

**THE EFFECT OF LIQUIDITY RISK ON THE PERFORMANCE OF SOME
SELECTED QUOTED COMMERCIAL
BANKS IN NIGERIA**

BY

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NSU/SS/PGD/ECO/050/15/16**

POST GRADUATE DEGREE ECONOMICS

NOVEMBER, 2016

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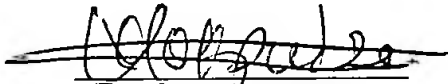
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**A PROJECT SUBMITTED TO THE SCHOOL OF POSTGRADUATE
STUDIES, NASARAWA STATE UNIVERSITY KEFFI, IN PARTIAL
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ECONOMIC FACULTY OF SOCIAL SCIENCES
NASARAWA STATE UNIVERSITY, KEFFI
NIGERIA**

NOVEMBER, 2016

DECLARATION

I hereby declare that this project titled “The effect of Liquidity Risk on the Performance of some selected quoted Commercial Banks in Nigeria” was written by me and it is a record of my research work. It has not been presented in any previous application for a Post Graduate Degree programme. All quotations are indicated and sources of information are purposely acknowledged by way of references.



Vokpuize Uti-Idah

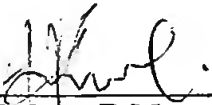
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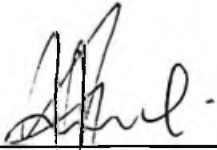
CERTIFICATION

This is to certify that this project research "titled "The effect of liquidity risk on the performance of some selected quoted Commercial Banks in Nigeria" meets the regulations government the award of Post Graduate Degree (PGD) in Economic School of Postgraduate Studies, Nasarawa State University, Keffi, and is approved for its contribution to knowledge.



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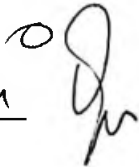
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DEDICATION

This work is dedicated to God Almighty, the giver of wisdom and the source of my strength and knowledge.

ACKNOWLEDGEMENT

My greatest gratitude goes to my creator God Almighty the giver of life and wisdom for academic pursuit and to have reach this height academically.

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ABSTRACT

This project titled “The effect of liquidity risk on the performance of some selected quoted commercial banks in Nigeria” was undertaken with the following objectives: to determine the effect of money deposits on Net Operating Profit Margin of selected quoted Commercial Bank in Nigeria, to examine the effect of cash on Net Operating Profit Margin of selected quoted Commercial Banks in Nigeria and to investigate the effect of Liquidity-Gap on Net Operating Profit Margin of some selected quoted Commercial Banks in Nigeria. The research adopted Ex-post Factor research design; this enabled the researcher to gather data from 2010 to 2015 from the sampled banks that is Diamond Bank, Eco Bank and KeyStone Banks. The data gathered was analyzed with Multiple Regressions, F-test at 95% confidence level in addition to Statistical Package for Social Science (SPSS) which was used to test the hypotheses. The result shows that: performance of Commercial Banks in Nigeria is negatively affected due to the Liquidity Gap, the increase in the cost ultimately affect the performance of the bank. The researcher therefore, recommended for banks to establish the required cash in each product segment and maintain the optimal level which help in reducing the cash balance level and increase their customer deposit base through making the product accessible to more customers especially the low income earners who have been neglected for a long time by the main stream banks. At the same time banks should consider targeting the corporate clients who will be willing to retain large cash in the banks for a longer period.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Banks as financial intermediaries are very significant in the economy of every nation. The relevance of banks to the economy lies primarily in their ability to mobilize credit and grant credit to various economic factors. Lending operations are core banking activities and the most profitable asset of credit institutions. In many markets, banks have to operate in the economic environment that is characterized by the existence of obstacles to good credit management (Ejoh, Okpa, Egbe, 2014).

In banking industry, liquidity risk has an opposite effect on profitability. Some studies such as Molyneux & Thornton (1992) supported the positive effect of risk on the profitability; while some studies such as Bourke (1989) believed in its negative effect. Liquidity risk is usually measured as liquidity ratio which is practically calculated in two different forms. In first type, liquidity is adjusted by size which includes the ratio of cash asset to total asset (Barth, 2003), the ratio of cash asset to deposits (savings) (Chen, 2010). Second type includes the adjusted loan by the size which includes the ratio of total asset and/or the ratio of net loan to total asset (Kosmidou, 2005).

In first type, the higher is the liquidity ratio, the higher is the liquidity level, and therefore, it is less vulnerability against bankruptcy. In contrast, in second type,

the higher are the values of ratios, it will represent that banks will undergo higher liquidity risk.

Also 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). The most important aspect of banking sector in respect of the financial allocation in the world due to its intermediation functions of transferring funds from surplus units to deficit units (Eken, Idam and Linus, 2012), Risk is a natural element of business and community life, it is a condition that raises the chance of losses, gains and the uncertain potential events which could manipulate the success of financial institutions (Growe, 2009).

As a result, well establish Risk Management Practices (RMPs) can assist banks to reduce their exposure to risk. The development of international financial markets and rising variety of financial instruments has increased the possibility of bank's achievement to financial resources at an extensive level. Under such conditions, the market are rapidly developed and some opportunities are provided to design new products and present more services. Although it seems that the speed of such changes in different from a country to another country, but the banks generally compete with each other to develop and expand the new financial instruments and services (Naser, Mohammad and Ma'Someh, 2013).

Bank's profit is usually one of the main resources in accumulation of asset. The safety of banking system is depending on the profitability and capital adequacy of

liquidity risk on the performance of some selected quoted Commercial Banks in Nigeria.

1.2 Statement of the Problem

Liquidity is considered as the success of a bank, therefore by ineffectiveness in its management constitutes a huge problem, that is encounter a huge problem that affect the affairs of the financial institution. This problem is therefore, analysed here as the basis for this research.

Commercial banks play a vital role in the economic resource allocation of countries. They cannel funds from depositors to investors continuously, Warig (2014), when such provider are challenged with liquidity risk the outcome will not be to the best interest of the sector or the economy of such society or nation. Between 1999 to 2015 not less than 10 banks been merged and some shut down business, the reason is not farfetched from liquidity related issues (Madueme 2016).

This present researcher nonetheless, seeks to examine the effect of money deposits on net operating profit margin, the effect of cash on net operating profit margin and liquidity-gap on net operating profit margin of some selected quoted commercial banks in Nigeria. In view to correlate them with the issues of commercial banks facing liquidity and thereby proffer way forward.

1.3 Objective of the Study

The general objective of this research is to determine the effect of liquidity risk on the performance of some selected quoted commercial banks in Nigeria. Some of the following objectives:

- i. To determine the effect of money deposits on net operating profit margin of selected quoted commercial bank in Nigeria.
- ii. To examine the effect of cash on net operating profit margin of selected quoted commercial banks in Nigeria.
- iii. To investigate the effect of liquidity-gap on net operating profit margin of some selected quoted commercial banks in Nigeria.

1.4 Research Questions

This research shall be guided by the following research questions:

- i. What are the effects of money deposits on net operating profit margin of selected quoted commercial bank in Nigeria?
- ii. What are the effects of cash on net operating profit margin of selected quoted commercial banks in Nigeria?
- iii. What are the effects of liquidity-gap on net operating profit margin of some selected quoted commercial banks in Nigeria?

1.5 Statement of Hypothesis

Based on the research questions, the following hypotheses were formulated:

- H_{0i}: There is no significance relationship between money deposit and net operating profit margin of banks in Nigeria.
- H_{0ii}: Cash on net operating profit margin do not have significance effect on commercial banks in Nigeria
- H_i: Liquidity-gap has significance effect on net operating profit margin on Nigerian banks.

1.6 Significance of the Study

The outcome of this research will be beneficial to the following organization, institution, businesses, individuals, students and researchers.

Organization may use the finding of this research to improve their cash operation and net operating profit margin to stay stronger in their financial businesses.

Institution interested in financial performance in Nigeria may rely on the outcome of this research to project at the end of each year to stay profitable and avail any form of liquidity and its risk.

Businesses and financial regulatory bodies such as Central Bank of Nigeria (CBN), Nigerian Stock Exchange (NSE) and other financial institutions can use the outcome of this research to improve on the framework for regulation. This research findings will also benefit management and staff of commercial banks who will gain insight into how their institutions can effectively manage their

liquidity risk by coming up with appropriate practices. Several practices on risk management and their effects will be of benefit to them.

General public will be educated on the effect of liquidity risk on the performance of some selected commercial banks in Nigeria. Some time the public are effected by instability in commercial banks, the outcome of this research will build confidence on how to monitory the growth and profitability of their money keepers.

Students and researchers may rely on the outcome of this research and adopt it as secondary material in furtherance to their academic activities and will definitely add to vast empirical literature on the effect of liquidity risk on the performance of Nigerian banks.

1.7 Scope of the Study

The research solely restricted to accessing the effect of liquidity risk on the performance of selected quoted commercial banks in Nigeria. In other to achieve this the research is limited in scope to examining the financial report or statement of three (3) selected quoted commercial banks in Nigeria; i.e. Diamond, Eco and Key Stone Banks (both the statement of comprehensive income and financial position), these are statement that covers between 2010 to 2015, this period is the era Nigerian banks face with lots of liquidity challenges.

This research is not without constraints, these constraints are limitation of data for this research and bottle-neck huddles in assessing data, that is financial and statement of account from the selected banks, also this research was carried out with other academic activities in the campus, fund and time were not adequate in a research of this nature nonetheless, these constraints did not affect the outcome of the research.

1.9 Definition of Terms

Bank deposits:- this consist of money placed into banking institutions for safekeeping. These deposits are made to deposit accounts such as savings accounts, checking accounts and money market accounts.

Cash: is legal tender currency or coins that can be used to exchange goods, debt or services. Sometimes it also includes the value of assets that can be easily converted into cash immediately, as reported by a company.

Liquidity-Gap:- Liquidity gap is a term used in several types of financial situation to describe a discrepancy or mismatch in the supply or demand for a security or the maturity dates of securities.

Net profit Margin:- The net profit margin is equal to how much net income or profit is generated as a percentage of revenue.

Profit: Profit is a financial benefit that is realized when the amount of revenue gained from a business activity exceeds the expenses, costs, and taxes needed to sustain the activity.

Quoted Company: Company whose shares are listed at the stock exchange.

CHAPTER TWO

LITERATURE REVIEW AND THEORETICAL FRAMEWORK

2.1 Introduction

This chapter is concerned with conceptual review, theoretical framework, empirical and variable review most especially those that are related to this present research topic.

2.2 Conceptual Framework

This is section the research review the following concepts: Risk, Liquidity management and commercial bank.

2.2.1 Concept of Liquidity

The concept of Liquidity has been a source of worry to the management of firms of the uncertainty of the future.

Liquidity is a financial term that means the amount of capital that is available for investment. Today, most of this capital is credit, not cash. That's because the large financial institutions that do most investments prefer using borrowed money. High liquidity means there is a lot of capital because interest rates are low, and so capital is easily available.

Why are interest rates so important in controlling liquidity? Because these rates really dictate how expensive it is to borrow. Low interest rates mean credit is cheap, so businesses and investors are more likely to borrow. The return on

investment only has to be higher than the interest rate, so more investments look good. In this way, high liquidity spurs economic growth.

Liquidity can be defined as the state or condition of a business organization which determines its ability to honour or discharge its maturing obligations. These maturing obligations are composed of current liabilities and long-term debts. Liquidity can also be defined as a measure of the relative amount of asset in cash or which can be quickly converted into cash without any loss in value available to meet short term liabilities.

Liquid assets are composed of cash and bank balances, debtors and marketable securities. Liquidity is the ability of a firm to meet all obligations without endangering its financial conditions. Liquidity will help a firm to avoid a situation where a firm will be forced to liquidate with its attendant problems of selling assets at distressed prices and the extra fees paid to lawyers, trustees in bankruptcy and liquidators on liquidation. The definitions above imply that, as liquidity increases, the probability of technical insolvency is reduced. The definitions above went ahead to expand the views by recognizing two dimensions of liquidity namely the time necessary to convert an asset into money and the degree of certainty associated with the conversion ratio or price realized for the assets.

2.2.2 Liquidity Components

- ❖ Vault Cash
- ❖ Balances Held With CBN
- ❖ Balances Held With Other Banks In Nigeria
- ❖ Balances Held With Offices & Branches Outside Nigeria
- ❖ Money At Call In Nigeria
- ❖ Inter-bank Placement
- ❖ Placement with Discount Houses
- ❖ Treasury Bills
- ❖ Treasury Certificates
- ❖ Investment in Stabilization Securities
- ❖ Bills Discounted Payable In Nigeria
- ❖ Negotiable Certificates of Deposits
- ❖ Bankers Acceptances and Commercial Papers
- ❖ Investments In FGN Development Stock
- ❖ Industrial (Other) Investments

2.2.3 Elements of Liquidity

Liquidity is a complex concept as the rate of liquidity among different liquid assets differs. For instance, a savings or time deposit is more liquid than common stock and common stocks in turn are more liquid than real estate. Liquidity is a relative concept because there is no specific level of any balance sheet ratio that indicates that the firm is no longer liquid.

Liquidity involves three elements or characteristics namely Marketability, Stability and Conservatism. Liquid assets should be more marketable or transferable. That means, they are expected to be converted to cash easily and promptly, and are redeemed prior to maturity. All assets that cannot be redeemed at maturity are said to be illiquid. Another quality of liquid asset is price stability.

Based on this characteristic, bank deposits and short term securities are more liquid than equity investments such as common stocks and real estate due to the fact that the prices of the former are fixed and have lesser variability than the prices and value of the later that experience considerable fluctuation. Conservatism quality of liquidity refers to the ability of the holders of liquid assets to recover the cost of the asset on the time of resale. On the basis, common stocks are not considered highly liquid asset despite its ready marketability. This can be attributed to the fact that on certain periods, the current prices are lower than their initial or original prices. In consideration of these qualities, people and firms decide to hold cash which is the only perfectly liquid asset.

Double coincidence of wants was one of the problems that made trade by barter unpopular and caused for its replacement with money. For the fact that all other asset is converted into money before they are used and for the fact that money ensures that an asset is converted to any other asset, make money the most popular liquid asset with high rate of convertibility needed of any liquid asset.

Liquidity management is a concept that is receiving serious attention all over the world especially with the financial situations and the state of the world economy.

The crucial part in managing working capital is required maintenance of its liquidity in day-to-day operation to ensure its smooth running and meets its obligation; liquidity plays a significant role in the successful functioning of a business form (Ibe, 2013).

Nwaezeaku (2008) defined liquidity as the degree of convertibility to cash or the ease with which any asset can be converted to cash (sold at a fair market price). Liquidity management therefore involves the strategic supply or withdrawal from the market or circulation the amount of liquidity consistent with a desired level of short-term reserve money without distorting the profit making ability and operations of the bank. It relies on the daily assessment of the liquidity conditions in the banking system, so as to determine its liquidity needs and thus the volume of liquidity to allot or withdraw from the market. 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).

Acharya and Naqvi (2012) sees liquidity as the speed and certainty with which an asset can be converted back into cash whenever the asset holder desires. A liquid bank stores enough liquid assets and cash together with the ability to raise funds quickly from other sources to enable it meet its payment obligations and financial commitment in a timely manner. Also Ngwu (2006) views liquidity management as the act of storing enough funds and raising funds quickly from the market to satisfy depositors, loan customers and other parties with a view to maintaining public confidence.

Liquidity in commercial bank means the bank's ability to finance all its contractual obligations when due and these obligations can include lending, investment and withdrawal of deposits and maturity of liabilities which happen in the normal course of the bank actions (Ali, 2015).

Erika and Raimonda (2014), states that the liquidity in simplified terms is companies' ability to cover its obligations towards creditors calling funds at inconvenient time, expressed in measured number. In other words, if the liquidity is not managed in proper way, firm can face situation of illiquidity and will technically be bankrupt or face losses.

Aluoch, Muturi and Munene (2014) mentioned that risk management among banks has been inadequate and stressed the importance for a uniform procedure to monitor and regulate risks.

Liquidity management involves the routine control of the level of liquidity (money in circulation) in the economy in order to maintain monetary stability. This is necessary because an excess supply of money will result in inflation (excess demand for goods and services which would lead to rising prices), exchange rate depreciation and/or deterioration of the balance of payments position (Nwabueze, 2000).

The major problems confronting monetary policy management by Central Banks in developing countries as stated earlier are "excess liquidity and dearth of appropriate intervention securities". To overcome these problems, Central Banks

in these countries have introduced various intervention instruments. Consequently the CBN introduced a number of other measures, including the issuance of its own intervention instrument (CBN Certificate) in 2001 to complement the traditional instrument to help manage liquidity in a more effective manner.

The source and size of liquidity would suggest the type of securities the Central Bank would need to introduce. In Nigeria the main sources of liquidity include the federal government fiscal operation; earnings from oil, especially the monetization and sharing of oil windfall and the excess creation of credit by deposit money banks. Resulting from the expansionary fiscal operations of the three tiers of government in the last few years, which were financed mainly through the CBN by Ways and Means of Advanced to the government, excess liquidity has persisted in the economy.

2.2.4 Objectives of Liquidity management in Nigerian Banks

The main or broad objectives of liquidity management in Nigerian banks are:

- i. To facilitate efficient operations as well as foster overall development of the money market and maintain a stable banking system.
- ii. To maintain an optimum level of liquidity that is consistent with non-inflationary growth, through the use of market-based techniques.

- iii. To promote the safety and soundness of financial institutions through on-going evaluation and monitoring, including the assessment of risk management system, financial conditions and compliance with laws and regulations.

Strategies of liquidity management in Nigerian banks

Given the size of the excess liquidity in the economy, a number of options as well as strategies would be required in designing the liquidity management strategies (intervention instruments) in the Nigerian banking industry. The system of seeking to manage excess liquidity put the CBN in the defensive, as banks are sometimes compelled to find ways and means to mop-up excess liquidity, for which there are no ready-made instruments (Anyafu, 1994).

Central Bank of Nigeria has made relative success in the application of indirect monetary tools to manage shortage and excess liquidity in Nigeria. To enable banks manage liquidity shortages. To be able to do this, an enabling environment is consciously created overtime by adapting appropriate policy actions. The government therefore sources all borrowing requirement from the capital market. This has the effect of drawing excess liquidity in the system on a continuous basis, thereby making credit institutions to begin each day with shortages.

Against the backdrop, the introduction of medium to long term instruments by the CBN was designed to reduce excess liquidity in the economy to the level that would enable the bank to adopt the strategy of managing liquidity shortages and

thereby ensuring effective implementation of monetary and foreign exchange operations.

2.2.5 Challenges of liquidity management in Nigerian Banks

In spite of the significant efforts to address the problems of excess liquidity in the Nigerian economy, the CBN still faces a number of challenges in trying to achieve an effective and efficient mechanism for liquidity management. The following are the challenges;

- i. First, fiscal expansion and the concomitant large fiscal deficits have militated against the efficiency of liquidity management in Nigerian.
- ii. In particular, the monetary financing of large fiscal deficits and the monetization of excess crude oil receipts have continued to pose serious challenges to liquidity management in the country.
- iii. Furthermore, there is the challenge of the country having limited number of bank branches and absence of banking facilities, especially in the rural areas where access to banking services is practically impossible for large sectors of the population. This has led to a great number of financial transactions still being carried out outside the banking system, (Anyafu, 1994).
- iv. Another major challenge is the problem of inefficient payment system in the country. Until recently, up-counting cheques used to take about 21 working days to get cleared, while intra instruments take 12 days.

- v. Finally, the poor data quality from banks and other sources poses a great challenge for liquidity management in Nigeria. The indirect approach which the CBN currently employs to manage liquidity in the banking system requires up-to-date information and monitoring. The lack of high frequency and reliable data renders economic analysis difficult. Thus, the unrealistic data returned by banks and other sources undermine the setting of accurate targets.

2.2.7 Implication of effective Liquidity Management in Nigerian Banks

The implications of effective liquidity management in Nigerian banks are not far-fetched, being highlighted as follows:

- i. It leads to stability in the banking sector of the economy.
- ii. It enhances an efficient payment system which promotes timely clearing and settlement of financial obligations.
- iii. It facilitates efficient operations as will foster overall development of the money market and maintain a stable banking system.
- v. Effective liquidity management helps the Central Bank of Nigeria to use instruments of monetary policy effectively
- iv. It helps to maintain an optimal level of liquidity that is considered with non-inflationary growth, through the use of market-based techniques.
- v. It promotes the safety and soundness of financial institutions through on-going evaluation and monitoring including the assessment of risk management system,

financial conditions and compliance with laws and regulations, (Naser et al., 2013).

- vi. Finally, it facilitates economic growth and development of Nigeria.

2.2.8 Liquidity and the distress Syndrome in Nigerian Banks

A bank that is illiquid or insolvent or both is distressed and therefore in crisis. If many banks in a country are distressed to the extent that it becomes systemic, the country can be said to be having banking crisis. It therefore implies that banking crisis can be in a bank or a country or a region. As a matter of fact, if many banks are in crisis in all the regions of the world at the same time, global banking crisis can ensue even though the situation has not degenerated to that extent. It does follow that a typology of banking crisis is easily discernable, (Naser et al., 2013).

- i. Illiquid but solvent
- ii. Insolvent but liquid
- iv. Liquid and insolvent

Also, degrees of banking crisis are continuum from mild to severe. Banking crisis become severe when a bank reveals most of or all of the following conditions:

- i. Gross under-capitalization involved to the level and character of business.
- ii. High level of non-performing loans to total loans.

- iii. Illiquidity reflected in the inability to meet customers' cash withdrawals and / or persistent overdrawn position of with the CBN.
- iv. Low earning resulting in huge operational losses, and
- v. Weak management as reflected by poor asset quality, insider abuse, inadequate internal controls, frauds, including unethical and unprofessional conduct, squabbles, high staff turnover etc (Naser et al., 2013).

2.2.9 Bank Liquidity on Bank Performance

There are a very limited number of studies that were specifically carried out to investigate the impact of liquidity on bank performance.

Ejoh (2014) explains that cash is the important current assets for the operation of any business. It is the input needed to keep the business running continuously. A bank as a business concern needs to have cash and liquid assets which it can easily convert into each at short notice.

Pandey (2011) identified the types of assets available to a bank to include cash, deposits with the Central Bank treasury bills. Thus, for banks to remain in the business of financial intermediation, they must formulate policies to ensure the availability of cash and liquid assets in the asset portfolio at any point in time. Liquidity risk reduces the ability of the bank to meet its financial obligations as they fall due. When this risk remains unchecked, banks will lose customers thereby reducing the volume of deposits. When deposits reduce, the bank will

have insufficient funds for other investments; this significantly reduces the level of profitability. Again, a high liquidity risk causes a run on the bank. This run is evidenced in the panic withdrawal of deposits by customers from the bank.

This adversely affects the potentials of the bank by keeping away would be customers and potential investors from the bank. Consequent upon this, the bank's operations reduce drastically and results in a significant reduction in profit, Bourke (1989). Shen, Gusti and Maaka (2010) assert that in market-based financial system liquidity risk is positively related to net interest margin an indication that banks with high levels of illiquid assets receive higher interest income. Conflicting to their earlier establishment on the relationship with net interest margin, they realized that liquidity risk is negatively related to return on average assets and also inversely related to return on average equity. They pointed out banks incurred higher funding cost in the market if they have illiquid assets as they had to raise the money in the market to meet the funding gap. They also discovered that there is no relationship between liquidity risk and performance in a bank based financial system as the banks play a major role in financing; therefore they are not affected by liquidity risk.

2.3 Concept of Risk

Risk has different definitions; A lot of authorities have defined risk in various ways:

Mordi (1989) defines risk as chances of miscalculation, chances of an event happening or not happening. All these definitions stress on one thing (loss or

mishap). For the purpose of this project, the researcher defines risk as the chances of financial loss.

Risk can be classified into six but paired into three; pure and speculative risk, particular and fundamental risk, static and dynamic risk and most recently systematic and unsystematic risks.

- ❖ **Pure risk:-** are said to be risks that have chances of occurring and not occurring, that is loss or no loss.
- ❖ **Speculative risks:-** are risks that have three chances: loss, no loss and gain. It is uninsurable risk. For instance if one is a car dealer who buys some vehicles for sale, it is either that such vehicles are sold at exact price (no loss no gain) or with gain or loss, (Austin, 2001).
- ❖ **Particular risk:** A risk can be said to be particular when the impact affected a particular person and it is not universal in nature and the origin can be traced. For instance, if one hired a vehicle to carry goods from Lafia to Keffi, and on the road accident occurred and the goods were damaged. The loss has only affected one particular person.
- ❖ **Fundamental risks:-** are those risks which the origin is not traceable to a particular person and the impact is always universal in nature. Example; flood risk, unemployment risk, earthquake, storm etc. These are the types of risks that once it occurs, it affects so many people and it is caused by Act of God. (Nwude, 2003)
- ❖ **Static risks:-** A risk is said to be static when it does not change with environment like earthquake, flood, drought, etc. whether the economy is

good or bad, it does not determine the happening of such risks. It is called natural occurrence.

- ❖ **Dynamic risk:-** on the other hand is such risk which happens because the other (dependent and independent) variables. The political instability in the economy made foreign investors not to invest in Nigeria, the level of poverty in Nigeria has made fraudulent act to grow. These are examples of dynamic risks.

2.3.1 Various types of risk that arises in the activities of Nigerian banks

Liquidity Risk:- The danger of a bank running out of cash when cash is needed to cover deposit withdrawals and to meet the credit request of good customers is known as liquidity risk. If a bank cannot raise cash timely it is likely to loose many of its customers and suffer loss in earning from its owners. If the cash shortage persists, this may lead to runs on the bank and ultimate collapse.

Credit Risk:- This is a type of financial risks resulting from customers' inability to service or pay bank borrowed fund and the interest charged on the principal. When borrowing customers fail to make some or all their promised interest and principal repayments, these defaulted loan and securities result in losses that can eventually erode with bank's capital. Whenever a bank gives out any credit facility it is expose to credit risk, (Sanusi, 2010).

Operating Risk:- Banks also face significant operating risk due to possible breakdown in quality control, inefficiencies in producing and delivering services,

or simple errors in judgment determined by management fluctuations that affects the demand for each bank's services.

Interest Rate Risk:- The probability that fluctuating interest rates will result in significant appreciation or depreciation of the value of and the return from the bank's assets is known as interest rate risk.

Exchange Risk:- Large banks face exchange rate risk from other dealings in foreign currency due to fluctuations in exchange rate, (Nwude, 2003).

Crime Risk:- Banks encounters significant crime risk, fraud or embezzlement by bank employee or directors can weaken a bank severely and in some instance lead to its failure. In fact, fraud and embezzlement from insiders constitute one of the prime causes of recent bank failures. The focus of bank robbery has shifted somewhat with changes in banking technology. Theft from ATMs and from persons using other money machines has become one of the most problematic aspects of bank crime risk today.

2.3.2 Primary activities of Commercial Banks

Shakib A. (2017). Commercial banks usually collect small amounts of small savings of the people in exchange for interest and provide loans to the other party for interest. The difference between these two interests is the commercial bank's profit. The loan period of commercial banks is short and medium. Banks cannot provide long-term loans because they are trading with the money of others. Therefore, it is said in the bank that the short and medium term bank loan

services dealer. Below is the opinion of various experts about the commercial bank to provide the definition of the commercial bank.

However, since financial institution in the commercial bank has to perform various functions in order to meet the growing demand for the industrial trade. Besides, the banks also perform various functions in order to provide services according to the needs of the common customers. The coordination of the activities of the Evangelists accelerates the economic development of the country.

The main function of the commercial bank is to give the money to the people who are lazy. These conditions are collected by various accounts in the form of deposits. Deposits can be accepted through three accounts below.

1. Current Account
2. Fixed Account
3. Savings Account

Banks offer checks and orders to the depositor to withdraw money. In this way, commercial banks provide utility and security of lazy people by accepting deposits.

The grating loan is the second function of commercial bank hotline. Commercial banks make a part of the accepted deposits as liquidity to meet the claims of the depositors, and the rest is provided to the business, industry, and people as a loan. Commercial banks charge interest on these loans at a fixed rate. In contrast to

various types of securities, banks offer loans, advances, deposits, and cash, although, banks in many cases provide an unpaid loan.

Commercial banks also generate deposits as well as receiving deposits. The bank gives a loan to the depositors by paying the loan with a check. This loan does not give cash, but rather would be credited. The borrowers withdraw the money by presenting the check according to the requirement. This bank lends itself again to that Bank loan services. Thus the bank creates debt and deposits. However, you can study more according to the similar subjects about electronic banking services.

Bill discounting part is a unique function of the commercial bank. If a trader purchases goods from another businessman, instead of cash, the exchange bill is paid. As a result, the trader or the seller cannot recover his money before expiration. But during the financial crisis of the seller, the bank provides cash for the burial of its bill before maturity. As well as the fruit seller's financial crisis is eliminated. In this case, though, some money is earned as a bank account. Even all these activities are called by the best bill discounting primary functions of commercial banks.

2.3.3 Creating Medium of Exchange Functions of Commercial Banks

While commercial banks can circulate notes at the beginning of banking history, the current central bank is engaged in this responsibility. But the commercial banks create a medium of exchange through checks, bonds, securities, drafts,

pay-orders etc. These all work are related hardly to the exchange of commercial banks.

Money transfer is a valuable primary function of the commercial bank. Commercial banks offer the opportunity to transfer money easily and securely from one place to another for the needs of its customers. And transfer money from one country to other countries. In this case, the branches of these banks and their representatives are engaged in the work. It was the clear concepts of money transfer primary functions of the commercial bank.

Every scheduled bank has to compulsorily submit weekly reports of their activities to the central bank every week. Basically, they are less wrong in their banking accounts by submitting statement or reports. By presenting the Weekly Statement, the central bank simplifies the banking activities of the country, (Shakib 2017).

2.4 Empirical Review of Literature Study

Godfrey (2015) studied “liquidity and bank performance and the results shows that there is no evidence of a long-run relationship and bank performance and the results shows that there is no evidence of a long-run relationship between net interest income and provision for bad debts. All other things being equal net interest income is not influenced with the provision for nonperforming loans in the long run. To determine whether there is a unique co-integration vector in Models 1 and 2, Table CI (III) as per Pesaran, Shin and Smith (2001), was used

to decide on the asymptotic critical value bounds for the F-statistics since the models had unconstrained intercept and no trend.

The lower and upper bounds for the F-test statistic at the 10%, 5%, and 1% significance levels are [4.04 and 4.78], [4.94 and 5.73] and [6.84 and 7.84] respectively. As the values of the F-statistic are lower than the lower bound at the 1% significance level, in this case the study concluded that there is no unique co-integration relationship between net interest margin and market liquidity risk and funding liquidity risk. Thus, the evidence revealed that there is no a long-run relationship between the two liquidity measures and net interest margin.

Ali (2015) opined that there is a lack of uniformity in the figures during the research period, and the analysis results shows that there is a positive effect of some liquidity indicators on the profitability of these banks. It is noted that an increase in the investment ratio, as well as in the quick ration lead to an increase in profitability by raising the Return On Equity (ROE), and that means the profitability in the commercial banks increases with an increase in the quick ratio and the investment ratio. The results also indicate that a decrease in the percent of the invested funds out of the total available funds as well as a decrease in capital, and in Acid liquid assets, lead to increase in profitability in the Jordanian Commercial Banks when measured by ROE, but an increase in the capital ratio leads to increase in profitability as measured by ROA.

The researcher notes that, the result of decreasing in the percent of invested funds as well as in the bank capital contribute in increasing profitability in the

Jordanian commercial banks, this result does not correspond with the logic which indicates that an increase in invested funds and in capital lead to an increase in profitability. While the result of decreasing in the percent of Acid liquid assets leads to increase in banks profitability, is logical and compatible with the principle of tradeoff between liquidity and profitability (decreasing in the liquid assets leads to a decrease in liquidity and at the same time leads to an increase in profitability).

Idowu, Essien and Adegboyega (2017), in their study on “liquidity management and banks performance in Nigeria” opined that the issue of liquidity and profitability management is a paramount one in the banking industry. The problem becomes pronounced when the commercial banks try to maximize their profit at the expense of liquidity. This causes technical and financial hardship in bank management and performance. The study was carried out on four deposit money banks in Nigeria between 2007 and 2016, using Pearson correlation coefficient technique. The empirical results revealed that there is a statistically significant relationship between banks’ liquidity, Return On Asset and Return On Equity.

However, the relationship is not all that statistically significant when return on asset was used as proxy for profitability. It was suggested that the banks should evaluate and redesign their liquidity management strategy so that it will optimize returns to shareholders equity and also optimize the use of the assets. The study showed that good management and control of factors influencing the liquidity of

commercial banks in the country could improve the financial performance of banks.

2.5 Theoretical Framework of the Study

This research on the effect of liquidity risk on the performance of some selected quoted commercial banks in Nigeria adopted two relevant theories to anchor the research, these are: Anticipated Income Theory and Commercial Loan Theory.

2.5.1 Anticipated Income Theory

This theory was proposed by Prochanow H.V. in 1944 on the basis of the practice of extending term loans by the US commercial banks. This theory states that irrespective of the nature and feature of a borrower's business, the bank plans the liquidation of the term-loan from the expected income of the borrower. A term-loan is for a period exceeding one year and extending to a period less than five years.

It is admitted against the hypothecation (pledge as security) of machinery, stock and even immovable property. The bank puts limitations on the financial activities of the borrower while lending this loan. While lending a loan, the bank considers security along with the anticipated earnings of the borrower. So a loan by the bank gets repaid by the future earnings of the borrower in installments, rather giving a lump sum at the maturity of the loan.

Advantages of Anticipated Income Theory

This theory dominates the commercial loan theory and the shiftability theory as it satisfies the three major objectives of liquidity, safety and profitability.

Liquidity is settled to the bank when the borrower saves and repays the loan regularly after certain period of time in installments. It fulfills the safety principle as the bank permits a relying on good security as well as the ability of the borrower to repay the loan. The bank can use its excess reserves in lending term-loan and is convinced of a regular income. Lastly, the term-loan is highly profitable for the business community which collects funds for medium-terms.

Disadvantages of Anticipated Income Theory

The theory of anticipated income is not free from demerits. This theory is a method to examine a borrower's creditworthiness. It gives the bank conditions for examining the potential of a borrower to favorably repay a loan on time. It also fails to meet emergency cash requirements.

In relating this Anticipated Income Theory to the present research; the researcher relied on the features of the theory which are: maintaining liquidity in the form of cash is not important as installment CIF of term loan is enough to fulfill liquidity requirement, bond and securities can be used as collateral to give term loan so bank can collect fund in times of emergencies by selling them in the secondary market or by keeping it as collateral to central bank, bank must given such long term loan from which the fund be recollected on due time, from the long and mid-term loan amortization schedule, the flow of interest and principle repayment can be known and it gives a picture of future liquidity position. As a result the necessary plan can be formulated in advance and it provides a broader spectrum of firm's financial structure compared to other theories of liquidity.

2.5.2 Commercial Loan Theory

Commercial Loan Theory as reviewed by Kenton W. April, 2019: The commercial loan or the real bills doctrine theory states that a commercial bank should forward only short-term self-liquidating productive loans to business organizations. Loans meant to finance the production, and evolution of goods through the successive phases of production, storage, transportation, and distribution are considered as self-liquidating loans.

This theory also states that whenever commercial banks make short term self-liquidating productive loans, the central bank should lend to the banks on the security of such short-term loans. This principle assures that the appropriate degree of liquidity for each bank and appropriate money supply for the whole economy.

The central bank was expected to increase or erase bank reserves by rediscounting approved loans. When business started growing and the requirements of trade increased, banks were able to capture additional reserves by rediscounting bills with the central banks. When business went down and the requirements of trade declined, the volume of rediscounting of bills would fall, the supply of bank reserves and the amount of bank credit and money would also contract.

Advantages of Commercial Loan Theory

These short-term self-liquidating productive loans acquire three advantages. First, they acquire liquidity so they automatically liquidate themselves. Second,

as they mature in the short run and are for productive ambitions, there is no risk of their running to bad debts. Third, such loans are high on productivity and earn income for the banks.

Disadvantages of Commercial Loan Theory

Despite the advantages, the commercial loan theory has certain defects. First, if a bank declines to grant loan until the old loan is repaid, the disheartened borrower will have to minimize production which will ultimately affect business activity. If all the banks pursue the same rule, this may result in reduction in the money supply and cost in the community. As a result, it makes it impossible for existing debtors to repay their loans in time.

Second, this theory believes that loans are self-liquidating under normal economic circumstances. If there is depression, production and trade deteriorate and the debtor fails to repay the debt at maturity.

Third, this theory disregards the fact that the liquidity of a bank relies on the salability of its liquid assets and not on real trade bills. It assures safety, liquidity and profitability. The bank need not depend on maturities in time of trouble.

Fourth, the general demerit of this theory is that no loan is self-liquidating. A loan given to a retailer is not self-liquidating if the items purchased are not sold to consumers and stay with the retailer. In simple words a loan to be successful engages a third party. In this case the consumers are the third party, besides the lender and the borrower.

In relating Commercial Loan Theory to the present research on “the effect of liquidity risk on the performance of some selected quoted commercial banks in Nigeria” the researcher belief in the characteristics of the theory which are: Second, this theory believes that loans are self-liquidating under normal economic circumstances. If there is depression, production and trade deteriorate and the debtor fails to repay the debt at maturity.

2.6 Summary

This chapter presented and discussed the concept of liquidity, and under its subheading discussed the liquidity components, elements of liquidity and objectives of liquidity management in Nigerian banks and in addition to strategies of liquidity management in Nigeria banks, liquidity and the distress syndrome in Nigerian banks, implication of effective liquidity management in Nigerian banks and bank liquidity on bank performance.

The concept of risk, various types of risk that arises in the activities of Nigerian banks as well as primary activities of commercial banks in Nigeria. Two relevant theories; Anticipated income Theory and Commercial Loan Theory were discussed and relate them to the study.

The reviewed literature are related to the present study on the effect of liquidity risk on the performance of some selected quoted commercial banks in Nigeria. It proved strongly that research is ongoing among scholars and students on the subject matter, if some of their findings can be implemented in Nigeria financial

sectors, banks and other financial provider would improve liquidity and its associated risks.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses in general the methodology of the research, it discusses research design, population of the study, sampling procedure and sample size, method of data collection and method of data analysis.

3.2 Research Design

The research adopted Ex-post Factor research design for this study, the design is borne out of the fact that the variables of interest in the study has happen in the past even before the research commences. It also involves events which have taken place, the importance of Ex-post factor research Design is that it is realistic approach in solving business and social sciences problems which involves gathering data of past events. Also in analyzing the records and using the outcome of the analysis to predict future events, (Agbadudu, 2002).

3.3. Population of the Study

The population of this research work is three (3) quoted commercial banks in Nigeria Stock Exchange (NSE) at the end of 2015. They are as follows: Diamond Bank, Eco Bank and KeyStone Banks. The choice of these banks is based on their reciprocal agreement with the researcher to make available some of their financial books for a research work within the period under review that is 2010 to 2015.

3.4 Sampling, procedure and Sample Size

The research adopted Random Sampling Techniques in data collecting for this research. These data are annual financial statement of the sampled banks in addition to data from Nigerian Stock Exchange (NSE), Central Bank of Nigeria Official Bulletin within the period under review 2010 – 2015 financial years.

3.5 Reliability and Validity of Instrument

To ensure the validity and reliability of the variables used for the study. The project supervisor was consulted will be consulted to look at the data items in relation to its ability to achieve the stated objectives of the research, level of coverage, compensability, logicity and suitability. The supervisor's permission to adopt the instrument for measurement shall give the researcher confidence to analyze the data with the approved instrument, in this case, The Cronbach's Alpha Scale which will be used to measure the reliability of the data in respect of variables under investigation. The result of the study from the test will be considered valid if all values of the Cronbach Alpha in respect of the study's variable are above 0.8 which is the standard values as proposed by Nunnay (1994).

3.6 Method of Data Collection

Data for this research will be gathered solely from secondary source, which is reviewing relevant financial bank document, Central Bank of Nigeria's document, Internet materials and journal, some past Bachelor of Science Project and financial account for all the selected quoted commercial banks. Those to be

analyzed are Deposits (Dep), cash, liquidity- Gap (Liq-Gap), Non-Performing Loans (NPLs) leverage ratio (Lev) and Net operating profit margin (NOPM) of the commercial banks for six (6) years.

3.7 Model Specification

The choice of Ordinary Least Squares (OLS) for the research work is divided by the fact that its computational procedures is simple and the estimates obtained from this procedure have optional properties which includes linearity, unbiasedness, mini-variance and mean square error estimation (Koutsoyians, 2003).

In carrying out this research work on the effect of liquidity risk on the performance the researcher develops a compact form of the model as follows:

$$Y = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + \dots \Sigma i$$

Where:

- y = Dependent Variable of company
- x = Independent Variable of company
- b₀ = Intercept for x variable of company
- b₁ – b₃ = Coefficient for the independent variables x of companies, denoting the nature of relationship or effect with dependent variable y (or parameters).
- Σi = Error term
- n = Coefficient for each of the independent variables

The regression is adapted from the one used by Arif and Ances (2012) when they did a similar research on Nigeria banks will take the form.

Performance = f (Deposits, cash, liquidity gap, non-performance loans, leverage ratio, Σi).

The model specifically took the forms;

NOPM = Net Operating Profit Margin (NOPM) is Net operating income divided by;

Dep = Level of customer deposit to be collected from the liability side of the statement of financial position without any classification of current or other types of deposit accounts.

Cash = Cash balance that will be taken from the assets side of balance sheets of the banks. This will include cash and balance with the central bank only.

Liq-Gap = Liquidity Gap will be obtained from the table of maturity of assets and liabilities. The liquidity gap for one month will be taken as a negative gap in one month may create difficulties for bank to meet the rising demands of depositors.

Leverage Ratio (LEV) = This was obtained short term debt + long-term debt/fixed Assets.

3.8 Method of Data Analysis

The F-test was used to determine the significance of the regression while the coefficient of determination, R^2 was used to determine how much variation in y is explained by x. This was done at 95% confidence level. Statistical Package for Social Science (SPSS) was used to analyse the data.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter focuses on data presented and analysis, the data obtained which are; Net Operating Profit Margin, Deposit, Cost, Liquidity Gap, Non-Performing Loans and Leverage Ratio from the three sampled commercial banks over the period under review.

4.2 Descriptive Statistics of Research Operational Variables

Table 1: Net Operating Profit Margin (NOPM)

| Year | Diamond bank | Eco Bank | Key Stone Bank |
|------|--------------|----------|----------------|
| 2010 | 1.2513 | 0.1696 | 0.1527 |
| 2011 | 0.5521 | 0.2141 | 0.1900 |
| 2012 | 0.2658 | 0.1228 | 0.1249 |
| 2013 | 0.3370 | 0.2309 | 0.1603 |
| 2014 | 0.3023 | 0.0331 | 0.2119 |
| 2015 | 0.2899 | 0.0596 | 0.1853 |

Sources: Annual Financial Report, 2015

The Net Operating Profit Margin (NOPM) table shows that Diamond Bank Plc has the highest value from 2010 to 2015 at 1.2513, 0.5521, 0.2658, 0.3370, 0.3023, and 0.2899, respectively while Eco Bank has the lowest value from 2010 to 2015 at 0.1696, 0.2141, 0.1228, 0.2309, 0.0331, and 0.0596. While Key Stone Bank has the lowest value 0.1527, 0.1900, 0.1249, 0.1603, 0.2119, and 0.1853, respectively for 2010 – 2015.

Table 2: Deposit

| Year | Diamond Bank | Eco Bank | Key Stone Bank |
|-------------|---------------------|-----------------|-----------------------|
| 2010 | 673530389 | 243831 | 1151086 |
| 2011 | 378733006 | 340147 | 1119063 |
| 2012 | 544282581 | 873532 | 1216464 |
| 2013 | 823090787 | 1043213 | 1461131 |
| 2014 | 1093784492 | 118401 | 1797376 |
| 2015 | 1354814914 | 125191 | 1812277 |

Sources: Annual Financial Report, 2015

The table 2: shows that on deposits, Diamond Bank Plc has highest value of 673530389, 378733006, 544282581, 823090787, 1093784492, and 1354814914, respectively and Eco Bank has 243831, 340147, 873532, 1043213, 118401, and 125191 respectively, while KeyStone Bank has the lowest value for all the studied period that is from 2010-2015 at 1151086, 1119063, 1216464, 1461131, 1797376, and 1812277, respectively for 2010 to 2015.

Table 3: Cash

| Year | Diamond Bank | Eco Bank | Key Stone Bank |
|-------------|---------------------|-----------------|-----------------------|
| 2010 | 93706479 | 389712 | 11504 |
| 2011 | 17764318 | 398119 | 13064 |
| 2012 | 54396524 | 124826 | 111098 |
| 2013 | 123224590 | 629481 | 313546 |
| 2014 | 205286149 | 630426 | 529687 |
| 2015 | 288953932 | 749718 | 534541 |

Sources: Annual Financial Report, 2015

The cash table indicates that Diamond Bank Plc has the highest value of 93706479, 17764318, 54396524, 123224590, 205286149, and 288953932, for the period under review and Eco Bank has the value of 389712, 398119, 124826, 629481, 630426, and 749718, respectively. And Key Stone Bank has the lowest value 11504, 13064, 111098, 313546, 529687, and respectively for 2010 - 2015.

Table 4: Liquidity Gap (Liq-Gap)

| Year | Diamond Bank | Eco Bank | Key Stone Bank |
|-------------|---------------------|-----------------|-----------------------|
| 2010 | -195246108 | -165929 | -78765 |
| 2011 | -94690532 | -27272 | -284315 |
| 2012 | -70320926 | -39062 | -752884 |
| 2013 | -375981800 | -42571 | -2227 |
| 2014 | -600254984 | -49199 | -3139 |
| 2015 | -386953721 | -43279 | -4834 |

Sources: Annual Financial Report, 2015

The liquidity Gap (Liq-Gap) shows that Diamond Bank Plc has the highest value of -195246108, -94690532, -70320926, -375981800, -600254984, and -386953721, over the period under review. And Eco Bank has valued of -165929, -27272, -39062, -42571, -49199, and -43279, while Key Stone Bank has the lowest value with -78765, -284315, -752884, -2227, -3139, and -4834.

Table 5: None-Performing Loans (NPLs)

| Year | Diamond Bank | Eco Bank | Key Stone Bank |
|-------------|---------------------|-----------------|-----------------------|
| 2010 | 93151712 | 35618 | 3442 |
| 2011 | 46605507 | 30219 | 34321 |
| 2012 | 36878356 | 9088 | 23308 |
| 2013 | 32885342 | 4373 | 20981 |
| 2014 | 38578921 | 1899 | 31189 |
| 2015 | 29325229 | 5996 | 22761 |

Sources: Annual Financial Report, 2015

Table 5 shows that the Non-Performing Loans (NPLs) which indicates that Diamond Bank Plc. Have highest value of 93151712, 46605507, 36878356, 32885342, 38578921, and 29325229, over the period under review. And Eco Bank has the value of 35618, 30219, 9088, 4373, 1899, and 5996, while Key Stone Bank has 3442, 34321, 23308, 20981, 31189, and 22761, over the period under review.

Table 6: Leverage Ratio (LEV)

| Year | Diamond Bank | Eco Bank | Key Stone Bank |
|-------------|---------------------|-----------------|-----------------------|
| 2010 | 7.7565 | 4.3250 | 3.4391 |
| 2011 | 9.2318 | 4.3501 | 3.8230 |
| 2012 | 10.8755 | 36265 | 1.0144 |
| 2013 | 4.0317 | 2.5562 | 2.5869 |
| 2014 | 3.8793 | 2.9742 | 2.7903 |
| 2015 | 4.2730 | 3.9895 | 3.4635 |

Sources: Annual Financial Report, 2015

The Leverage Ratio (LEV) indicates that Diamond Bank has the highest value of 7.7565, 9.2318, 10.8755, 4.0317, 3.8793 and 4.2730, within the period under review and Eco Bank has value of 4.3250, 4.3501, 36265, 2.5562, 2.9742, and 3.9895, while Key Stone Bank has the lowest value of 3.4391, 3.8230, 1.0144, 2.5869, 2.7903, and respectively

4.3 Test of Hypotheses

The researcher tested and analyzed the five (5) hypotheses used for this study; the analysis was done using Pearson Correlations, Descriptive statistic, model summary and coefficients which were realized from the multiple regression method.

Table 7: Descriptive Statistics

| | Mean | Std. Deviation | N |
|---------------|-------------|-----------------------|----------|
| NOPM | .3877 | .32678 | 30 |
| Deposits | 3.3E+008 | 471476922.20 | 30 |
| Cash | 65921784 | 116485288.47 | 30 |
| Liquidity Gap | -1.2E+008 | 205836682.08 | 30 |
| NPLs | 16397472 | 24900998.711 | 30 |
| LEV | 4.2478 | 2.39391 | 30 |

Source: Authors SPSS output

The descriptive statistic table above shows that all the independent variables for this study have positive sign except liquidity Gap which has negative sign. The figures for this independent variables were 3.3E + 0008, 65921784, -1.2E + 008, 16397472 and 4.2478 for Deposits, Cash, Liquidity Gap, Non-Performing Loans (NPLs) and leverage ratio (LEV) respectively. The standard deviation value also shows a positive sign such as 471476922.20, 116485288.47, 205836682.08, 24900998.711 and 2.393391 for Deposits, cash, liquidity Gap, Non-Performing Loans (NPLs) and Leverage ratio (LEO) respectively.

Table 8: Correlations

| | NOPM | Deposit | Cash | Liquidity Gap | NPLs | LEV |
|---------------------------------|-------|---------|-------|---------------|-------|-----|
| Pearson Correlation NOPM | | | | | | |
| Deposit | .710 | | | | | |
| Cash | .528 | .040 | | | | |
| Liquidity Gap | -.636 | -.896 | -.844 | | | |
| NPLs | .689 | .618 | .409 | -.496 | | |
| LEV | -.247 | -.037 | -.060 | .064 | -.087 | |
| Sig. (L-tailed) NOPM | | | | | | |
| Deposit | .000 | | | | | |
| Cash | .001 | .000 | | | | |
| Liquidity Gap | .000 | .000 | .000 | | | |
| NOLs | .000 | .000 | .012 | .003 | | |
| LEV | .094 | .424 | .376 | .369 | .323 | |

Source: Authors' SPSS outputs

The correlation matrix table above indicates that Deposit, cash and non-performing loans (NPLs) have strong positive relationship with Net Operating Profit Margin (NOPM) at 71%, 52.8% and 68%.9% while liquidity Gap and leverage ratio (LEV) have negative relationship with Net operating profit margin

(NOPM) at 63.6% and 24.7%. The significance level shows that statistically significant at column shows that deposits, cash, liquidity Gap and Non-performing loans (NPLs) are statistically significant at 1% except leverage ratio (LEV) is statistically insignificant.

This table also shows that cash and non-performing loans (NPLs) have strong positive relationship with Deposit and statistically significant at 1% while liquidity Gap and Leverage ratio (LEV) have negative relationship with Deposits. The liquidity Gap is statistically significant at 1% while leverage ratio (LEV) is statistically insignificant. The positive relationship of Deposits cash, and non-performing loans (NPLs) implies that an increase in the variables will also increase the dependent variable (NOPM) and vice versa while the negative relationship of liquidity Gap and leverage ratio (LEV) means that an increase in these variables will decrease the dependent variable (NOPM) and vice versa.

Moreover liquidity Gap and leverage ratio (LEV) has negative relationship with cash except Non-performing loans (NPLs) has positive relationship with cash. Furthermore, Non- performing Loans (NPLs) has negative relationship with liquidity Gap while leverage ratio (LEV) has positive relationship with liquidity Gap. Finally, the leverage ratio (LEV) has a negative relationship with Non-performing loans NPLs.

Table 9: Model Summary

| Model | R | R ² | Adj.R ² | Std. Error of the Estimate | Change Statistics | | | | Durbin-Watson | |
|-------|--|----------------|--------------------|----------------------------|------------------------|-----------|-----|-----|---------------|---------------|
| | | | | | R ² Changes | F Changes | df1 | df2 | | Sig. F Change |
| 1 | .857 | .734 | .679 | .18512 | .734 | 13.273 | 5 | 24 | .000 | 1.276 |
| a. | Predictors: (constant), LEV, Deposit, NPLs, Liquidity Gap, Cash. | | | | | | | | | |
| b. | Dependent Variable: NOPM | | | | | | | | | |

The above table indicates that coefficient of multiple determinations R² which explains the extent to which the independent variables affect the dependent variables. So the R² is 0.734 or 73.4% shows that independent variables for this study are affected by independent variables used in this study. In this case 73.4% of the variables in the dependent variable were explained by the independent variable while only 0.266 or 26.6% were affected by other variables outside our model. The adjusted R² is a more conservative way of looking at the coefficient of determination is also greater than 50%. In this case, the adjusted R² is -0.679% or 67.9% which is greater than the average value of 50% indicating that the dependent variable is explained by the independent variables for this study.

So all the independent variables for this study are the major determining factors of Net Operating Profit Margin (NOPM) of five (5) selected of quoted banks in Nigeria. Only 0.321 or 32.1% of the variation are determinate by other factors outside our. Furthermore, the table shows that F change is 013.273 at significance level of 0.00% at with df (24.5) while Durbin Watson value is 1.276.

Table 10: Coefficients

| Model | Unstandardized Coefficients | | Standardized Coefficient | | Sig. |
|---------------|-----------------------------|------------|--------------------------|--------|------|
| | B | Std. Error | Beta | t | |
| 1 (Constant) | .327 | .076 | | 4.275 | .000 |
| Deposits | 1.22E-009 | .000 | 1.766 | 3.186 | .004 |
| Cash | -3.26E-009 | .000 | -1.161 | -2.843 | .009 |
| Liquidity Gap | 1.61E-011 | .000 | .010 | .042 | .967 |
| NPLs | 7.35E-.010 | .000 | 0.56 | .310 | .759 |
| LEV | -.034 | .015 | -.248 | -2.303 | .030 |

a. Dependent Variable: NOMP

The coefficient table shows Deposits has positive relationship with Net Operating Profit Margin (NOM) of quoted banks in Nigeria. The t-calculated of Deposits indicates that it is greater than two ($3.186 > 2$). Meaning that Deposits affects the Net Operating Profit Margin (NOPM) and statistical significant at 0.004. This implies that null hypothesis (H_0) will be rejected and alternative hypothesis (H_1) accepted, meaning that Deposits (Dep) has effect on Net Operating Profit Margin (NOPM) of selected quoted commercial banks in Nigeria.

The Positive relationship of Deposits with Net Operating profit Margin (NOPM) indicates as Deposits value increase, Net Operating Profit Margin (NOPM) will increase and vice versa. This Deposits appears to be an important determinant of Net Operating profit Margin (NOPM) of selected quoted commercial bank in Nigeria. So the Deposits of money in Nigerian banks affect their performance (NOPM).

So, the regression coefficient and significance level table shows that t-calculated of cash is -2.843. This indicates that cash has a negative relationship with Net operating profit Margin (NOPM) of the quoted commercial banks in Nigeria.

The corresponding significant level of 0.009 clearly point out that the t-calculated of cash is statistically significant. Thus, the researcher suggests that we reject null hypothesis (H_0) and accept alternative hypothesis (H_1) which states that there is significant effect of cash on Net Operating Profit margin (NOPM) of selected quoted commercial banks in Nigeria. So the cash statistically affect Net Operating Profit Margin (NOPM) significantly. It shows that a decrease on cash will bring an increase in the Net operating Profit Margin (NOPM) by the value of the t-calculated of cash. So cash appears to be an important determinant of performance of selected quoted commercial bank in Nigeria.

Moreover, the t-calculated of liquidity Gap shows that liquidity Gap is 0.042. This indicates that liquidity Gap has weak positive relationship with Net Operating Profit Margin (NOPM) of the quoted commercial banks in Nigeria. The t-calculated of liquidity Gap confirmed that it is statistical insignificant to quote commercial banks performance (NOPM). This indicator shows that liquidity Gap increases, Net Operating Profit Margin (NOPM) will also increase and vice versa because of its positive relationship. Also the statistically insignificant of the liquidity Gap indicates that it does not affect the performance of the commercial banks in Nigeria.

So the researcher suggest that alternative hypothesis (H_1) should be rejected and null hypothesis (H_0) accepted which implies that liquidity Gap has no significant effect on Net Operating Profit effect on Net Operating Profit Margin (NOPM) of selected quoted commercial banks in Nigeria. So the liquidity Gap appears not to

major determinant of performance (NOPM) of selected quoted commercial banks in Nigeria.

Furthermore, the table above indicates that the t-calculated Non-performing loans (NPLs) stands at $0.310 < t^*2$ confirming that it is statistically insignificant to the selected quoted commercial banks in Nigeria performance (NOPM). This indicator shows that Non-performing loans (NPLs) has weak positive relationship with Net Operating Profit Margin (NOPM) and does not statistically affect the performance (NOPM) of this study insignificantly. So the positive relationship of NPLs with NOPM shows that as NPLs increase, NOPM will also increase and vice versa. So the researcher suggest that alternative hypothesis (H_i) be rejected and null hypothesis (H_0) accepted which states that there is no significant effect of Non-Performing Loans (NPLs) on Net Operating Profit Margin (NOPM) of selected quoted commercial banks in Nigeria. So the Non- Performing Loan (NPLs) appears not to be a major determinant of performance Net Operating Profit Margin (NOPM) of quoted commercial banks in Nigeria.

Finally, the coefficient result presented above reveals that leverage ratio (LEV) has negative relationship and statistically significant with Net Operating Profit Margin (NOPM) of selected quoted commercial banks in Nigeria. Given that the t-calculated of $-2.303 > t^*2$, we confirm the statistically significant effect f Leverage Ratio (LEV). This confirmation is strengthened with the P-value of $0.003 < 0.05$ level of significance value. This is weight of the evidence suggests that null hypothesis (H_0) be rejected and alternative hypothesis (H_i) accepted

which states that Leverage Ratio (LEV) has significant effect on Net Operating Profit Margin (NOPM) of selected quoted commercial banks in Nigeria. So Leverage Ratio (LEV) appears to be important determinant of Net Operating Profit Margin (NOPM). The negative relationship of leverage ratio (LEV) with Net Operating Profit Margin (NOPM) shows as LEV increase. NOPM value will decrease and vice versa.

CHAPTER FIVE

SUMMARY CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The secondary data in this analysis covered a period of six (6) years from 2010 – 2015. The findings of this study were that performance of the commercial banks in Nigeria is negatively affected due to the liquidity gap, the bank may have to borrow from the secondary market stock even at a higher rate thereby pushing up the cost of banks. This increase in the cost will ultimately affect the performance of the bank.

However, the result of this study shows that Nigeria banks tend to rely on the secondary market due to the low liquidity gap present. They seem not to have enough cash and therefore, increasing their reliance on secondary market. The borrowing in the secondary market will help the bank to keep the negative impact of the liquidity gap within an acceptable range set by the Central Bank. From this findings, it can be concluded that the harmful effect of liquidity to commercial banks be avoided by maintaining sufficient cash reserves.

However, the findings show a contradiction from other studies to the effect that high provisioning of Non Performance Loans (NPLs) increases the performance of the banks. The finding is interesting and it could be influenced by the economic condition of the country during a particular period that makes the banks to declare a high provisioning of bad debts but which afterwards is recovered to increase the level of bad debts. The large amount of provision of

loans as Non Performance Loans negatively affects the performance of banks. Thus, banks should periodically monitor their long-term debtors. Non Performance Loans show the presence of credit risk, which can rapidly turn into a several liquidity crisis. The level of customer deposit was also found to positively affect the bank's performance and it will therefore be encouraged for banks to open more branches in the country. Since such banks will have established a wide branch network, they will be able to benefit from economies of scale and therefore leading to an improved performance for the large banks as well. Thus the findings show that efficient management of liquidity in a bank will influence its level of performance and the negative relationship of some variables used in this study indicates that performance of a firm with the company adopting a conservative liquidity management.

5.2 Conclusion

Liquidity problems if unchecked may adversely affect a given bank's profitability, capital and under extreme circumstances, it may cause the collapse of an otherwise solvent bank. In addition, a bank having problems may experience difficulties in meeting the demands of depositors, however, this liquidity risk may be mitigated by maintaining sufficient cash reserves, raising deposit base, decreasing the Liquidity Gap and Non Performance Loans. Adequate cash reserves will decrease the bank's reliance on the secondary market which consequently will reduce the cost associated with overnight borrowing and insurance cost.

It is imperative for the bank's management to be aware of its liquidity position in different product segment. This will help them in enhancing their investment portfolio and providing a competitive edge in the market. It is the utmost priority of bank's management to pay the required attention to the liquidity problems. These problems should promptly address and immediate remedial measures should be taken to avoid the consequences to illiquidity.

5.3 Recommendations

Based on the findings of the research, the following recommendations were made;

- i. Some policy implication for the managers and prospective investors in the country.
- ii. It is emerging that the Nigerian banks level of performance is influenced by the level of customer deposits and as well as cash level,
- iii. It is important therefore, that banks establish the required cash in each product segment and maintain the optimal level which will help in reducing the cash balance level.
- iv. It is recommended that banks increase their customers deposit base through making the product accessible to more customers especially the low income earners who have been neglected for a long time by the mainstream banks. At the same time banks should consider targeting the corporate clients who will be willing to return a large cash based in the banks for a longer duration.

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