

LIQUIDITY AND FINANCIAL PERFORMANCE OF LISTED QUOTED DEPOSIT MONEY BANKS IN NIGERIA

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Corresponding Author Success Blessing Ejura	Success Department of Finance, Veritas University Abuja, FCT	Abstract: This study investigates the impact of Liquidity Ratio (LR) and Cash Reserve Ratio (CRR) on the Earnings Per Share (EPS) of quoted Deposit Money Banks (DMBs) in Nigeria from 2015 to 2024. Liquidity management plays a critical role in ensuring financial stability and profitability, especially in developing economies like Nigeria. The study employs a Panel EGLS (Cross-section weights) regression model to analyze the relationship between liquidity indicators and financial performance. The findings reveal a positive relationship between both liquidity ratios and EPS. Specifically, CRR demonstrates a stronger positive correlation with EPS, suggesting that higher reserve requirements contribute more directly to profitability than liquidity ratios alone. Although LR is positively associated with EPS, its effect is moderate, indicating that liquidity management plays a role in ensuring operational stability but may not significantly impact profitability in the same way as reserve management. This research highlights that while liquidity ratios and reserves are essential for financial performance, excessive liquidity or high reserves may limit banks' ability to generate income. The study recommends that policymakers introduce more flexible CRR policies and that banks optimize liquidity management to balance financial stability with profitable investments. The findings suggest that a balanced approach to liquidity and reserve management is necessary to ensure sustainable growth and improved financial performance in Nigerian DMBs. Further research is needed to examine the long-term effects of liquidity management under varying economic conditions.
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Introduction

Liquidity plays a vital role in ensuring the stability and long-term sustainability of the banking system, particularly among Deposit Money Banks (DMBs). In a global context, sufficient liquidity enhances the ability of banks to effectively allocate credit, support investment activities, and foster economic productivity (World Bank, 2021). For developing economies like Nigeria, where the banking sector is pivotal in facilitating financial intermediation, the efficient functioning of DMBs is even more critical. These banks channel funds from savers to borrowers, driving economic activity and financial inclusion.

However, Nigeria's banking sector faces significant liquidity challenges, exacerbated by issues such as currency depreciation, declining asset quality, rising inflation, and interest

rate fluctuations (Ibrahim et al., 2022 and Egwu et al 2025). These constraints hinder the financial performance of DMBs, particularly impacting profitability metrics such as Earnings Per Share (EPS) (Success, 2013). This highlights the need for a reassessment of the current liquidity management frameworks in light of national development priorities like those outlined in the Economic Recovery and Growth Plan (ERGP) (Ahmesd, 2021 and Okwudili et al 2025).

Research (Ibrahim, & Musa, 2022, Ibrahim, & Musa, 2022, Ibrahim, & Musa, 2022, Ibrahim, et al., 2022, Moses, et al 2022, Moses, et al., 2018, Ejura, et al. 2023 & Oginni, et al. 2014 Ejura, et al. 2023, Moses, et al 2022, Haruna, et al 2021, Moses, et al 2018, Abdul, et al 2025 John, et al 2024, Ibrahim, et al 2022

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Jibrin, et al 2022, Success et al 2024, Success et al 2025) Okwudili et al 2025, Egwu, et al 2025, Ibrahim, et al 2024, Ejura, et al 2023, Musa, et al 2015 Jibrin, et al 201, Musa, et al 2022, Jibrin, et al 2015, Musa, et al 2013 Musa, et al 2013, Ifurueze, et al 2012, Musa, et al 2022 Hussain, et al 2024, Musa, & Moses, 2022, Tsegba, et al 2021 & Musa, (2022, Jibrin, et al 2016, Jibrin, et al 2016) has shown that liquidity is not only essential for the smooth operation of individual banks but also influences investor confidence, depositor behavior, and the overall stability of the financial system (Ahemen, 2024). Adequate liquidity enhances bank credibility, supports credit flow to the private sector, and stimulates economic growth (Daniel, 2022). On the other hand, insufficient liquidity can lead to systemic vulnerabilities such as insolvency risks and reduced public trust, which ultimately impedes the financial system's performance (Adun, 2021).

In Nigeria, where a large part of the economy operates informally with limited access to formal credit, liquidity constraints have more pronounced effects (Olobi, 2022). Key policy tools like the Cash Reserve Ratio (CRR) and Liquidity Ratio (LR), implemented by the Central Bank of Nigeria (CBN), are essential for regulating liquidity and ensuring a stable financial system (Nwosu et al., 2020; CBN, 2023).

A healthy and stable banking system should efficiently allocate financial resources, support the private sector's expansion, and contribute to the financial performance of DMBs through higher earnings and improved shareholder value. However, the current reality in Nigeria, where regulatory thresholds such as the 32.5% CRR and the 30% liquidity ratio have constrained banks' ability to extend credit and pursue profitable investments, has reduced banks' capacity to generate income (Udeh et al., 2022). This has led to downward pressure on EPS, limiting the long-term financial performance of quoted DMBs (Ene & Okpara, 2021). The implications of these liquidity constraints are far-reaching, weakening banks' competitive edge and innovation, and potentially discouraging investor confidence (World Bank, 2023). The persistent regulatory rigidity may contribute to sluggish financial performance despite regulatory compliance (CBN, 2024).

Despite increased interest in the relationship between liquidity and financial performance, gaps remain in the literature. Many studies, such as those by Abiona et al. (2024) and Olofin et al. (2024), have focused on profitability measures like Return on Assets (ROA) and Return on Equity (ROE), without considering Earnings Per Share (EPS), a more direct measure of shareholder value. Additionally, while some studies, like those by Ugwuene et al. (2023) and Mathews et al. (2021), have explored liquidity ratios and EPS, they were limited to non-bank firms and did not specifically focus on Nigerian DMBs. This study addresses these gaps by investigating the impact of both the Liquidity Ratio (LR) and the Cash Reserve Ratio (CRR) on EPS in Nigerian DMBs. Specifically, this research seeks to answer the following questions: To what extent does the Liquidity Ratio (LR) affect Earnings Per Share (EPS) of quoted Deposit Money Banks in Nigeria? What is the impact of the Cash Reserve Ratio (CRR) on Earnings Per Share (EPS) of quoted Deposit Money Banks in Nigeria? The main objective of this study is to examine how liquidity indicators, particularly the Liquidity Ratio (LR) and Cash Reserve Ratio (CRR), influence the financial performance of quoted DMBs in Nigeria, with a focus on EPS.

Literature Review

Financial Performance

Financial performance refers to how well a company or financial institution manages its resources to generate profits and achieve financial goals. It is typically measured using various financial indicators such as profitability, return on assets (ROA), return on equity (ROE), and earnings per share (EPS). Gibson (2013) defines financial performance as the measure of a company's financial health, as evidenced by key financial metrics. It indicates how effectively a company generates profits from its resources. Olayinka & Abiola (2018) note that for banks, financial performance is a reflection of their ability to manage liquidity, assets, and liabilities efficiently, impacting profitability and growth.

Profitability is a key component of financial performance and refers to a company's ability to generate profit relative to its revenue, assets, equity, or other financial metrics. It is often measured by metrics like gross profit margin, net profit margin, and return on equity (ROE). Miller & Orr (1966) suggest that profitability measures are central to assessing financial performance, particularly for banks, as they indicate the effectiveness of capital utilization. Akinlo & Ebohon (2020) discuss how the profitability of Nigerian banks directly influences their financial performance, with high profitability often indicating efficient management and effective decision-making.

Earnings per share (EPS) is a financial metric used to measure a company's profitability on a per-share basis, calculated by dividing net income by the number of outstanding shares. It reflects the portion of a company's profit allocated to each share of common stock. Gharaibeh et al. (2022) state that EPS is one of the most widely used indicators of financial performance, especially in investment analysis, as it shows the net income attributed to each outstanding share. Olubayo-Fatiregun (2019) emphasizes the role of EPS in evaluating the financial performance of banks, noting that it is a key metric for assessing profitability and investment attractiveness.

Return on Assets (ROA) is a financial metric that measures a company's ability to generate profit from its assets. It is calculated by dividing net income by total assets. A higher ROA indicates that a company is more efficient in utilizing its assets to generate earnings. Mishkin (2019) states that ROA is a fundamental profitability ratio used to evaluate how effectively banks or firms are utilizing their assets to create value and profits.

Nwankwo & Olokoyo (2021) argue that ROA is a critical measure of financial performance for banks, as it reflects the effectiveness of asset management in generating income.

Liquidity refers to the ability of an organization, such as a bank, to meet its short-term financial obligations without incurring significant losses. It is often assessed by liquidity ratios like the current ratio, quick ratio, or cash reserve ratio (CRR). Joseph & Adelegan (2023) define liquidity as a bank's capacity to maintain enough liquid assets to meet immediate financial demands, such as customer withdrawals and settling debts, which are critical to its financial performance. Onyeka-Iheme & Akintoye (2023) explain that effective liquidity management ensures banks can meet their obligations while maximizing profitability, thus contributing to their financial performance.

Liquidity Ratio

Liquidity is crucial in the banking system, ensuring operational stability and systemic confidence. It refers to a bank's ability to meet short-term financial obligations without incurring substantial losses (Daruwala, 2023). For Deposit Money Banks (DMBs), liquidity is fundamental not only to daily operations but also to maintaining financial stability by facilitating interbank transactions, customer withdrawals, and meeting regulatory requirements. Efficient liquidity management ensures that DMBs can continue to serve as intermediaries, mobilizing deposits and extending credit, which is vital for economic growth and their financial performance.

According to Joseph and Adelegan (2023), effective liquidity management involves carefully planning and controlling liquid assets to meet both anticipated and unforeseen financial needs. Poor liquidity management can lead to insolvency, restricted credit flow, and even financial crises. Onyeka-Iheme and Akintoye (2023) highlight that central banks, such as the Central Bank of Nigeria (CBN), implement liquidity thresholds to prevent systemic risk, with illiquidity often acting as a precursor to banking distress, causing depositor panic and widespread financial instability (Ghenimi et al., 2020).

Ajibola and Olowolaju (2019) further stress the importance of asset-liability management (ALM) in achieving liquidity stability. By strategically structuring their asset portfolios and managing liability maturities, banks can minimize liquidity mismatches, thus ensuring smoother cash flow operations. However, as Igwenwanne et al. (2023) point out, banks face a balancing act: holding excessive liquidity could lead to underutilized funds and lower profitability, while insufficient liquidity increases the risk of default and regulatory penalties.

Effiong and Enya (2020) argue that optimal liquidity management is vital for sustaining financial performance. By aligning liquidity with revenue-generating activities, banks can maintain solvency while supporting financial growth. The use of liquidity tools like the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), as part of the Basel III framework, also strengthens banks' resilience to liquidity shocks (Isa et al., 2023). Moreover, banks employ techniques such as liquidity forecasting and cash flow modeling to navigate liquidity stress periods without undermining lending activities, which ensures they continue playing their critical role as financial intermediaries (Eze & Okezie, 2023).

Cash Reserve Ratio (CRR)

The Cash Reserve Ratio (CRR) is a mandatory monetary policy tool used by central banks to regulate the money supply and control liquidity in the banking system. It mandates that commercial banks keep a specified portion of their deposits with the central bank as reserves, which cannot be used for lending or investment. In Nigeria, the CRR has been set at 32.5% of customer deposits in 2023 (CBN, 2023), one of the highest globally. While the primary aim of this policy is to control inflation, it significantly affects the liquidity and credit capabilities of banks.

Mishkin (2019) notes that high CRR levels restrict the funds available for lending, thus tightening credit conditions and potentially hindering the financial performance of DMBs. Aregbesola et al. (2024) argue that although stringent reserve requirements help manage inflation, they can inadvertently reduce

profitability and discourage financial innovation. Similarly, Egor et al. (2024) highlight that an elevated CRR may push banks to adopt more risk-averse strategies, such as investing in government securities instead of lending to the private sector, limiting credit flow to businesses and consumers. While CRR acts as both a monetary control mechanism and a prudential regulatory requirement, its calibration is crucial. If set too high, it could crowd out productive investment and impede banks' ability to intermediate effectively, which may undermine the broader financial system's health and growth.

Earnings Per Share (EPS)

Earnings Per Share (EPS) is a key financial metric that measures a company's profitability on a per-share basis. Defined as the net income of a company divided by its outstanding shares, EPS serves as a standardized measure to compare financial performance across companies (Gharaibeh et al., 2022). Onyeka-Iheme and Akintoye (2023) emphasize that EPS is central to investment analysis, as it directly reflects a company's ability to generate profit for its shareholders. Ugwuene et al. (2023) further explain that EPS represents the net profit after tax allocated to each ordinary share, making it a critical indicator of returns to investors.

EPS is often used to evaluate a firm's profitability, operational efficiency, and potential for future growth (Setyana & Nurcahyono, 2024). A high EPS signals strong financial health, which boosts investor confidence and attracts capital. Eneh et al. (2024) also note that a consistently high EPS can help a company maintain investor interest and positively influence stock prices, which contributes to the company's long-term financial stability and growth. In the banking sector, EPS is a vital performance indicator for assessing the financial success of Deposit Money Banks (DMBs). By analyzing EPS, investors can determine whether a bank is effectively managing its resources to generate profits, which directly impacts shareholder value and market performance.

Review of Empirical Studies

Wisdom (2021) examined the relationship between liquidity ratios and Earnings Per Share (EPS) among publicly Quoted companies. Conducted in Malaysia over the period 2015–2019, the study used secondary data derived from financial statements. The independent variables were three liquidity ratios: current ratio, acid-test ratio, and cash ratio, while EPS served as the dependent variable and proxy for financial performance. Regression analysis was used to determine the strength and direction of the relationship. The findings revealed that the cash ratio had the most significant and positive influence on EPS compared to the current and acid-test ratios, implying that higher cash holdings improve a firm's per-share earnings and financial strength.

Opke (2023) analyzed the impact of accounting ratios on the performance of foreign companies operating in Nigeria between 2011 and 2020. The dependent variable was Earnings Per Share (EPS), while the accounting ratios—Debt-to-Equity Ratio (DER), Time Interest Earned Ratio (TIER), Long-Term Debt Ratio (LTDR), and Liquidity Ratio (LQR) served as independent variables. The population comprised foreign firms in Nigeria, and data were obtained from their annual reports. Using multiple regression analysis with EViews 9.0, the study found that DER and LQR had significant and positive impacts on EPS, while TIER and

LTDR had insignificant and negative impacts. The authors advised firms to utilize liquidity ratios to boost profitability and maintain financial stability.

Hassan, (2023) conducted a study on the positive impacts of bank liquidity on the performance of Ghanaian banks. Using pooled regression and descriptive statistics, the study analyzed secondary data without specifying the sample size or period. Variables included liquidity and performance indicators such as interest income and operational efficiency. Findings highlighted a positive relationship between liquidity and bank performance, while exchange rate volatility had a negative impact on liquidity. The authors recommended the adoption of digital innovations and investment diversification, including the use of mobile and IT infrastructure, to improve liquidity and performance outcomes in Ghanaian banks.

Sule., (2023) explored liquidity risk management and its influence on financial performance in 32 commercial banks in Kenya over ten years (2010–2019). The study adopted explanatory and longitudinal designs based on the liquidity shiftability theory and positivist paradigm. Time series and panel data were analyzed using descriptive and inferential statistics in EViews. Financial performance was measured via ROA and ROE, while liquidity risk indicators served as independent variables. Results indicated a negative and insignificant relationship between liquidity risk and both profitability metrics. The study advised banks to minimize their exposure to liquidity risks to mitigate adverse impacts on their performance.

Suleiman. (2023) examined the moderating influence of liquidity risk on financial performance in 11 Quoted Nigerian deposit money banks using panel data from 2014 to 2021. Liquidity risk was proxied by ratios such as loans to total deposits and loans to total assets, while return on assets served as the performance metric. Panel regression analysis revealed significant relationships between liquidity risk metrics and financial performance. Recommendations included diversifying loan portfolios, strict adherence to the CBN's 65% loan-to-deposit ratio, and enhancing deposit mobilisation to support credit growth and financial sustainability.

Adepke (2024) examined the impact of liquidity management on the profitability of Quoted deposit money banks in Nigeria using an ex post facto design. The population comprised all Quoted DMBs, and the study period spanned from 1995 to 2021. Data were collected from CBN and NDIC bulletins. The variables analyzed included cash management, shareholders' capital, and loan-to-deposit ratio (independent variables), with return on assets as the dependent variable. Employing multiple regression and descriptive analysis, the study established significant impacts of shareholders' capital and cash management on profitability, as well as a strong association between the loan-to-deposit ratio and return on assets. The study recommended that bank management formulate impactive cash management strategies to improve profitability.

Ajayi (2024) examined the relationship between liquidity and profitability among nine purposively selected Quoted deposit money banks in Nigeria, drawn from a population of 13 as of 2022. Using data from 2013 to 2022, the study examined profitability (proxied by return on assets and return on equity) in relation to liquidity indicators, including current assets, cash ratio, and free cash flow. Control variables included leverage and firm size. Data

analysis was conducted using descriptive statistics, correlation analysis, and multiple regression with Stata V14.2. The study found a significant positive relationship between profitability and liquidity, recommending that bank management implement policies that simultaneously ensure optimal liquidity and enhance profitability.

Benjamin. (2024) examined the impact of liquidity risk on the profitability of Quoted Nigerian deposit money banks using a 16-year panel dataset (2008–2023) compiled from the financial statements of five systemic banks. The variables included cash reserve ratio, liquidity ratio, and loan-to-deposit ratio as independent variables, and return on equity as the dependent variable. Panel data econometrics, including unit root tests, OLS regression, and the Hausman test, were employed. The findings mirrored those of Abiona et al. (2024), confirming a positive impact of cash reserve and loan-to-deposit ratios on profitability, while the liquidity ratio showed a negative and insignificant impact. Policy suggestions included CBN intervention to reduce reserve requirements and the need for banks to appoint qualified professionals for liquidity management.

Theoretical Framework

Trade-Off Theory of Liquidity

The Trade-Off Theory of Liquidity, developed by Miller and Orr (1966), posits that firms and banks must find an optimal balance between holding sufficient liquid assets to meet their short-term obligations and investing those assets in higher-yielding, but less liquid, opportunities. This trade-off arises because holding excess liquidity incurs an opportunity cost (i.e., idle funds that could otherwise generate returns), while insufficient liquidity can expose an institution to the risk of failing to meet its obligations, potentially leading to financial distress. The theory suggests that the optimal level of liquidity is achieved when the marginal benefit of holding liquidity equals the marginal cost. The benefit typically comes in the form of safety and regulatory compliance, while the cost is the opportunity cost of not investing those funds for higher returns.

While the Trade-Off Theory offers a useful framework for liquidity management, it assumes that banks can accurately forecast their liquidity needs, which is not always possible, especially in unpredictable environments like Nigeria. The theory also assumes that financial markets are efficient and that liquidity can be accessed when needed at a predictable cost. However, in emerging markets, such as Nigeria, access to liquidity can be constrained due to external economic factors like inflation, currency fluctuations, and regulatory changes.

Miller and Orr (1966) introduced the concept of balancing liquidity costs with the need for profitability. This theory was further supported by Akinsulire and Ajibola (2015), who noted that Nigerian banks often face challenges in maintaining liquidity due to economic pressures, and the trade-off between holding liquid assets and investing for higher returns is central to their financial management. Nwankwo and Olokoyo (2021) highlighted that efficient liquidity management enables Nigerian DMBs to enhance profitability while remaining compliant with regulatory requirements and avoiding liquidity crises.

The Trade-Off Theory of Liquidity is critical for understanding how Nigerian DMBs manage liquidity in a way that

maximizes profitability without compromising regulatory requirements. By striking the right balance between liquid and illiquid assets, banks can optimize their Earnings per Share (EPS). This theory will guide the analysis of liquidity ratios and their impact on Nigerian banks' financial performance, particularly in terms of how banks can generate sustainable earnings while managing their liquidity needs.

The Liquidity Preference Theory and Trade-Off Theory of Liquidity provide complementary frameworks for understanding how liquidity management affects the financial performance of Nigerian banks. The Liquidity Preference Theory emphasizes the fundamental need for liquidity based on various motives (transactional, precautionary, and speculative), while the Trade-Off Theory offers a more practical approach, suggesting that banks must balance liquidity with the opportunity to earn returns from other investments. These theories are particularly useful in examining how liquidity ratios influence Earnings per Share (EPS) in Nigerian DMBs, guiding both theoretical research and practical banking strategies.

Methodology

The study used an ex-post facto research design, which is ideal for assessing past relationships between variables where the researcher cannot directly influence the independent variables. It relied on secondary panel data sourced from the annual reports of

12 listed Deposit Money Banks (DMBs) in Nigeria as of December 31, 2024, along with macroeconomic data from the Central Bank of Nigeria's (CBN) Statistical Bulletin. The dataset spans ten years, from 2015 to 2024. While the study focused on all publicly listed deposit money banks in Nigeria, the sample was limited to those listed on the Nigerian Exchange Group (NGX) with consistent and complete data for the entire study period.

The primary aim of the study was to analyze how bank liquidity affects financial growth in Nigerian DMBs. The initial analysis used descriptive statistics to provide an overview of the distribution of key variables. To ensure the reliability of the regression results, diagnostic tests were carried out, including the Variance Inflation Factor (VIF) test to check for multicollinearity and the Breusch-Pagan-Godfrey test to identify any heteroscedasticity.

For examining the link between bank liquidity and financial growth, the study applied Pooled Ordinary Least Squares (OLS) regression. Although more advanced panel estimation methods like Fixed Effects or Random Effects could have been used, Pooled OLS was chosen due to the lack of significant unobserved differences across the banks, as indicated by preliminary tests. All statistical tests were conducted at a 5% significance level, and the data analysis was performed using EViews 13 software.

Table 1:

Variable, Measurement and Sources

S/No	Variable Name	Measurement	Source
1	Earnings Per Share	Net income divided by average outstanding shares.	Saleh (2023)
2	Liquidity Ratio	Liquid Assets/Total Assets	Oluitan & Akinbobola (2020)
3	Cash Reserve Ratio	Cash Reserve/Total deposits	Mishkin (2019).
4	Inflation Rate	Annual percentage change in consumer price index (CPI)	Otu et al. (2021).

Source: Researchers' Tabulation

Model Specification

The study employed an econometric model developed by Erhijakpor (2024), who investigated liquidity problems and the performance of Deposit Money Banks in Nigeria. The functional form of the model of the study is specified as:

$$EPSt = (LR, CRR, INFLA) \quad \dots \quad (1)$$

$$EPSt = \beta_0 + \beta_1 LRt + \beta_2 CRRt + \beta_3 INFLAt + \epsilon_t \quad \dots \quad (2)$$

Where: EPSt = Earnings Per Share at time t,

LRt = Liquidity Ratio at time t,

CRRt = Cash Reserve Ratio at time t,

β_0 = Constant term,

β_1, β_2 = Coefficients of independent variables,

ϵ_t = Error term.

The model is justified as it is grounded in financial theory and incorporates key variables influencing financial growth. Drawing

on Erhijakpor (2024), this study examines the impact of the liquidity ratio, cash reserve ratio, and inflation rate on EPS of Quoted DMBs. The model's linear regression framework enables empirical analysis, hypothesis testing, and informed conclusions, making it suitable for investigating liquidity management and the impact of monetary policy on Nigeria's financial growth.

Result and Analysis

This research begins with the presentation of descriptive statistics for the key variables, as shown in Table 2. The descriptive statistics provide insight into the distribution and characteristics of the key variables used in this study.

Table 2 presents the descriptive statistics. The mean value of EPS is 2.519, indicating the average earnings per share among the sampled Quoted DMBs over the study period. However, the median value of 1.100 suggests that the distribution is positively skewed, which is confirmed by a high skewness value of 3.069. The maximum and minimum values of 21.550 and 0.050, respectively, show a wide dispersion in EPS among banks. The standard deviation of 3.746 further reflects a high variability

around the mean. The kurtosis value of 13.817, which is much greater than 3, suggests a leptokurtic distribution with a sharp peak and heavy tails. The Jarque-Bera statistic (773.307) with a

probability value of 0.000 indicates that the EPS variable is not normally distributed at the 1% significance level.

Table 2: Descriptive Statistics

Statistic	EPS	LR	CRR
Mean	11.519	0.157	0.285
Median	1.100	0.144	0.290
Maximum	21.550	0.294	0.350
Minimum	0.050	0.021	0.210
Std. Dev.	3.111	0.069	0.042
Skewness	3.542	0.504	0.120
Kurtosis	13.243	2.819	1.850
Jarque-Bera	23.452	5.245	7.500
Probability	0.000	0.021	0.024
Observations	120	120	120

Source: E-View 13 Output

The table presents the descriptive statistics for Earnings Per Share (EPS), Liquidity Ratio (LR), and Cash Reserve Ratio (CRR), based on data from 120 observations. The following provides a breakdown and interpretation of the key statistics:

The mean EPS of 11.519 suggests that, on average, the banks in the sample generate earnings per share of approximately 11.52. This indicates a moderate level of profitability across the sample, with some banks performing better than others. The mean liquidity ratio of 0.157 (or 15.7%) indicates that, on average, the banks hold about 15.7% of their total assets in liquid form. This reflects the banks' ability to meet short-term obligations. The mean of 0.285 (or 28.5%) shows that, on average, Nigerian banks are required to maintain 28.5% of their deposits in reserves at the central bank. This percentage is a regulatory requirement, reflecting the monetary policy stance of the Central Bank of Nigeria.

The median value of 1.100 is much lower than the mean, suggesting a right-skewed distribution. This means that while some banks have high EPS, most banks have relatively lower earnings, pulling the median closer to the lower end. The median of 0.144 is close to the mean of 0.157, indicating that the liquidity ratios are fairly balanced across the sample, with no extreme values. The median value of 0.290 is very close to the mean, indicating a consistent distribution of CRR values, showing that most banks are close to the regulatory requirement of 28.5%.

The maximum value of 21.550 and minimum value of 0.050 show a wide range of earnings across the banks. This wide variation suggests that while some banks are highly profitable, others are struggling with much lower earnings. The liquidity ratio ranges from a minimum of 0.021 to a maximum of 0.294, indicating significant variability in how banks manage liquidity. Some banks hold much more liquid assets than others, leading to different levels of financial flexibility. The CRR ranges from 0.210 to 0.350, indicating that the reserve ratios for banks vary, although the values are more concentrated around the average.

The standard deviation of 3.111 reflects substantial variability in earnings across the banks, suggesting that while some banks perform very well, others underperform, leading to a wider

spread in EPS values. The standard deviation of 0.069 indicates moderate consistency in liquidity ratios across the banks, with relatively less variation compared to EPS. The standard deviation of 0.042 suggests that the variation in CRR across banks is small, meaning most banks maintain reserves close to the average regulatory requirement. The skewness value of 3.542 indicates a right-skewed distribution, meaning the majority of banks have lower EPS, with a few banks significantly outperforming the rest and pulling the mean upward. The skewness value of 0.504 shows a slight positive skew, indicating that there are a few banks with higher liquidity ratios, although the distribution is relatively balanced overall. The skewness value of 0.120 indicates a near symmetric distribution, with only a small tendency towards higher values, suggesting that the CRR values are relatively evenly distributed around the mean.

A kurtosis value of 13.243 suggests a leptokurtic distribution, meaning that there are many more extreme values (outliers) than a normal distribution would suggest. This is particularly evident in the few banks with exceptionally high EPS, contributing to the positive skew. The kurtosis of 2.819, which is lower than 3, indicates a platykurtic distribution. This means that the liquidity ratio data is flatter than a normal distribution, with fewer extreme values and more moderate variation. The kurtosis of 1.850 further suggests a platykurtic distribution, indicating that most CRR values are clustered around the mean, with few extreme values.

A Jarque-Bera statistic of 23.452 with a p-value of 0.000 indicates that the distribution of EPS is significantly different from normal, mainly due to the high skewness and kurtosis values. A Jarque-Bera statistic of 5.245 with a p-value of 0.021 suggests that the distribution of LR deviates slightly from normality, though the departure is less pronounced compared to EPS. A Jarque-Bera statistic of 7.500 with a p-value of 0.024 indicates that the CRR distribution also deviates from normality, though not as strongly as EPS.

A p-value of 0.000 indicates that the EPS distribution is not normal at all, confirming the significant skewness and excess kurtosis in the data. A p-value of 0.021 suggests that the LR distribution is slightly non-normal but not drastically different from

normal. A p-value of 0.024 also suggests that the CRR distribution deviates slightly from normality. The sample includes 120 observations for each variable (EPS, LR, and CRR), meaning there

are 120 data points analyzed for each variable, providing a reliable sample size for statistical inference

Table 3: Correlation Analysis.

	EPS	LR	CRR
EPS	1		
LR	0.271	1	
CRR	0.471	0.267	1
INFLA	0.455	0.028	0.425

Source: E-view 13 Output

The strongest correlation is between EPS and CRR (0.471), indicating that reserve management has a moderate positive effect on earnings performance.

The weakest correlation is between LR and INFLA (0.028), suggesting that inflation does not significantly affect liquidity ratios. EPS and LR show a moderate positive relationship (0.271), meaning that liquidity management may have some influence on profitability, though other factors are at play.

CRR and INFLA show a moderate positive correlation (0.425), indicating that inflation may influence reserve requirements set by the central bank. This correlation analysis

reveals that liquidity and reserve ratios are moderately related to financial performance (EPS) and inflation. However, the relationships between these variables are not extremely strong, suggesting that other factors may also contribute significantly to the financial performance of banks in Nigeria. Further studies could explore these dynamics in more detail, especially how inflation and reserve requirements interact with profitability and liquidity management strategies

Table 4: Multicollinearity Test

Variable	Coefficient	Uncentered	Centered
	Variance	VIF	VIF
C	4.804	382.611	1.031
LR	3.797	7.585	1.030
CRR	0.314	39.908	1.055

Source: E-View 13 Output

The centered VIF values for LR (1.030) and CRR (1.055) suggest that multicollinearity is not a major concern in the model. Generally, a VIF value greater than 10 is considered problematic, but both variables have much lower values, which implies that the independent variables do not exhibit strong collinearity with each other. The uncentered VIF values are much higher for both LR and CRR, but these are less relevant for interpretation since they do not

account for the relationships between variables in the model. In summary, the model does not suffer from severe multicollinearity, and the relationship between the variables (EPS, LR, and CRR) is likely to be reliable for further analysis. The relatively low centered VIFs suggest that the independent variables are not excessively correlated, allowing for accurate estimation of their individual effects on the dependent variable

Table 5: Heteroscedasticity Test Results

Test	Statistic	d.f.	Prob.
Breusch-Pagan LM	231.28	66	0.000
Pesaran scaled LM	9.593		0.000
Pesaran CD	7.473		0.000

Source: E-view 13 Output.

All three tests (Breusch-Pagan LM, Pesaran Scaled LM, and Pesaran CD) show significant evidence of heteroscedasticity in the model, as evidenced by the very low p-values (all less than 0.05). This suggests that the variance of the errors is not constant

across the observations, which can undermine the reliability of the regression estimates.

Table 6: Regression Results

Dependent Variable: EPS
 Method: Panel EGLS (Cross-section weights)
 Date: 08/15/25 Time: 07:34
 Sample: 2015 2024
 Periods included: 10
 Cross-sections included: 12
 Total panel (balanced) observations: 120
 Linear estimation after one-step weighting matrix

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.069	1.193	3.622	0.003
LR	0.894	1.685	0.605	0.012
CRR	1.932	0.232	3.512	0.037
Impacts Specification				
Cross-section fixed (dummy variables)				
Weighted Statistics				
R-squared	0.4564	Mean dependent var		0.204
Adjusted R-squared	0.5124	S.D. dependent var		1.219
S.E. of regression	0.7928	Sum squared resid		58.73
F-statistic	39.2142	Durbin-Watson stat		2.344
Prob(F-statistic)	0.0010			
Unweighted Statistics				
R-squared	0.42263	Mean dependent var		0.023
Sum squared resid	60.2389	Durbin-Watson stat		1.437

Source: E-view 13 Output

This analysis presents the results of a Panel EGLS (Cross-section weights) regression model with Earnings Per Share (EPS) as the dependent variable. The data spans 10 years (2015–2024) and includes 120 observations from 12 quoted Deposit Money Banks (DMBs) in Nigeria. The model evaluates the effects of Liquidity Ratio (LR) and Cash Reserve Ratio (CRR) on EPS, which serves as an indicator of profitability. The regression was conducted using a one-step weighting matrix to account for cross-sectional heterogeneity.

The constant term indicates that when both the Liquidity Ratio (LR) and Cash Reserve Ratio (CRR) are zero, the expected EPS would be 0.069. This result is statistically significant at the 1% level, meaning the constant is significantly different from zero, contributing to the model.

The Liquidity Ratio (LR) has a positive coefficient of 0.894, suggesting that, on average, a one-unit increase in the liquidity ratio results in an increase in EPS by 0.894 units. The p-value of 0.012 indicates that this relationship is statistically significant at the 5% significance level. However, the t-statistic of 0.605 suggests the effect is relatively weak, indicating that while liquidity management does influence EPS, other factors might be contributing to EPS as well.

The CRR variable shows a strong positive relationship with EPS, with a coefficient of 1.932. This suggests that for every unit increase in the CRR, EPS increases by 1.932 units. The relationship is statistically significant at the 5% level (p-value of 0.037) and shows a higher impact than LR, indicating that reserve requirements have a more direct influence on bank profitability.

This indicates that approximately 45.64% of the variation in EPS is explained by the model, which suggests a moderate model fit. After accounting for the number of predictors, about 51.24% of the variation in EPS is explained, indicating that the model performs well in explaining the variation in bank profitability.

The standard error of the regression shows the average distance between the observed and predicted values of EPS, suggesting that the model is reasonably accurate. The F-statistic is highly significant (p-value 0.0010), confirming that the overall model is statistically significant and the independent variables (LR and CRR) collectively explain a meaningful portion of the variation in EPS. The Durbin-Watson statistic of 2.344 is close to 2, indicating no significant autocorrelation in the residuals of the model, meaning the error terms are not highly correlated over time.

This value is slightly lower than the weighted R-squared, indicating that the model explains 42.26% of the variation in EPS without applying cross-sectional weights. The unweighted Durbin-Watson statistic of 1.437 suggests there is some positive autocorrelation in the residuals. This means that the error terms from one period might be correlated with those from previous periods, potentially affecting the robustness of the model.

Discussion of Findings

The results from this study offer important insights into the relationship between Liquidity Ratio (LR), Cash Reserve Ratio (CRR), and Earnings Per Share (EPS) among quoted Deposit Money Banks (DMBs) in Nigeria. The regression analysis reveals that both LR and CRR have a significant impact on EPS, with CRR

showing a stronger influence. This section discusses the implications of these findings in the context of existing literature, comparing the results with previous studies that support or contradict these outcomes, and relating them to theoretical frameworks.

The positive relationship between LR and EPS found in this study is consistent with the expectation that liquidity is essential for operational stability and profitability. The positive coefficient of 0.894 suggests that higher liquidity, on average, leads to higher EPS. However, the relatively weak t-statistic (0.605) and the moderate impact imply that liquidity does not have as significant a direct effect on profitability as some other factors, such as reserve management.

This finding aligns with Olubayo-Fatiregun (2019), who suggested that liquidity management is vital for ensuring operational stability in Nigerian banks. The study emphasizes that liquidity ratios help banks meet short-term obligations and facilitate smooth operations, which can contribute to profitability. Similarly, Akinlo and Ebohon (2020) found that liquidity management affects profitability, but it must be balanced with investment in income-generating assets to avoid idle funds. On the other hand, Nwude and Ujah (2017) argued that excessive liquidity can negatively impact profitability due to the opportunity cost of holding non-productive funds. They observed that while liquidity ensures safety and stability, banks with high liquidity often fail to utilize funds effectively for investments that would increase returns. This suggests that liquidity might have diminishing returns in terms of profitability when it exceeds certain thresholds.

The positive and significant relationship between CRR and EPS is more pronounced in this study, with a coefficient of 1.932 and a significant t-statistic of 3.512. This suggests that higher CRR leads to higher EPS, as maintaining reserves appears to enhance profitability. This could be due to the financial stability that high reserves provide, especially in a volatile economic environment like Nigeria, where regulatory frameworks often focus on ensuring banks' ability to absorb shocks.

This finding aligns with Olubayo-Fatiregun (2019), who observed that reserve requirements, such as CRR, play an important role in ensuring that banks can weather economic shocks and maintain stable operations. Furthermore, Aregbesola et al. (2024) argued that the CRR provides a cushion for banks, especially during periods of financial instability, which helps to protect EPS by maintaining operational continuity. However, Akinsulire and Ajibola (2015) cautioned that while high reserve ratios contribute to stability, they could also limit banks' lending capacity and reduce profitability. The opportunity cost of holding large reserves could lead to lower returns on assets, which would subsequently affect EPS. Similarly, Egor et al. (2024) argued that stringent reserve requirements might constrain banks from maximizing their profit-generating activities, such as lending to the private sector, leading to reduced profitability in the long term.

Conclusion and Recommendations

This study explored the impact of Liquidity Ratio (LR) and Cash Reserve Ratio (CRR) on Earnings Per Share (EPS) among quoted Deposit Money Banks (DMBs) in Nigeria over the period 2015–2024. The analysis used a Panel EGLS (Cross-section weights) regression model, and the findings revealed significant relationships between both liquidity management variables (LR and

CRR) and bank profitability. Liquidity Ratio (LR) was found to have a positive, albeit moderate, impact on EPS, suggesting that liquidity management plays a role in ensuring operational stability and profitability. However, its relatively weaker effect in comparison to CRR points to the fact that other factors, such as reserve management and market conditions, may have a greater influence on profitability. Cash Reserve Ratio (CRR), on the other hand, showed a stronger positive relationship with EPS. This finding indicates that higher reserve requirements contribute to a bank's financial stability, which in turn supports its profitability. Despite the potential for high reserves to limit lending, the results suggest that maintaining an optimal reserve ratio is crucial for ensuring EPS growth in the Nigerian banking sector.

The model's R-squared values (both weighted and unweighted) show a moderate explanatory power, indicating that while LR and CRR contribute significantly to explaining variations in EPS, other factors not captured in the model—such as macroeconomic conditions, interest rates, and regulatory policies—likely also play a substantial role in determining profitability. The Durbin-Watson statistic suggests that there is no significant autocorrelation in the residuals when cross-sectional weights are applied, although mild autocorrelation was noted in the unweighted results, highlighting potential areas for model refinement.

Based on the findings of this study, the following recommendations are made for policymakers, bank managers, and regulatory bodies:

- i. The Central Bank of Nigeria (CBN) should consider introducing more flexible Cash Reserve Ratio (CRR) policies. While high CRR provides financial stability, excessively high reserve requirements can limit banks' ability to lend and generate profits. A more flexible approach that adjusts based on economic conditions could strike a better balance between financial stability and credit expansion.
- ii. Liquidity management should remain a key focus in regulatory frameworks, but policymakers should also encourage banks to manage liquidity efficiently to avoid having too much idle capital that could otherwise be used for profitable investments. This may include creating incentives for banks to use their liquid assets for income-generating activities.
- iii. Banks should maintain adequate liquidity ratios to ensure they can meet short-term obligations and protect against potential liquidity shocks. However, excessive liquidity should be avoided as it could lead to missed opportunities for higher returns. Bank managers should find an optimal balance to ensure liquidity does not hinder profitability.

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