

EFFECT OF LIQUIDITY RISK ON THE PROFITABILITY OF UBA COMMERCIAL BANK IN NIGERIA

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Abstract

This study assessed the effect of Liquidity risk on profitability of commercial Banks in Nigeria. The issue of liquidity and profitability management is a paramount one in the banking industry, profitability is improved for banks that hold some liquid assets, however, there is a point beyond which holding further liquid assets diminishes a banks' profitability which may cause a fire sale of the assets of the bank and may spill over into an impairment of banks capital base. This study was carried out on UBA Plc between 2019 and 2021, using linear regression technique. Data were analyzed using descriptive and inferential statistics. The descriptive statistics was used to compute the mean and standard errors of the variables under study while inferential statistics (multiple regression and simple linear regression analysis) was used to test the hypotheses. The results were presented in tables and discussed according to the research hypotheses. The study revealed a significant effect of liquidity risk on the profitability of UBA Plc in Nigeria with the probability coefficient of ($P 0.03 < 0.05$ Based on the findings, the study recommend that UBA Plc should maintain adequate degree of liquidity in the banking system, because the registration of a liquidity crisis at a single bank can have negative repercussions over the whole banking system courtesy the risk of contagion through interbank settlements. UBA Plc should also invest part of their funds in loan portfolio and securities that are in secondary market so that when liquidity need arises, the said asset can be sold in that market.

1. Introduction

The financial relations all over the world, have been deeply transformed in the last two decades. This has been characterized by new products, new markets and new regulatory systems which have radically altered the environment in which financial institutions operate, opening new profit opportunities but also creating new risks (Agier & Assuncao, 2009). Today's modern and competitive financial atmosphere influence banks to improve their service quality and follow new technologies all over the world. Nigeria is no exception to these effects and almost all industries including the banking sector. Commercial banks including private and nationalized banks are providing varied services to attract the customers' community since it is treated as assets of banks (Moya, 2009). In the lending business bank has to distinguished from transaction based lending particularly the underlying credit

processes. The Basel Committee on Banking Supervision (2008) defined liquidity as the ability of a bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. The Committee posits that the vulnerability of a bank to liquidity risk usually arises when the bank plays the fundamental role of maturity transformation of short-term deposits into long-term loans (the conversion of short term liquid liabilities to long term illiquid assets), both of an institution-specific nature and that which affects markets as a whole. Effective liquidity risk management helps ensure a bank's ability to meet cash flow obligations which are uncertain as they are affected by external events and other agents' behaviour. Said and Tumin (2011), explain the liquidity risk for a bank; as the expression of the probability of losing the capacity of financing its transactions, or the probability that the bank cannot honor its daily

obligations to its clients which includes the withdrawal of deposits, maturity of other debt, and cover additional funding requirements for the loan portfolio and investment.

According to Crowe (2009), a bank having good asset quality, strong earnings and sufficient capital may still fail if it is not maintaining adequate liquidity. Said and Tumin (2011) consider liquidity risk as an important internal determinant of bank profitability among other firm specific variables such as credit risk, capital adequacy, expenses management, business diversification bank size together with industry and macroeconomic variables. This is mainly because it can be a source of bank failure and therefore to avoid insolvency, holding a considerable value of liquid assets with easy transformation into cash becomes very prudent. In analysing the behaviour of firms, economists often assume that firms seek to maximize profits (Atkinson and Miller, 1988) making profitability the best measure in the assessment of performance of any profit making oriented organization such as commercial banks.

Said and Tumin (2011) argue that in order to understand how well a bank is doing, one need to start by analysing the bank's income statement, the description of the sources of income and the expenses that affect the bank's profitability. Fundamental measures of bank profitability include return on assets (ROA), return on equity (ROE) and net interest margins (NIM) usually expressed as functions of internal and external determinants which are mainly influenced by a bank's management decisions and policy objectives (Athanasoglou et al, 2006). Return on Asset (ROA) is calculated as net profit after tax divided by total assets, return on equity (ROE) defined as the ratio of net profit after tax to total equity and net interest margin (NIM), ratio interest income less interest expense to total assets. This study intends to assess the effect of lending risk on the profitability of commercial banks in Nigeria.

The difficulty and risk of lending in management of financial institution and other economic unit have remained fascinating and intriguing, though very elusive in the process of investment analysis visa- visa banks lending management on profitability. According to Said and Tumin (2011) revising the determinants of the profitability of banks is an essential subject matter which could help in banks appreciation of the contemporary conditions of the banking industry and the critical factors to be considered in policy formulation for improvement, profitability and growth. Kweri (2011) researched on the relationship between working capital management and profitability of manufacturing firms listed at the Nairobi stock exchange. The findings of the study were that working capital management affects profitability of the company and if the firm can effectively manage its working capital, it can lead to increasing profitability. Liquidity risk may arise due to the breakdown or delays in cash flows from the borrower's or early termination of the projects. Moreover, liquidity risk may also originate from the very nature of banking; macro factors that are exogenous and financing and operating policies that are endogenous. Bordeleau, Crawford and Graham (2009) reviewed the impact of liquidity on bank profitability for 55 US banks and 10 Canadian banks between the period of 1997 and 2009. Results from the study suggested that a nonlinear relationship exists, whereby profitability is improved for banks that hold some liquid assets, however, there is a point beyond which holding further liquid assets diminishes a banks' profitability, all else equal. Conceptually, this result is consistent with the idea that funding markets reward a bank, to some extent, for holding liquid assets, thereby reducing its liquidity risk. However, this benefit can eventually be outweighed by the opportunity cost of holding such comparatively low-yielding liquid assets on the balance sheet. According to Owolabi, Obiakor and Okwu

(2011) conducted a study that investigated the relationship between liquidity and profitability in selected quoted companies in Nigeria. The central objective was to examine the nature and extent of the relationship between liquidity and profitability in profit-driven quoted companies and also to determine whether any cause and effect relationship existed between the two performance measures. Liquidity measure considered was current assets- liabilities ratio while profitability measure was operating profit-turnover ratio. Investigative and quantitative analysis methods were used for the study and the study found that liquidity has significance effect on profitability. Most of these studies shade so much light on quantitative analysis on the relationship between liquidity and profitability and they were also carried out in different period, to address this gap, this study aims to assess the effect of liquidity risk on the profitability of United Bank for Africa Plc in Nigeria, focusing on qualitative data analysis and risk of managing excess or buffer liquidity that will hardly ever be sufficient to fully insure against a bank run or liquidity risk which the affirmation study failed to address. The study will answer the question what is the effect liquidity risk on profitability of commercial banks? And the study hypothesizes that there is no significant effect of liquidity risk on the profitability of commercial banks in Nigeria. It is hoped that the result of the study will be significant as it will assess the effects of lending on the profitability of commercial banks in Nigeria; the study will be useful to bank managers in making decisions as regards to administration of lending in term of interest rate risk, liquidity risk and credit risk which if successful manage will help in reducing cases of default as such the board of directors as well as top level management can use this study to draw strategic polices for their banks. Practitioners and regulatory authorities who will be confronted with the responsibility of managing the banking crises will find the study useful. Financial institutions if successful will find the result

of this study useful to set up mechanism that will help to control and prevent bad debt on the performance of deposit money banks and restore confidence to customers as well as sanity to the banking sector. It will also add value to existing literature on this subject matters and thereby becoming a source of reference material for students and other researchers. The study assessed the effect of liquidity risk on the profitability of UBA commercial banks in Nigeria. The research covered a period of three (3) years, from 2016 to 2018, because this period witnessed an unprecedented rise in liquidity risk.

2. Literature Review

Conceptual Issues, Banks Profitability

Profitability is the ability of a business to earn a profit. A profit is what is left of the revenue a business generates after it pays all expenses directly related to the generation of the revenue, such as producing a product, and other expenses related to the conduct of the business activities. Profitability usually has five main components: revenue (sales/turnover), cost of goods sold, gross profit (revenue minus Cost of Goods Sold), expenses and net profit (gross profit minus expenses). Athanasoglou, (2006) stated that the importance of banks is more pronounced in developing countries because financial markets are usually underdeveloped, and banks are typically the only major source of finance for the majority of firms and are usually the main depository of economic savings. Banking Profitability may also show managers attitude toward risk. Banks that make huge profits are not scared when venturing into risky activities. In a similar fashion, banks that are not effective in their management encounter higher bad debt. Profitability measure is important to the investors. The level of profitability is very significant for shareholders of a bank because it shows how effective management has utilized their investments (Devinaga, 2010). In determining the financial strength of a

commercial bank, the level of profitability is predominant. According to Athanasoglou, (2005). Profitability can be measured in a number of ways. These include return on assets (ROA), return on equity (ROE). But over the year, most researchers prefer using return on asset (ROA). The used of ROA in measuring profitability. It was disclosed that, the performance of a bank was negatively affected by the level of nonperforming ratio. In theory, ROA shows the capacity of a bank's management to make profits using the level of asset available. It may be unfair because of the other events that take place outside the balance sheet.

Determinants of Bank Profitability

In the literature, bank performance, typically measured by the return on assets (ROA), the return on equity (ROE) and net interest margin (NIM) is usually expressed as a function of both internal and external determinants. The return on assets (ROA) reflects the ability of a bank's management to generate profits from the bank's assets while the ROE specifies the return to shareholders on their equity. NIM measures the gap between the interest paid to savers/lenders and the interest the bank receives from borrowers/debtors. Several studies have been undertaken by many researchers in different banking environments with these measures of bank profitability and thus achieving different results. Goddard (2004), for example conducted a study on the profitability of European (Denmark, France, Germany, Italy, Spain and the UK) banks between 1992 and 1998 using a cross-sectional and a dynamic panel analysis. Using the return on equity (ROE) as the dependent variable, the study employed size, business diversification, capital adequacy, credit risk and ownership type as well as dynamic effects as the explanatory variables. The results indicated that despite the intensifying competition among banks, there existed a significant persistence of abnormal profit from year to year.

It was also evident that the relationship between size and profitability was relatively weak. The relationship between the importance of off-balance-sheet businesses (OBS) in a bank's portfolio and profitability was positive for the UK, but either neutral or negative elsewhere where some banks that had diversified rapidly into OBS businesses experienced difficulties in maintaining their profitability. The relationship between the capital-assets ratio and profitability was positive though this finding did not reflect the expected theoretical relationship between risk and return since a high CAR (capital-asset ratio) signifies that a bank is operating over-cautiously and ignoring potentially profitable trading opportunities. However, it was revealed that high CAR takes care of the cost of insurance against bankruptcy, signaling a higher future profitability, and thus creating a positive association between CAR and ROE.

There was no systematic relationship between ownership type and profitability according to the pooled estimation across all countries. In all the countries cross-sectional estimation, cooperative banks were less profitable than commercial and savings banks, though the effect was only significant at the ten per cent level. Sufian and Chong (2008) conducted a study on the determinants of bank profitability in the Philippines, a developing economy between 1990 and 2005 with the application of a multiple regression analysis. In their linear regression analysis, a measure of profitability; return on assets (ROA) was the dependent variable with bank specific explanatory variables such as size, credit risk, non-interest income to total assets ratio or measure of diversification and business mix, non-interest expense or efficiency of management, equity to assets ratio while the external explanatory variables used were the growth rate of the GDP, growth of money supply, the rate of inflation and stock of market capitalization. The results indicated a negative relationship between bank size and profitability meaning that

bigger banks tend to make lesser profit compared to smaller banks.

Concept of Liquidity Risk

According Bonfim and Kim (2012), the complexity of the functions of banks gives rise to an intrinsic risk that lies deep in their core function; their unique intermediation role. Banks use a limited amount of their own resources in granting loans to entrepreneurs and consumers and thus provide them with the liquidity to finance their investment and consumption demands. Much of these resources used by these banks are normally associated with liabilities to third parties traditionally in the form of deposits. This transformation of liquid liabilities (deposits) into risky liquid (illiquid) assets in the form of loans capitalizing on their maturity mismatch expose them to liquidity risk (Diamond and Dybvig, 1983, Jekinson, 2008). In order to lessen the maturity gap between assets and liabilities or the inherent illiquidity, banks can adequately manage the liquidity risk underlying their balance sheet structure by holding a buffer of liquid assets. However, aside the high opportunity cost of holding a buffer of liquid assets as compared to the higher returns associated with illiquid assets, it manifests a degree of inefficiency on the part of management as it limits banks' ability to provide liquidity to entrepreneurs and consumers. Hence, even though banks have some incentives to hold a fraction of liquid assets (in the form of cash, short term assets or government bonds), these buffers will hardly ever be sufficient to fully insure against a bank run or liquidity risk (Bonfim & Kim, 2012).

A bank's inability to accommodate decreases in liabilities or to fund increases in assets as definition of liquidity risk as defined by the Basel Committee for Banking and Supervision (1997) can be classified into two forms; funding liquidity risk and market liquidity risk; funding liquidity risk is the risk that a bank will be unable to meet its obligations as they come due because of the inability to liquidate

assets or inadequate funding sources. Market liquidity risk on the other hand is the risk that a bank cannot easily unwind or offset specific exposures without significantly lowering market prices because of inadequate market depth or market disruptions. Gomes and Khan (2011), in a research paper on strengthening bank management of liquidity risk through the Basel III liquidity standards made further clarifications on both funding and market liquidity risks. They indicated that funding liquidity risk as the inability of a firm to generate funds by deploying assets held on its balance sheet to meet financial obligations on short notice. The liquidity position of a given bank is determined primarily by its holdings of cash and other readily available marketable assets, as well as by its funding structure and the amount and type of contingent liabilities that may come due over a specified horizon. They further explained market liquidity risk as the ability of a bank to execute transactions in financial markets without causing a significant movement in prices. On a study on market liquidity risk, the Bank for International Settlements-BIS (1999) considered the several different dimensions by which significant movement in prices in could arise and these include immediacy, breadth, depth and resilience. Immediacy refers to the speed with which trades of a certain size can be executed. Breadth is the divergence in the price of an asset from mid-market prices and is generally measured by the bid-offer spread. Depth refers to either the volume of trades that can be executed without affecting current market prices or the amount of orders on the order books of market-makers. Resilience is the speed with which price fluctuations that occur during the execution of a trade return to former levels. These factors thus go a long way to affect market liquidity risk in diverse ways. Market and funding liquidity risks compound each other as it is difficult to sell when other investors face funding problems and it is difficult to get funding when the collateral is hard to sell. Gomes and Khan (2011), again made the assertion

that interactions between these two types of liquidity risk could lead to devastating liquidity consequences where poor conditions for funding liquidity lead to a decrease in market liquidity and in turn contribute to a further deterioration in funding liquidity.

Effect of Liquidity Risk on Banks Profitability

The management of liquidity risk presents two main perspectives both of which have an effect on a bank's profitability. They indicated that an inadequate level of liquidity may lead to the need to attract additional sources of funding associated with higher costs that will result in the reduction of the profitability of the bank and ultimately lead to insolvency. On the other hand an excessive liquidity may lead to a fall in net interest margins and in consequence poor financial performance. Keeping appropriate levels of liquidity is manifested in a bank's ability to obtain with immediacy the needed funds at a reasonable cost as and when necessary. Maintaining an adequate degree of liquidity in the whole banking system is extremely important, because the registration of a liquidity crisis at a single bank can have negative repercussions over the whole banking system courtesy the risk of contagion through interbank settlements. Banks may need to borrow from the market even at an exceptionally high rate during a liquidity crisis ultimately causing a decline in the bank's earnings, moreover, a banks further borrowing to meet depositors demand may place the bank's capital at stake leading to rise in the debt equity ratio, affecting the banks effort to maintain an optimal capital structure (Arif & Ahmed 2007). According to Diamond and Rajan (2001), liquidity risk may cause a fire sale of the assets of the bank which may spill over into an impairment of banks capital base. If any of the financial institutions faces a situation in which it has to sell a large number of its illiquid assets to meet the funding requirements probably to reduce the leverage in conformity with the requirement

of capital adequacy, the fire sale risk may arise. A bank with liquidity problems loses a number of business opportunities placing it at a competitive disadvantage, in contrast to those of the competitors.

Diamond and Rajan (2001) asserted that there are instances when banks refuse lending even to a potential entrepreneur; if it feels that the liquidity need of the bank is quite high; representing an opportunity loss for the bank. They emphasized that a mismatch in depositors demand and production of resources forces a bank to generate the resources at a higher cost and at rare situations when a bank is unable to meet the requirements of demand deposits, there could be a bank run. According to Holmstrom and Tirole (2000), though a bank may invest some of its resources in the long-term projects much of the funding resources are invested in the short term liquid assets to provide a buffer against liquidity shocks. Liquidity risk of banks can be measured from balance sheet positions particularly by throwing light on liquidity ratios, however, Poorman and Blake (2005) cautioned that adopting just this practice would not be the solution to the liquidity risk menace. This reason stemmed from the fact a large regional bank, Southeast Bank, used over 30 liquidity ratios for liquidity measurement but eventually failed due to liquidity risk. It is therefore imperative that beyond mere liquidity ratios, banks develop new forms of measuring liquidity risk.

While the Basel Committee on Banking Supervision (2000) proposed the maturity laddering method for measuring liquidity risk; Saunders and Cornett (2006) gave a strong indication that banks could use sources and uses of liquidity, peer group ratio comparisons, liquidity index, financing gap and the financing requirement, and liquidity planning to measure their liquidity exposure. Matz and Neu (2007) also indicated that banks could apply balance sheet liquidity analysis cash capital position and maturity mismatch approach to assess liquidity risk. The Basel

Committee on Banking Supervision (BCBS) in December 2010, proposed some quantitative metrics in analyzing a banks liquidity risk at any point in time. These two quantitative metrics include the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), which were developed to meet two separate, but complementary objectives. The two indicators were to ensure that banks held an adequate pool of liquid assets, while simultaneously adopting a reasonable and prudent maturity mismatch. The objective of the LCR was to promote short-term resilience by ensuring that a bank had enough high-quality liquid assets to survive an acute stress scenario that lasts for one month.

The NSFR was developed to achieve the second objective of the Basel III liquidity standards: promoting longer-term resilience by encouraging banks to fund their activities with more stable sources of funding. That is, the NSFR was a longer-term structural ratio designed to address liquidity mismatches and to encourage an increased reliance on medium and long-term funding, thus increasing the average maturity of banks liabilities. The Liquidity Coverage Ratio (LCR) aimed at increasing banks' resilience to an acute 30 day stress scenario. The LCR is calculated as the stock of high-quality liquid assets/total net cash outflows over the next 30 calendar days 100 per cent. In other words, to meet funding obligations and draws on contingent liabilities over the next 30 days, the LCR required banks to hold a stock of unencumbered high-quality liquid assets equal to or greater than stressed net cash outflows. The requirement must be met continuously and reported to supervisors on at least a monthly basis, with an ideal time lag of not more than two weeks. The LCR was complemented by a structural funding ratio, the Net Stable Funding Ratio (NSFR), which was structured to ensure that long-term assets were funded with a minimum amount of stable long-term funding. Demircuc-Kunt (2003), concluded that

banks that held a high fraction of liquid assets had lower net interest margins and this is consistent with banks receiving lower returns on holding cash or securities but facing competitive market for deposits. Another widely used liquidity ratio as a measure of profit is the ratio to liquid assets to deposits of individuals, enterprises and other financial institutions. This liquidity ratio is more focused on the banks sensitivity to selected types of funding. The ratio thus captures the banks vulnerability to liquidity risk in relation to its funding sources. The bank is able to meet its obligations in terms of funding if the volume of liquid assets is high enough to cater for the deposits and this can be signified by a ratio of more than one. Ratios lower than this value signal a banks vulnerability to liquidity risk with respect to the withdrawal of deposits. Kosmidou et al. (2005) also found that the ratio of liquid assets to total deposits (customer and short term funding) had a positive effect on the return on assets (ROA) but a negative effect on net interest margins. Other studies also relied on the ratio of loans to total assets to assess the correlation between liquidity risk and bank profitability.

This liquidity ratio measures the proportion of total assets made up of net loans, thus a relative measure of illiquidity of a bank's total assets. This means that the higher this ratio, the less liquid the bank is and the higher the vulnerability to bank liquidity risk. With this ratio, Demircuc-Kunt and Huizinga (1999) established a negative relationship with return on assets (ROA) but a positive relationship with net interest margins (NIM).

However, Athanasoglou et al.(2006) made the conclusion that ratio had no effect on either return on assets (ROA) or return on equity (ROE). The ratio of net loans to customer (deposits) and short term funding has also been used significantly as a measure of liquidity risk. Kosmidou (2008) indicated that the ratio of net loans to customer and short term funding is

negatively related to return on assets (ROA). However Naceur and Kandil (2009) established that the ratio of net loans to customer and short term funding was positively and significantly related to net interest margin (NIM) of domestic banks, indicating a negative relationship between net interest margins (NIM) and the level of liquid assets held by the bank. Nonetheless, they found out that bank's liquidity risk does not determine returns on assets or equity (ROA or ROE) significantly.

Bordeleau, Crawford and Graham (2009) reviewed the impact of liquidity on bank profitability for 55 US banks and 10 Canadian banks between the period of 1997 and 2009. The study employed quantitative measures to assess the impact of liquidity on bank profitability. Results from the study suggested that a nonlinear relationship exists, whereby profitability is improved for banks that hold some liquid assets, however, there is a point beyond which holding further liquid assets diminishes a banks' profitability. Conceptually, this result is consistent with the idea that funding markets reward a bank, to some extent, for holding liquid assets, thereby reducing its liquidity risk. However, this benefit can eventually be outweighed by the opportunity cost of holding such comparatively low-yielding liquid assets on the balance sheet. According to Owolabi, Obiakor and Okwu (2011) conducted a study that investigated the relationship between liquidity and profitability in 15 selected quoted companies in Nigeria. The central objective was to examine the nature and extent of the relationship between liquidity and profitability in profit-driven quoted companies and also to determine whether any cause and effect relationship existed between the two performance measures. Liquidity measure considered was current assets- liabilities ratio while profitability measure was operating profit-turnover ratio. Investigative and quantitative analysis methods were used for the study. Analysis was based on data extracted from annual reports and accounts of the companies for the relevant period.

Correlation and regression analysis respectively were employed to examine the nature and extent of the relationship between the variables and determine whether any cause and effect relationship between them, the study found that liquidity was one of the factors that affected a firm's profitability of banks. From the study there was a positive correlation between liquidity and profit levels in the banks.

Theoretical Framework

This study used Shift ability Theory by Mitchell (1923). He posits that bank's profitability is maintained if it holds assets that could be shifted or sold to other lenders or investors for cash. This point of view contends that a bank's liquidity and profitability could be enhanced if it always has assets to sell and provided the Central Bank and the discount Market stands ready to purchase the asset offered for discount. Thus this theory recognizes and contends that shift ability, marketability or transferability of a bank's assets is a basis for ensuring profitability and liquidity. This theory further contends that highly marketable security held by a bank is an excellent source of liquidity. Dodds (1982) contends that to ensure convertibility without delay and appreciable loss or risk, such assets must meet two requisites. Liability Management Theory, Liquidity management theory according, these consists of the activities involved in obtaining funds from depositors and other creditors and determining the appropriate mix of funds for a particularly bank. Liquidity theory has been subjected to critical review by various authors. The general consensus is that during the period of distress, a bank may find it difficult to obtain the desired liquidity since the confidence of the market may have seriously affected and credit worthiness would invariably be lacking this will result to lending risk and its affect profitability. However, for a healthy bank, the liabilities constitute an important source of funds which improved banks profitability and liquidity. This study will adopt this theory

because, thus this theory recognizes and contends that shift ability, marketability or transferability of a bank's assets is a basis for ensuring profitability and liquidity.

3. Research Methodology

Secondary sources of data were used for this study. The data were obtained from the annual financial statement (Balance Sheet and Income Statement) of UBA Plc. Data for this study were obtained from UBA Plc annual audited financial statement, record documents and bank Management. Data for the study was analyzed using descriptive statistics and inferential statistics of linear regression analysis to test the hypotheses stated with the aid of Statistical package for Social Sciences (SPSS) version 20. The

linear regression model is given as Linear model: $PRY = B_0 + B_1LR + e$, Dependent variable: Profitability, Independent variable: Liquidity risk.

4. Data Analysis, Results and Discussion

This study assessed the effect of lending risk on profitability of commercial Banks in Nigeria. The study employed descriptive and inferential statistics. The inferential statistics (Multiple and simple linear regression analysis) was employed to test the hypotheses. The results were presented in tables and discussed according to the research questions and hypotheses.

Test of Hypothesis: There is no significant effect of liquidity risk on the profitability of commercial banks.

Effect of Liquidity Risk on the Profitability of Commercial Banks

Model	Sum of Squares	Df	Mean Square	F	P-value
Regression	639.747	1	639.747	41.146	0.000
Residual	3078.573	3	15.548		
Total	3718.320	4			

Source: Computed from data

Table 1, shows the results of the ANOVA technique employed to test the null hypothesis against alternative hypothesis. There was a significant effect of liquidity risk on the profitability of UBA Plc. This is because the probability value (P = 0.000) is

less than alpha ($\alpha = 0.05$) level of significance $P < \alpha$. Hence, the null hypothesis which states that there is no significant effect of liquidity risk on the profitability of commercial banks is rejected at 0.05 level of significance.

Variables	B	Standard Error	t-value	p-value	Result
Liquidity Risk (LR)	14.846	3.436	-4.321*	0.023	S
Constant	2.972	1.006	2.955	0.040	
R ²	0.863				

Source: Computed from data *Significant at 5% level, S= Significant

Table 2 revealed a significant effect of liquidity risk on the profitability of UBA Plc. This is because the probability values (P = 0.023) is less than alpha ($\alpha = 0.05$) levels of significance. This means that liquidity risk has significant effect on the profitability of commercial banks in Nigeria (P < 0.05). The R-Squared statistic indicates that the model as fitted explains 86% of the variability in profitability of

commercial in Nigeria. It also shows that the model was suitable for explaining the effect of liquidity risk on the profitability of commercial banks in Nigeria. The equation of the fitted model is defined as; $PTY = 2.972 + 14.846 * LR$. The explanatory variable included in the model all has a negative sign meaning the explanatory variable has negative effect on the response variable and is significant in explaining the

effect of liquidity risk on the profitability of commercial banks in Nigeria. This variable is: LR. The coefficient for LR is significant at 5% and has a negative effect on the profitability of commercial banks in Nigeria. This negative effect prevents commercial banks from taking advantage of the liquidity at its disposal and thus hampering their profitability in the long run.

The finding revealed a significant effect of liquidity risk on the profitability of UBA PLC in Nigeria. This finding is in consistent with the finding of Gizaw, (2013) examined the impact of credit risk on the profitability of commercial banks in Ethiopia. Secondary data was retrieved from 8 sample commercial banks for a period of 12 years from annual reports of these banks. In analyzing the data, a STATA software version 11 was used to compute the descriptive statics and panel data regression model and the outcome was that credit risk determinants; nonperforming loans, loan loss provisions and capital adequacy have a significant impact on the profitability of commercial banks in Ethiopia. Therefore the researchers stressed on the need to strengthen the credit risk management policies to gain better financial standing for commercial banks in commercial in Ethiopia, the finding revealed a significant effect of liquidity risk on the profitability of commercial banks in Nigeria. This finding is also in consistent with the finding of Bordeleau, Crawford and Graham (2009) reviewed the impact of liquidity on bank profitability for 55 US banks and 10 Canadian banks between the period of 1997 and 2009. The study employed quantitative measures to assess the impact of liquidity on bank profitability. Results from the study suggested that a nonlinear relationship exists, whereby profitability is improved for banks that hold some liquid assets, however, there is a point beyond which holding further liquid assets diminishes a banks' profitability, all else equal. Conceptually, this result is consistent with the idea that funding markets reward a bank, to some extent, for holding liquid assets,

thereby reducing its liquidity risk. However, this benefit can eventually be outweighed by the opportunity cost of holding such comparatively low-yielding liquid assets on the balance sheet. This finding is also in consistent with the finding of Owolabi, Obiakor and Okwu (2011) conducted a study that investigated the relationship between liquidity and profitability in 15 selected quoted companies in Nigeria. The central objective was to examine the nature and extent of the relationship between liquidity and profitability in profit-driven quoted companies and also to determine whether any cause and effect relationship existed between the two performance measures. Liquidity measure considered was current assets- liabilities ratio while profitability measure was operating profit-turnover ratio. Investigative and quantitative analysis methods were used for the study. Analysis was based on data extracted from annual reports and accounts of the companies for the relevant period. Correlation and regression analysis respectively were employed to examine the nature and extent of the relationship between the variables and determine whether any cause and effect relationship between them.

5. Conclusion and Recommendation

The finding revealed a significant effect of liquidity risk on the profitability of UBA PLC, therefore, in order to lessen the maturity gap between assets and liabilities or the inherent illiquidity, banks can adequately manage the liquidity risk underlying their balance sheet structure by holding a buffer of liquid assets. However, aside the high opportunity cost of holding a buffer of liquid assets as compared to the higher returns associated with illiquid assets, it manifests a degree of inefficiency on the part of management as it limits banks' ability to provide liquidity to entrepreneurs and consumers. Hence, even though banks have some incentives to hold a fraction of liquid assets (in the form of cash, short term assets or government bonds), these buffers will hardly ever be sufficient to fully insure against a bank run

or liquidity risk. For the purpose of successful operations and survival of Nigerian commercial banks, efficient and effective liquidity, risk management in the Nigerian commercial banks hinder their performance and profitability in the short run. The variables showed negative impact within the study proving that the variables prevent commercial banks from taking advantage of the liquidity at its disposal and thus hampering their profitability in the long run. Based on the findings of the study recommends that UBA Plc should maintain adequate degree of liquidity in the banking system, because the registration of a liquidity crisis at a single bank can have negative repercussions over the whole banking system courtesy the risk of contagion through interbank settlements. UBA Plc should also invest part of their funds in loan portfolio and securities that are in secondary market so that when liquidity need arises, the said asset can be sold in that market.

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