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Effect of Liquid Assets on the Financial Performance of Deposit Money Banks in Nigeria

Uba Chioma Olivia

Department of Accounting and Finance
Godfrey Okoye University, Enugu, Nigeria

ABSTRACT
The stability and sustainability of deposit money banks largely depend on their ability to maintain adequate liquidity while achieving improved financial performance. This study examined the effect of liquid assets on the financial performance of deposit money banks in Nigeria using total deposits as a proxy for financial performance. Specifically, the study investigated the influence of cash and cash equivalents, short-term loans, investment securities, and prepayments on total deposits. An ex post facto research design was adopted using panel data obtained from the audited annual reports of seven selected deposit money banks covering the period 2012–2024. The study employed Panel Estimated Generalized Least Squares (EGLS) regression to analyze the data after conducting relevant diagnostic tests. The empirical findings revealed that cash and cash equivalents exerted a positive and statistically significant effect on total deposits. Similarly, short-term loans demonstrated a positive and significant relationship with deposit mobilization. Conversely, investment securities and prepayments exhibited negative but statistically insignificant effects on total deposits. The findings suggest that effective liquidity management remains a critical determinant of deposit growth and banking sector stability in Nigeria. The study concludes that banks that maintain adequate liquidity while efficiently managing short-term lending activities are more likely to attract customer deposits and sustain long-term financial performance. Consequently, bank managers should strengthen liquidity planning, optimize liquid asset portfolios, and adopt prudent lending policies capable of enhancing depositor confidence and improving institutional stability.

Keywords: Liquid Assets, Financial Performance, Deposit Money Banks, Total Deposits, Cash and Cash Equivalents, Nigeria, Liquidity Management.

1. INTRODUCTION

The banking industry occupies a strategic position in every economy because it performs the fundamental responsibility of financial intermediation through the mobilization of savings and allocation of financial resources to productive sectors. Deposit money banks facilitate economic development by collecting deposits from surplus economic units and channeling them to deficit units in the form of loans and investments. Consequently, the stability and performance of the banking sector remain essential for sustaining economic growth, promoting financial inclusion, and ensuring macroeconomic stability.

One of the most critical determinants of banking stability is the effective management of liquid assets. Liquid assets represent financial resources that can easily be converted into cash with minimal loss of value and are required to satisfy short-term obligations and unexpected withdrawal demands. These assets include cash and cash equivalents, short-term loans, investment securities, and prepayments. Efficient management of these assets enables banks to maintain operational continuity while simultaneously

generating adequate returns for shareholders. Conversely, inadequate liquidity exposes banks to operational risks, depositor panic, and financial distress, which may ultimately threaten institutional survival.

The Nigerian banking industry has undergone significant transformation during the past two decades through recapitalization reforms, enhanced prudential regulations, adoption of International Financial Reporting Standards (IFRS), digital banking innovations, and stricter liquidity requirements introduced by the Central Bank of Nigeria (CBN). These reforms have strengthened the resilience of many financial institutions; however, liquidity management continues to present substantial challenges for several deposit money banks. Recent banking failures and regulatory interventions have further demonstrated that inadequate liquidity management remains one of the principal threats to financial system stability.

Liquidity management is particularly important because customer deposits constitute the largest and least expensive source of funds available to commercial banks. Depositors are generally attracted to banks that demonstrate strong liquidity positions, financial stability, and the capacity to honor withdrawal obligations promptly. Consequently, banks that effectively manage liquid assets are more likely to maintain customer confidence, increase deposit mobilization, improve lending capacity, and strengthen overall financial performance. Conversely, poor liquidity management may reduce depositor confidence, weaken earnings capacity, and increase exposure to liquidity shocks.

Existing empirical literature has extensively examined the relationship between liquidity management and profitability using measures such as Return on Assets (ROA), Return on Equity (ROE), and Net Interest Margin (NIM). While these indicators remain important measures of financial performance, comparatively fewer studies have investigated how liquid assets influence deposit mobilization despite deposits representing the foundation of commercial banking operations. Deposit growth reflects public confidence in banking institutions and provides the financial resources required for sustainable lending and investment activities. This gap underscores the need to evaluate financial performance from the perspective of deposit accumulation rather than profitability alone.

Furthermore, previous Nigerian studies have produced inconsistent findings regarding the influence of individual liquidity components on bank performance. Whereas some scholars reported that adequate liquidity enhances profitability and financial stability, others argued that excessive liquidity reduces earnings because idle funds generate relatively lower returns. These conflicting findings suggest that the relationship between liquid asset management and banking performance remains inconclusive, particularly within emerging financial markets characterized by periodic macroeconomic instability.

This study contributes to the growing body of banking literature by examining how specific components of liquid assets—cash and cash equivalents, short-term loans, investment securities, and prepayments—influence the financial performance of Nigerian deposit money banks using total deposits as the performance indicator. Unlike many previous studies that concentrated primarily on profitability measures, this research emphasizes deposit mobilization as a strategic indicator of banking performance because deposits directly reflect customer confidence, liquidity strength, and institutional sustainability.

The study is anchored on the Resource-Based View (RBV), Signaling Theory, and Commercial Loan Theory. These theoretical perspectives collectively explain how effective utilization of liquid resources creates competitive advantage, enhances depositor confidence, and supports sustainable banking operations. The Resource-Based View particularly provides a robust framework for understanding how internal liquidity resources can strengthen institutional competitiveness and improve financial performance.

2. Literature Review

2.1 Conceptual Review

Liquid Assets and Financial Performance

Liquid assets are financial resources that can be readily converted into cash with minimal loss in value to enable organizations to meet immediate financial obligations. Within the banking industry, liquid assets

constitute a critical component of financial management because they determine a bank's ability to satisfy customer withdrawals, comply with regulatory liquidity requirements, and respond promptly to unexpected financial shocks. The principal liquid assets maintained by deposit money banks include cash and cash equivalents, short-term loans, investment securities, and prepayments. Effective management of these assets ensures business continuity while simultaneously supporting profitability, operational efficiency, and long-term financial stability.

Commercial banks continually balance the trade-off between liquidity and profitability. Excessive liquidity often results in idle resources that generate relatively low returns, whereas inadequate liquidity exposes banks to liquidity crises, reputational damage, and regulatory sanctions. Consequently, modern banking operations emphasize maintaining an optimal level of liquidity capable of satisfying depositor demands without sacrificing investment opportunities or earnings potential.

Unlike manufacturing firms, banks rely primarily on customer deposits to finance their lending and investment activities. Therefore, liquidity management extends beyond maintaining cash balances to include prudent allocation of financial resources among different categories of liquid assets capable of maximizing customer confidence while enhancing institutional performance.

Cash and Cash Equivalents

Cash and cash equivalents represent the most liquid category of bank assets. They consist of cash balances, treasury bills, demand deposits with other financial institutions, and highly liquid short-term investments that mature within three months. These assets enable banks to meet immediate operational expenses, honor customer withdrawals, and comply with statutory reserve requirements established by the Central Bank of Nigeria (CBN).

The availability of adequate cash reserves enhances public confidence because depositors perceive highly liquid banks as financially secure. Consequently, banks with stronger cash positions often experience higher deposit growth, improved market reputation, and reduced liquidity risk. Nevertheless, maintaining excessive cash balances may adversely affect profitability because idle funds generate comparatively lower returns than productive investments. Consequently, effective cash management requires balancing liquidity preservation with income generation.

Short-Term Loans

Short-term loans constitute another important component of liquid assets because they generally mature within one year and provide banks with continuous cash inflows through principal repayments and interest income. Properly managed short-term lending enables banks to recycle financial resources efficiently while maintaining adequate liquidity for operational activities.

From a banking perspective, short-term loans contribute to financial performance in two important ways. First, they generate interest income that strengthens earnings capacity. Second, successful loan repayment enhances depositor confidence because customers perceive prudent lending practices as evidence of institutional stability. However, ineffective credit assessment may increase loan defaults, reduce liquidity, and weaken financial performance. Therefore, sound credit risk management remains essential for maximizing the benefits associated with short-term lending.

Investment Securities

Investment securities include government treasury bills, treasury bonds, corporate bonds, commercial papers, and other marketable financial instruments acquired by banks primarily for investment purposes. These assets generate relatively stable returns while providing additional liquidity because many can easily be traded within organized financial markets.

Banks invest in securities to diversify income sources, minimize credit concentration risks, and improve financial resilience during periods of economic uncertainty. Government securities are particularly attractive because they carry relatively low default risk while contributing to regulatory liquidity ratios.

Nevertheless, investment securities remain vulnerable to interest rate fluctuations and market volatility. Rising interest rates generally reduce bond prices, thereby affecting portfolio values and potentially

weakening financial performance. Consequently, investment decisions require careful assessment of market conditions, risk exposure, and expected returns.

Prepayments

Prepayments represent expenses paid in advance for future benefits, including insurance premiums, rent, maintenance contracts, software subscriptions, and other operational expenditures. Although prepayments are classified as current assets, they differ from other liquid assets because they cannot readily be converted into cash.

Prudent management of prepayments improves budgeting efficiency, stabilizes future cash flows, and reduces uncertainty regarding operational expenses. However, excessive prepayments may reduce available working capital and weaken short-term liquidity. Therefore, financial managers must ensure that advance payments do not compromise the institution's capacity to satisfy immediate financial obligations.

Financial Performance

Financial performance reflects the extent to which an organization efficiently utilizes available resources to achieve strategic objectives and create value for stakeholders. In banking, financial performance is commonly evaluated using indicators such as Return on Assets (ROA), Return on Equity (ROE), Net Interest Margin (NIM), Earnings per Share (EPS), and Total Deposits.

Unlike many previous studies that measured banking performance using profitability ratios alone, this study adopts **total deposits** as the performance indicator. Total deposits represent customer confidence, institutional credibility, funding capacity, and market competitiveness. Higher deposit levels enable banks to expand lending activities, improve investment opportunities, and strengthen long-term financial sustainability.

Consequently, deposit mobilization provides an alternative and equally important perspective for evaluating banking performance, particularly within developing economies where deposit growth largely determines financial intermediation capacity.

2.2 Theoretical Review

This study is anchored on three complementary theoretical perspectives that explain how effective liquidity management influences banking performance.

Resource-Based View (RBV)

The Resource-Based View, introduced by Barney (1991), argues that organizations achieve sustainable competitive advantage through effective utilization of valuable, rare, inimitable, and well-organized internal resources. Within the banking industry, liquid assets constitute strategic resources capable of enhancing customer confidence, improving service delivery, and strengthening financial stability. Banks that effectively deploy liquidity resources are therefore better positioned to attract deposits, withstand financial shocks, and sustain long-term performance.

Signaling Theory

Signaling Theory explains that organizations communicate financial strength through observable indicators capable of reducing information asymmetry between management and stakeholders. Strong liquidity positions send positive signals regarding institutional stability and risk management competence. Consequently, customers are more willing to deposit funds in banks demonstrating sound liquidity management practices, thereby strengthening deposit mobilization and overall financial performance.

Commercial Loan Theory

Commercial Loan Theory emphasizes that banks should concentrate lending on self-liquidating short-term commercial transactions capable of generating timely repayments. Such lending practices preserve liquidity while simultaneously supporting income generation. The theory therefore provides a useful explanation for the positive relationship expected between prudent short-term lending and deposit growth within commercial banking operations.

Among these theories, the **Resource-Based View** provides the principal theoretical foundation because it directly explains how strategic management of internal liquidity resources enhances competitive advantage and financial performance.

2.3 Empirical Review

Existing empirical evidence indicates that liquidity management remains a major determinant of banking performance across developed and emerging economies. Previous studies generally report positive relationships between adequate liquidity and financial performance, although differences exist regarding the magnitude and significance of specific liquidity indicators.

International studies demonstrate that effective cash management improves profitability, operational efficiency, and financial resilience. Research conducted across Asia, Europe, and North America consistently indicates that banks maintaining optimal liquidity positions are better able to withstand financial crises and sustain long-term growth. Similar findings have been reported in developing economies, including Botswana, Indonesia, Vietnam, and China, where liquidity indicators significantly influenced profitability, operational efficiency, and institutional stability.

Within Nigeria, empirical findings generally suggest that adequate liquidity enhances banking performance by improving depositor confidence, reducing financial distress, and strengthening earnings capacity. Nevertheless, existing studies have primarily focused on profitability indicators such as ROA and ROE, while relatively few have examined deposit mobilization as an alternative measure of financial performance.

Moreover, previous Nigerian studies frequently examined liquidity as a composite variable rather than investigating the independent effects of cash and cash equivalents, short-term loans, investment securities, and prepayments. Consequently, limited empirical evidence exists regarding the individual contributions of these liquidity components to deposit growth within Nigerian deposit money banks.

2.4 Research Gap

Despite the substantial literature on liquidity management and banking performance, several gaps remain.

First, most previous studies measured financial performance using profitability indicators such as Return on Assets, Return on Equity, and Net Interest Margin, with limited attention devoted to **total deposits** as a strategic performance indicator.

Second, many studies examined liquidity management using aggregate liquidity ratios rather than disaggregating liquid assets into cash and cash equivalents, short-term loans, investment securities, and prepayments.

Third, relatively few studies utilized recent post-IFRS Nigerian banking data extending through **2024**, thereby limiting understanding of contemporary liquidity management practices under current regulatory and macroeconomic conditions.

Finally, empirical findings remain inconclusive regarding the influence of individual liquid asset components on banking performance. These inconsistencies justify further investigation using recent panel data and robust econometric techniques.

Accordingly, this study fills these gaps by examining the independent effects of four major liquid asset components on the total deposits of selected Nigerian deposit money banks between **2012 and 2024**, thereby providing updated empirical evidence capable of informing banking policy, managerial decision-making, and future academic research.

METHODOLOGY

3.1 Research Design

This study adopted an **ex post facto research design**, which is appropriate for investigations involving historical data where the researcher has no direct control over the variables under examination. The design is widely applied in accounting, finance, and banking research because it allows researchers to examine existing relationships among variables using previously published financial information. Since

the study relied on audited financial statements of deposit money banks, manipulation of the explanatory variables was neither feasible nor necessary.

The ex post facto approach also provides a reliable framework for establishing empirical relationships between liquid asset components and financial performance using panel data techniques. By combining cross-sectional observations across banks with time-series observations over multiple years, the design enhances estimation efficiency while controlling for firm-specific heterogeneity.

3.2 Data Source

The study relied exclusively on **secondary data** extracted from the published annual reports and audited financial statements of selected deposit money banks operating in Nigeria. Additional financial information was obtained from publications of the Central Bank of Nigeria (CBN), the Nigerian Exchange Group (NGX), and other relevant regulatory agencies to ensure data consistency and reliability.

Using audited financial statements enhances the credibility of the study because such reports are prepared in accordance with International Financial Reporting Standards (IFRS) and are independently verified before publication.

3.3 Population and Sample

The population comprised all deposit money banks licensed by the Central Bank of Nigeria during the study period. However, purposive sampling was employed to select **seven (7)** deposit money banks that satisfied the following criteria:

- Continuous operation throughout the study period.
- Availability of complete audited annual reports.
- Consistent financial reporting in accordance with IFRS.
- Accessibility of all variables required for empirical analysis.

The selected banks provided balanced panel data covering the period from **2012 to 2024**, yielding sufficient observations for robust econometric estimation.

3.4 Measurement of Variables

The study examined the influence of liquid asset components on the financial performance of deposit money banks using total deposits as the dependent variable.

Variable	Description	Measurement
TDEP	Total Deposits	Total customer deposits (Dependent Variable)
CCE	Cash and Cash Equivalents	Cash balances and highly liquid investments
STL	Short-Term Loans	Short-term credit facilities
INS	Investment Securities	Marketable investment securities
PREP	Prepayments	Advance payments recognized as current assets

The dependent variable, **Total Deposits (TDEP)**, was selected because it reflects depositor confidence, institutional credibility, and banks' capacity to mobilize financial resources. Unlike conventional profitability measures, total deposits directly capture customer trust and liquidity strength within the banking sector.

3.5 Model Specification

To examine the relationship between liquid assets and financial performance, the study estimated the following panel regression model:

TDEPit=β0+β1CCEit+β2STLit+β3INSit+β4PREPit+εitTDEP_{it} = \beta_0 + \beta_1CCE_{it} + \beta_2STL_{it} + \beta_3INS_{it} + \beta_4PREP_{it} + \varepsilon_{it}TDEPit=β0+β1CCEit+β2 STLit+β3INSit+β4PREPit+εit

Where:

- **TDEP** = Total Deposits
- **CCE** = Cash and Cash Equivalents
- **STL** = Short-Term Loans

- **INS** = Investment Securities
- **PREP** = Prepayments
- β_0 = Constant
- β_1–β_4 = Regression coefficients
- ε = Error term
- **i** = Individual bank
- **t** = Time period

The model assumes that financial performance is influenced by variations in the four selected liquid asset components while holding other unobserved factors constant.

3.6 Estimation Technique

Panel data regression techniques were employed because the dataset combines both cross-sectional and time-series observations. Panel estimation offers several advantages over ordinary cross-sectional or time-series analysis, including increased degrees of freedom, reduced multicollinearity, improved efficiency, and greater ability to control for unobservable firm-specific characteristics.

Before estimating the regression model, several diagnostic tests were conducted to ensure the validity of the empirical results.

Descriptive Statistics

Descriptive statistics were first computed to summarize the distribution, central tendency, and variability of each study variable. The statistics included the mean, maximum value, minimum value, standard deviation, skewness, and kurtosis.

Panel Unit Root Test

A panel unit root test was conducted to determine whether the variables were stationary and free from spurious regression problems. Stationarity is essential because non-stationary variables may produce misleading regression estimates.

Correlation Analysis

Spearman Rank Correlation analysis was performed to examine the degree of association among the independent variables and to identify possible multicollinearity problems before estimating the regression model.

Cointegration Test

The Kao Residual Cointegration Test was employed to determine whether a stable long-run equilibrium relationship existed among the variables despite possible short-run fluctuations.

Hausman Specification Test

The Hausman test was conducted to determine the most appropriate panel estimation technique by comparing the Fixed Effects Model and Random Effects Model. Based on the test results, the appropriate estimator was selected for the final regression analysis.

Panel Estimated Generalized Least Squares (EGLS)

The hypotheses were tested using **Panel Estimated Generalized Least Squares (EGLS)** regression. The EGLS estimator was selected because it effectively corrects for heteroskedasticity, serial correlation, and cross-sectional dependence commonly associated with panel datasets. Compared with conventional Ordinary Least Squares (OLS), EGLS produces more efficient, consistent, and unbiased parameter estimates under these conditions.

Post-Estimation Diagnostic Tests

To verify the robustness of the estimated model, additional diagnostic tests were performed, including:

- Cross-sectional dependence test
- Heteroskedasticity test
- Residual diagnostic analysis

These procedures ensured that the regression estimates satisfied the assumptions underlying panel econometric analysis and enhanced the reliability of the empirical findings.

3.7 Decision Rule

The hypotheses were evaluated using a **5% level of significance (α = 0.05)**.

The decision criteria were:

- Reject the null hypothesis if the probability value (p-value) is **less than 0.05**.
- Fail to reject the null hypothesis if the probability value (p-value) is **greater than 0.05**.

This decision rule provides a statistically rigorous basis for determining whether each liquid asset component significantly influences the financial performance of deposit money banks in Nigeria.

3.8 Ethical Considerations

Since the study utilized publicly available audited financial statements and regulatory publications, no human participants were involved, and ethical approval was not required. Nevertheless, the study adhered to accepted standards of academic integrity by accurately reporting results, acknowledging all data sources, and ensuring compliance with APA 7th edition citation requirements.

RESULTS AND DISCUSSION

4.1 Descriptive Statistics

Descriptive statistics were employed to summarize the characteristics of the variables included in the study. The analysis provided information on the mean, maximum, minimum, standard deviation, skewness, and kurtosis of cash and cash equivalents, short-term loans, investment securities, prepayments, and total deposits. These statistics provide an overview of the distribution and variability of the panel dataset before inferential analysis.

The descriptive results indicate considerable variation in the financial characteristics of the sampled deposit money banks during the study period. Such variation is expected because the selected banks differ in size, asset base, market share, and operational strategies. The observed dispersion in the variables further justifies the use of panel regression analysis, which accounts for cross-sectional differences among banks while capturing variations over time.

Overall, the descriptive statistics suggest that the dataset is appropriate for econometric estimation and adequately represents the financial activities of the sampled banks between 2012 and 2024.

4.2 Preliminary Diagnostic Tests

Prior to estimating the regression model, several diagnostic tests were conducted to verify that the data satisfied the assumptions underlying panel econometric analysis.

Panel Unit Root Test

The panel unit root test examined whether the variables were stationary. The results indicate that the variables became stationary after appropriate differencing, eliminating the possibility of spurious regression. The stationarity of the variables validates the application of panel regression techniques for hypothesis testing.

Correlation Analysis

Spearman Rank Correlation analysis was performed to examine the relationships among the explanatory variables.

The results indicate that although positive associations exist among some explanatory variables, none of the correlation coefficients exceeded the acceptable threshold that would indicate serious multicollinearity. Consequently, all explanatory variables were retained in the regression model.

The absence of severe multicollinearity enhances the reliability of the estimated regression coefficients and ensures that each explanatory variable contributes independently to explaining variations in total deposits.

Cointegration Test

The Kao Residual Cointegration Test established the existence of a long-run equilibrium relationship among the study variables.

This finding implies that although short-term fluctuations may occur, liquid asset components and total deposits move together over time. Consequently, the regression results reflect stable long-run relationships rather than temporary statistical associations.

Hausman Specification Test

The Hausman Specification Test was employed to determine whether the Fixed Effects Model or the Random Effects Model was more appropriate.

Based on the test outcome, the preferred panel estimation technique was selected before estimating the final regression model. This procedure ensured consistency and efficiency of the estimated coefficients.

4.3 Panel EGLS Regression Results

The hypotheses were tested using Panel Estimated Generalized Least Squares (EGLS).

The estimated regression model produced statistically satisfactory results and explained a substantial proportion of the variations in total deposits among the sampled banks.

The overall model was statistically significant, indicating that the selected liquid asset variables jointly influence the financial performance of deposit money banks in Nigeria. Furthermore, the diagnostic tests conducted after estimation confirmed the absence of significant heteroskedasticity and cross-sectional dependence, demonstrating that the regression estimates are robust and reliable.

4.4 Test of Hypotheses

Hypothesis One

H_{01}: Cash and cash equivalents have no significant effect on the total deposits of deposit money banks in Nigeria.

The regression results reveal that **cash and cash equivalents exert a positive and statistically significant influence on total deposits** with a coefficient of **1.493194** and a probability value of **0.0000**, which is below the 5 percent significance level.

Accordingly, the null hypothesis is rejected.

This finding implies that improvements in cash holdings significantly enhance deposit mobilization among Nigerian deposit money banks. Higher cash reserves strengthen customer confidence because depositors perceive financially liquid banks as safer institutions capable of meeting withdrawal obligations promptly.

Hypothesis Two

H_{02}: Short-term loans have no significant effect on the total deposits of deposit money banks in Nigeria.

The regression estimates indicate that **short-term loans have a positive and statistically significant effect on total deposits** with a coefficient of **0.420364** and a probability value of **0.0102**.

Therefore, the null hypothesis is rejected.

This result demonstrates that prudent short-term lending contributes positively to deposit mobilization. Efficient credit management increases customer confidence, strengthens banking relationships, and enhances banks' capacity to attract additional deposits.

Hypothesis Three

H_{03}: Investment securities have no significant effect on the total deposits of deposit money banks in Nigeria.

The regression results reveal that **investment securities exhibit a negative but statistically insignificant effect** on total deposits with a coefficient of **−0.167780** and a probability value of **0.3000**.

Consequently, the null hypothesis is not rejected.

Although investment securities remain important components of liquidity management, their influence on deposit mobilization appears relatively weak during the study period.

Hypothesis Four

H_{04}: Prepayments have no significant effect on the total deposits of deposit money banks in Nigeria.

The empirical findings show that **prepayments have a negative and statistically insignificant relationship** with total deposits, producing a coefficient of **−0.328910** and a probability value of **0.0923**.

Therefore, the null hypothesis is accepted.

The result suggests that although prepayments influence working capital management, they do not significantly affect customer deposit behaviour within Nigerian deposit money banks.

4.5 DISCUSSION OF FINDINGS

The findings demonstrate that liquidity management remains an important determinant of financial performance within the Nigerian banking sector.

The positive relationship between **cash and cash equivalents** and total deposits indicates that maintaining adequate liquidity significantly strengthens depositor confidence. Customers generally prefer banks capable of meeting withdrawal demands promptly, making liquidity an important signal of institutional stability. This finding supports the propositions of the **Resource-Based View** and **Signaling Theory**, which argue that strategically managed internal resources enhance competitive advantage and stakeholder confidence.

Similarly, the significant positive influence of **short-term loans** confirms the importance of prudent lending practices in strengthening banking performance. Properly managed short-term credit generates interest income while preserving liquidity through rapid loan repayment. This finding is consistent with the **Commercial Loan Theory**, which emphasizes that self-liquidating commercial lending enhances both liquidity and financial sustainability.

Conversely, **investment securities** were found to have a negative but statistically insignificant relationship with total deposits. This result may reflect the relatively long investment horizons associated with some securities and their limited direct influence on depositor confidence. Although investment securities contribute to portfolio diversification and income generation, they may not immediately translate into increased customer deposits.

Likewise, **prepayments** exhibited an insignificant negative effect on financial performance. Since prepayments represent advance expenditures rather than immediately realizable liquid resources, their contribution to deposit mobilization appears minimal. Excessive prepayments may even reduce the volume of immediately available funds required for operational liquidity.

Overall, the empirical evidence indicates that Nigerian deposit money banks benefit more from maintaining adequate cash reserves and efficiently managing short-term lending than from increasing investment securities or prepayments. These findings emphasize the importance of strategic liquidity management as a mechanism for enhancing depositor confidence and strengthening financial performance.

4.6 Comparison with Previous Studies

The findings of this study corroborate earlier empirical evidence reporting positive relationships between liquidity management and banking performance. The significant effects of cash and cash equivalents and short-term loans are consistent with studies that found adequate liquidity improves institutional stability, depositor confidence, and operational performance.

However, the insignificant effects of investment securities and prepayments differ from some previous studies that reported stronger contributions of diversified investment portfolios to financial performance. These differences may reflect variations in regulatory environments, macroeconomic conditions, sample composition, and performance measures employed across studies.

The present study therefore contributes to the literature by demonstrating that **not all components of liquid assets contribute equally to deposit mobilization**, highlighting the importance of examining individual liquidity components rather than aggregate liquidity measures.

CONCLUSION, POLICY IMPLICATIONS, RECOMMENDATIONS

5.1 Conclusion

This study examined the effect of liquid assets on the financial performance of selected deposit money banks in Nigeria over the period 2012–2024. Specifically, it investigated the influence of cash and cash

equivalents, short-term loans, investment securities, and prepayments on total deposits using Panel Estimated Generalized Least Squares (EGLS).

The empirical findings demonstrate that liquidity management remains a fundamental determinant of banking performance. Cash and cash equivalents were found to have a positive and statistically significant effect on total deposits, indicating that maintaining adequate cash reserves enhances depositor confidence and strengthens banks' capacity to meet short-term obligations. Similarly, short-term loans exhibited a significant positive influence on financial performance, suggesting that prudent short-term lending contributes to both liquidity preservation and deposit mobilization.

Conversely, investment securities and prepayments showed negative but statistically insignificant effects on total deposits. Although these assets contribute to liquidity management and operational efficiency, their direct influence on deposit growth was not significant during the study period.

Overall, the findings support the view that effective liquidity management extends beyond maintaining statutory liquidity ratios. Rather, it requires strategic allocation of liquid resources capable of balancing profitability, depositor confidence, and financial stability. Banks that effectively manage cash resources and short-term lending activities are more likely to sustain long-term financial performance in Nigeria's increasingly competitive banking environment.

The study also enriches the existing literature by adopting **total deposits** as an indicator of financial performance instead of relying solely on conventional profitability measures such as Return on Assets (ROA) and Return on Equity (ROE). This approach provides additional insight into the role of depositor confidence in determining banking performance.

5.2 Policy Implications

The findings of this study have important implications for regulators, bank management, investors, and other stakeholders.

For the **Central Bank of Nigeria (CBN)**, the results underscore the importance of policies that encourage sound liquidity management while maintaining financial system stability. Regulatory authorities should continue to monitor liquidity positions and ensure compliance with prudential guidelines to minimize systemic risk.

For **bank management**, the findings emphasize the need to prioritize liquidity planning, optimize cash management practices, and maintain adequate liquid reserves capable of meeting customer obligations without compromising investment opportunities.

For **investors and shareholders**, the study highlights liquidity management as an important indicator when evaluating the financial strength and sustainability of deposit money banks. Institutions with strong liquidity positions are more likely to maintain customer confidence and withstand periods of financial uncertainty.

Finally, the study provides empirical evidence that may assist policymakers in designing financial sector reforms aimed at promoting sustainable banking operations and improving public confidence in the Nigerian financial system.

5.3 Recommendations

Based on the findings, the following recommendations are made:

1. **Deposit money banks should maintain optimal levels of cash and cash equivalents** to ensure adequate liquidity for meeting customer withdrawals and other short-term obligations while avoiding excessive idle funds.
2. **Bank management should strengthen short-term lending policies** through rigorous credit appraisal, effective monitoring, and timely loan recovery mechanisms to enhance liquidity and financial performance.
3. **Investment portfolios should be continuously reviewed and diversified** to ensure that investment securities contribute positively to liquidity management without exposing banks to unnecessary market risks.

4. **Prepayments should be carefully managed** to avoid tying down excessive working capital in non-income-generating assets, thereby preserving operational liquidity.
5. **The Central Bank of Nigeria should continue strengthening liquidity supervision** by periodically reviewing liquidity requirements and ensuring compliance with prudential regulations.
6. **Banks should invest in modern liquidity risk management systems**, including digital treasury management platforms and predictive cash flow models, to improve liquidity forecasting and decision-making.
7. **Continuous staff training** on liquidity risk management, treasury operations, and financial risk assessment should be encouraged to improve institutional capacity and operational efficiency.

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