted by LDR. This supports the idea that banks become more profitable when they dispense more loans compared to deposits. In contrast to Hauwa, Bamanga, and Salihu (2024), who discovered a negligible effect, the outcome supports Onyekwelu, Chukwuani, and Onyeka (2019). ROA is positive but marginally impacted by LATA. This implies that the opportunity cost of retaining idle money may be the reason why holding more liquid assets does not considerably increase profitability. This result is consistent with that of Ismail and Ahmed (2023). Additionally, ROA is positively and moderately significantly impacted by CAR. This suggests that banks with enough capital are better equipped to withstand shocks and enhance performance. The outcome validates the conclusions of Ishaq, Abir, and Khadra (2021).

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.

The Liquidity Ratio (LR) has a positive coefficient of 1.317090, according to Table 6. This suggests that, while keeping other factors equal, a 1% increase in LR will result in a 1.32% rise in ROA. With a p-value of 0.7967, the association is statistically negligible. The coefficient for Liquid Assets to Total Assets (LA) is -0.068488. This implies that ROA will drop by 0.07% for every 1% increase in LA. With a p-value of 0.5505, the effect is likewise statistically negligible. The coefficient of the Capital Adequacy Ratio (CAR) is 0.024706. This means that ROA will rise by 0.02% for every 1% increase in CAR. With a p-value of 0.7812, the association is statistically negligible. LR, LA, and CAR account for 7.25% of the variation in ROA, according to the R-squared value of 0.072544. This implies that variables not included in the model account for 92.75% of the variation in financial performance. The Random Effects model as a whole is statistically insignificant, according to the Wald Chi-Squared statistic of 0.199102 with a probability value of 0.996296. This suggests that the

combined impact of LR, LA, and CAR on the tested institutions' financial performance is negligible.

Table 7: Cross-Sectional Dependence

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.

There is no cross-sectional reliance between the cross-sectional units, according to the null hypothesis of the cross-sectional dependence tests. Table 5 shows that the p-value is 0.0535 and the Breusch-Pagan LM statistic is 18.08574. With a p-value of 0.4902, the Pesaran Scaled LM statistic is 0.689993. With a p-value of 0.0842, the Pesaran CD statistic is -1.726717. All three test statistics have probability values larger than 0.05 at the 5% significance level. Consequently, it is impossible to reject the null hypothesis that there is no cross-sectional dependence.

Discussion of Findings

The Fixed Effects regression analysis's findings offer insightful information on how liquidity risk management affects Nigerian quoted deposit money banks' financial performance. The coefficients and statistical significance of LDR, CAR, and LATA serve as the foundation for the debate. The Loan to Deposit Ratio (LDR) coefficient is statistically significant and positive. This suggests that increased loan issuance in comparison to deposits improves profitability. It suggests that, if the related credit risks are properly controlled, banks can enhance their financial performance by optimizing lending activities. The idea that loan disbursements are the main source of bank revenue is supported by this data. Return on Assets (ROA) is positively and significantly impacted by the Capital Adequacy Ratio (CAR). This implies that financial performance is enhanced by a robust capital basis. A greater CAR fosters financial stability, increases investor confidence, and acts as a safety net against losses. The outcome emphasizes how crucial capital adequacy is to maintain bank profitability. Likewise, the coefficient for Liquid Assets to Total Assets (LATA) is positive. This suggests that better financial performance is linked to larger percentages of liquid assets and relative total assets. The outcome emphasizes the necessity of efficient asset use to guarantee profitability and the ability to fulfill immediate obligations. The results of this study somewhat agree and partially disagree with previous research. The favorable influence of LDR and CAR on ROA is in line with the findings of Jacob, Udenwa, and Suberu (2023), who found that loans and advances significantly affect Nigerian banks' performance. It also supports the findings of Okeke, Lawrence, and Nnamdi (2024) and Margarit, Halim, Agustin, and Rorlen (2020), who discovered that Union Bank Plc's ROE is greatly impacted by liquidity management. This implies that improving shareholder returns in the Nigerian context requires efficient liquidity and capital management. The findings, however, run counter to those of Ishaq, Abir, and Khadra (2021), who discovered that the financial performance of Saudi Arabian banks is negatively impacted by liquidity risk, as

measured by LDR. The discrepancy between Saudi Arabia and Nigeria may be explained by variations in macroeconomic situations, regulatory frameworks, and banking practices. Ismail and Ahmed (2023) discovered that Jordanian banks' stability was not significantly impacted by liquidity risk. In contrast, the current study found a considerable favorable effect. The discrepancy can result from different risk management strategies and market conditions in Nigeria and Jordan. Alzubi and Marashdeh (2024), Abba, Hafsat, and Umar (2023), and Musa, Isah, and Salihi (2024) all reported negligible effects of liquidity risk on bank performance in Jordan, which lends more credence to this view. The results also deviate from those of Edwin, Benedict, and Maniagi (2023), Ibianga and Enyi (2024), and Ayinuola and Gumel (2023), who highlighted the detrimental impact of credit and liquidity concerns on Nigerian banks' stability. Although the current study indicates a favorable impact on profitability, it acknowledges that to guaranty overall stability, liquidity must be combined with careful risk management. Additionally, Yee (2022) on ANZ banks and Mingming Wang (2022) on American and Chinese banks emphasized how loan projects and maturity transition contribute to liquidity risk. Their focus on managing the mismatch between long-term assets and short-term liabilities is consistent with the current study's advice for efficient liquidity risk management, even though they are not directly comparable. The results are consistent with the Shiftability Theory of liquidity management, which holds that banks can control liquidity risk by keeping assets that are readily convertible into cash on the secondary market. Nigerian banks may be able to control liquidity by optimal loan issuance, sufficient capital holdings, and effective asset usage, according to the favorable effects of LDR, CAR, and LATA on financial performance. Banks can reduce liquidity stocks and improve profitability and stability by keeping liquid assets and a solid capital basis. The study concludes that the financial performance of quoted deposit money banks in Nigeria is greatly impacted by liquidity risk management. The importance of effective capital and liquidity management in raising bank profitability is highlighted by the positive and noteworthy effects of LDR and CAR as well as the favorable impact of LATA on ROA. By emphasizing the necessity of context-specific liquidity risk management techniques and offering empirical evidence for the Shiftability Theory's application to modern Nigerian banking operations, the findings add to the body of existing work.

Conclusion and Recommendation

The impact of liquidity risk management on the financial performance of Nigerian listed deposit money banks was examined in this study. The Shiftability Theory, which holds that banks can protect themselves from large-scale deposit withdrawals by holding marketable credit instruments that are readily convertible to cash in the secondary market, served as the foundation for the study. In order to satisfy liquidity needs, the theory places a strong emphasis on keeping assets that are easily sold or transferred to other investors. The following conclusions were drawn from the Fixed Effects regression results: Financial Performance and the Loan to Deposit Ratio (LDR): The sampled deposit money banks' Return on Assets (ROA) and LDR have a positive and statistically significant association. This suggests that an increase in ROA corresponds to a percentage rise in LDR. Therefore, bank profitability is increased when lending exceeds deposits. Financial Performance and the Capital Adequacy Ratio (CAR): ROA is positively and statistically significantly impacted by CAR. This implies that an increase in ROA follows a percentage increase in CAR. Therefore, deposit money banks' financial performance is enhanced by a larger capital base. Financial Performance and Loans and Advances to Total Assets (LATA): ROA and LATA are positively correlated. This

suggests that an increase in loans and advances as a percentage of total assets raises deposit money institutions' return on assets (ROA). In conclusion, the results show that efficient liquidity risk management, as measured by LDR, CAR, and LATA, greatly improves the financial performance of Nigerian deposit money institutions. The study's conclusions indicate that one of the most important factors influencing the financial performance of Nigeria's listed deposit money banks is liquidity risk management. Optimal loan issuance, sufficient capital holdings, and effective asset use all contribute to increased profitability, as seen by the positive and significant benefits of LDR and CAR as well as the beneficial influence of LATA on ROA. As a result, banks are better positioned to achieve long-term financial success if they manage capital and liquidity well. In light of the results and conclusions, the following suggestions are put forth: Ideal Loan to Deposit Ratio: Deposit money banks ought to keep their LDR at its ideal level. An overly high LDR raises liquidity risk, whereas a very low LDR can suggest underutilization of resources. As a result, banks should balance the supply of loans with the mobilization of deposits. Strong risk management mechanisms, such as scenario analysis and stress testing, should also be put into place to reduce the hazards connected to high LDR.

Improvement of the Capital Adequacy Ratio It is recommended that banks keep their capital adequacy ratio higher than the minimum required by regulations. Financial stability and the ability to absorb possible losses are improved by a sizable capital cushion. Additionally, deposit money institutions should create thorough capital planning plans that, if needed, may involve acquiring more money through debt or equity instruments.
Enhancement of Asset Utilization and Quality: Deposit money banks should concentrate on enhancing asset quality in order to capitalize on the favorable impact of loans and advances on performance. To lower the frequency of non-performing loans, this can be accomplished by careful credit evaluation, efficient loan monitoring, and portfolio diversification. To guaranty effective resource use, loan and advance levels should also be in line with the bank's overall asset management plan.

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