



Determinants of Capital Adequacy Ratio in the Nigeria Banking System

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Abstract – The sustenance of effective corporate performance across industries remains a major concern to stakeholders, particularly in the banking sector where liquidity management influences financial stability and market valuation. This study examined the effect of liquidity management on the share price of selected deposit money banks in Nigeria over the period 2013–2025. An ex-post facto research design was adopted, using secondary data obtained from the annual financial statements and accounts of five selected deposit money banks, resulting in 75 balanced panel observations. Share price served as the dependent variable, while current ratio (CUR), quick ratio (QR) and cash ratio (CAR) represented the independent variables. The Levin, Lin and Chu panel unit-root test confirmed that all variables were stationary at level, while panel least-squares regression was employed for hypothesis testing. The findings revealed that current ratio had a positive and significant effect on share price ($\beta = 0.638$, $p = 0.0000$), explaining 33.49% of its variation. Quick ratio also exerted a positive and significant effect ($\beta = 0.575$, $p = 0.0002$), explaining 25.86% of share-price variation. Conversely, cash ratio had a significant negative effect ($\beta = -0.810$, $p = 0.0103$), explaining 12.94% of the variation. The study concludes that liquidity management significantly affects bank share prices, although the direction depends on the liquidity measure. The study implies that bank managers should balance liquidity with profitable resource utilisation, while investors and regulators should closely monitor liquidity indicators. The study recommends maintaining optimal current and quick liquidity while avoiding excessive cash holdings, and encourages future research to incorporate profitability, capital adequacy, leverage, dividends and macroeconomic variables.

Keywords – Liquidity Management, Current Ratio, Quick Ratio, Cash Ratio, Share Price, Deposit Money Banks.

I. INTRODUCTION

The banking sector constitutes a fundamental component of the financial system and plays a strategic role in promoting economic development through the mobilisation and allocation of financial resources. Banks collect deposits and other forms of savings from surplus economic units and channel these resources to households, businesses, governments, and other deficit units for consumption, investment, and productive activities. Through financial intermediation, credit creation, payment and settlement services, investment facilitation, and risk management, banks support capital formation, entrepreneurship, employment generation, and economic activity. The stability of the banking sector is therefore closely associated with the stability of the wider economy.

Background to the Study

The banking sector is a fundamental component of the financial system because it mobilises savings, allocates credit, facilitates payments, supports investment, and contributes to economic development. Given the interconnectedness of financial institutions, weaknesses in individual banks can generate wider systemic consequences. Consequently, recent banking reforms emphasise prudential regulation, effective risk management, adequate capitalisation, liquidity, governance, and forward-looking supervision as essential

conditions for financial stability (Basel Committee on Banking Supervision [BCBS], 2023, 2024a). The revised Basel Core Principles also recognise emerging risks associated with digitalisation, cybersecurity, operational resilience, climate-related financial risks, and systemic shocks. A major indicator of bank resilience is the Capital Adequacy Ratio (CAR), which measures regulatory capital relative to risk-weighted assets (RWA).

CAR reflects a bank's ability to absorb unexpected losses while continuing operations and meeting obligations to depositors and other creditors. It is therefore not simply a measure of the volume of capital held but an assessment of whether capital is adequate relative to the risks undertaken. The Basel framework requires capital requirements to reflect banks' individual risk profiles as well as prevailing market and macroeconomic conditions (BCBS, 2024a, 2024b). The framework also emphasises the quality and loss-absorbing capacity of capital, making capital adequacy a central element of effective banking supervision (BCBS, 2026).

The importance of adequate capital has been reinforced by successive episodes of global financial instability. Post-crisis reforms strengthened the quantity and quality of regulatory capital and introduced measures designed to improve banks' ability to withstand financial shocks. Contemporary regulation has extended beyond



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conventional credit and market risks to include operational resilience, cybersecurity, digitalisation, climate-related risks, and macro prudential concerns (BCBS, 2023, 2024a). Consequently, contemporary analysis of CAR requires attention to both traditional financial indicators and the wider risk environment confronting banks. In Nigeria, capital adequacy has become particularly important because of substantial regulatory and structural changes in the banking industry.

The 2024 Banking Sector Recapitalisation Programme significantly increased minimum capital requirements for banks. Commercial banks with international authorisation were required to maintain ₦500 billion, national banks ₦200 billion, and regional banks ₦50 billion. Similarly, merchant banks with national authorisation were required to maintain ₦50 billion, while non-interest banks were required to maintain ₦20 billion and ₦10 billion for national and regional authorisation, respectively (Central Bank of Nigeria [CBN], 2024a). The programme was designed to strengthen banks' capacity to absorb unexpected losses, improve financial resilience, and increase their ability to support economic activities through increased lending.

The recapitalisation programme is directly relevant to CAR because additional capital improves banks' loss-absorbing capacity and provides a stronger foundation for supporting risk-weighted assets. The CBN (2025) indicates that the programme seeks to strengthen capital buffers, improve solvency and competitiveness, and enhance banks' capacity to finance infrastructure, energy, manufacturing, and other productive sectors. Similarly, the International Monetary Fund (IMF, 2025) reported substantial progress by Nigerian banks toward meeting the new capital thresholds and noted that recapitalisation should strengthen their ability to expand lending and absorb losses. However, higher paid-up capital does not automatically eliminate banking-sector vulnerabilities.

The IMF (2026) reported that the recapitalisation exercise generated approximately US\$3.4 billion in new equity, with 33 of 37 banks meeting the revised requirements by the end of March 2026. Despite this progress, foreign-exchange exposure, provisioning pressures, and deteriorating asset quality remained concerns. CAR reportedly declined to 11.7% in the third quarter of 2025, partly because naira depreciation increased risk-weighted assets, while non-performing loans increased to 8% (IMF, 2026). This indicates that CAR is determined by an interaction of capital accumulation, risk-weighted assets, asset quality, macroeconomic conditions, and regulatory policies. The relationship between regulatory capital and risk-weighted assets (RWA) is central to understanding CAR. Banks have different risk profiles because of differences in lending portfolios, investments, market exposures, and operational activities. Consequently, assets are assigned different risk weights based on their underlying risk characteristics. A bank with greater exposure to high-risk lending may have substantially higher risk-weighted assets than another bank

with similar total assets but a more conservative portfolio. Thus, bank size alone does not determine CAR; rather, capital adequacy depends on the relationship between regulatory capital and the level of risk embedded in the bank's assets and activities (BCBS, 2024b).

The quality and composition of regulatory capital are equally important. Contemporary Basel regulation places greater emphasis on high-quality capital capable of absorbing losses. Common Equity Tier 1 (CET1) represents an important form of loss-absorbing capital because it protects while a bank remains a going concern. Tier 1 and Tier 2 capital provide additional protection subject to applicable regulatory requirements. Therefore, assessment of CAR should consider not only the quantity of capital but also its quality, composition, and relationship with risk-weighted exposures (BCBS, 2024a, 2024b). Several bank-specific factors may determine CAR, including profitability, bank size, liquidity, asset quality, credit risk, leverage, loan growth, dividend policy, operational efficiency, and management quality. Profitability can strengthen capital adequacy when earnings are retained and added to the capital base, while persistent losses can erode shareholders' equity and weaken the capacity to absorb losses. Similarly, rapid loan growth may increase risk-weighted assets and reduce CAR where capital does not grow at a comparable rate. The relationship between profitability and CAR may also depend on whether earnings are retained, distributed as dividends, or used to finance balance-sheet expansion.

Asset quality and credit risk are particularly important because lending is a major source of bank income but exposes banks to default risk. Deteriorating asset quality can increase non-performing loans, loan-loss provisions, and impairment charges, thereby reducing profitability and regulatory capital. Recent Nigerian evidence shows that credit-quality risks remain significant. According to the IMF (2026), the expiration of COVID-19-related regulatory forbearance resulted in some restructured exposures migrating into non-performing categories, contributing to the increase in non-performing loans during 2025. This reinforces the importance of credit-risk management and asset quality in determining the capital resilience of Nigerian banks.

Liquidity and leverage also influence financial resilience and may affect CAR. Banks require adequate liquidity to meet deposit withdrawals and short-term obligations, while capital protects against unexpected losses. Excessive leverage can magnify both returns and losses, potentially weakening a bank's ability to withstand adverse conditions. Effective capital management therefore requires banks to maintain an appropriate balance between growth, profitability, liquidity, and risk-taking. The Basel Core Principles integrate capital, liquidity, governance, risk management, and internal controls within the broader prudential-supervision framework (BCBS, 2024a).



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Macroeconomic conditions constitute another important source of variation in CAR. Inflation, interest rates, exchange rates, economic growth, and monetary-policy conditions can affect borrowers' repayment capacity, asset values, profitability, and risk-weighted assets. Exchange-rate volatility is particularly significant for Nigerian banks because foreign-currency exposures can increase the naira value of risk-weighted assets and raise repayment pressures for borrowers with foreign-currency obligations. The IMF (2026) specifically associated the decline in Nigeria's CAR during the third quarter of 2025 partly with the effect of naira depreciation on risk-weighted assets. Thus, macroeconomic shocks can weaken capital adequacy even where banks have undertaken substantial recapitalisation.

Generally, the Nigerian banking sector operates within an increasingly complex regulatory and economic environment characterised by the 2024 recapitalisation programme, stronger Basel-based regulation, inflationary pressures, exchange-rate movements, changing interest rates, evolving credit risks, and increasing digitalisation. The CBN's continued regulatory emphasis on strengthening capital buffers and promoting prudent capital retention further demonstrates the importance of adequate capital for banking-sector resilience (CBN, 2025). Against this background, investigating the determinants of the Capital Adequacy Ratio in the Nigerian banking system is timely and relevant.

Although the CBN establishes minimum capital requirements, individual banks may maintain different CAR levels because of differences in profitability, size, liquidity, credit risk, asset quality, leverage, loan growth, capital structure, and macroeconomic exposure. While the recent recapitalisation has strengthened the capital base of many Nigerian banks, evidence from 2025–2026 shows that vulnerabilities associated with risk-weighted assets, exchange-rate movements, provisioning, and non-performing loans persist (IMF, 2026). Therefore, examining the determinants of CAR can provide useful evidence for regulators, bank managers, investors, depositors, and other stakeholders concerned with the stability and resilience of the Nigerian banking system.

II. REVIEW OF RELATED LITERATURE

Conceptual Review

Capital Adequacy Ratio (CAR), also referred to as the Capital to Risk-Weighted Assets Ratio (CRAR), is a key prudential indicator used to assess the financial strength, solvency, and resilience of a banking institution. It expresses a bank's regulatory capital as a proportion of its risk-weighted assets and indicates the extent to which the bank has sufficient capital to absorb unexpected losses arising from its operations. Regulatory authorities monitor CAR to ensure that banks maintain adequate financial cushions and comply with prescribed capital requirements. The fundamental purpose of maintaining adequate capital is to protect depositors, enhance confidence in financial institutions, and promote the stability and efficiency of the

financial system (Basel Committee on Banking Supervision [BCBS], 2024a; Central Bank of Nigeria [CBN], 2024).

CAR is particularly important because banks operate with substantial financial leverage and are exposed to several forms of risk, including credit, market, operational, liquidity, and foreign-exchange risks. A bank with insufficient capital may be unable to absorb losses when adverse events occur, potentially leading to insolvency and wider financial instability. Conversely, adequate capital provides a buffer that enables banks to withstand financial shocks while continuing their intermediation activities. The Basel framework therefore requires banks to maintain capital in proportion to the risks associated with their assets and activities rather than simply maintaining capital based on the absolute size of their balance sheets (BCBS, 2024a, and 2024b).

The calculation of CAR is based fundamentally on the relationship between regulatory capital and risk-weighted assets. It can generally be expressed as:

$$\text{CAR} = \frac{\text{Tier 1 Capital} + \text{Tier 2 Capital}}{\text{Risk-weighted Assets}} \times 100$$

Risk-weighted assets reflect the different levels of risk associated with a bank's exposures. Assets with relatively lower credit risk attract lower risk weights, whereas riskier exposures attract higher weights. Therefore, two banks with similar total assets can have different CARs because their portfolios may contain different proportions of high- and low-risk assets. This risk-sensitive approach ensures that capital requirements correspond more closely to the actual risks undertaken by banks (BCBS, 2024b). Modern capital regulation distinguishes between different categories of regulatory capital, particularly Common Equity Tier 1 (CET1), Additional Tier 1, and Tier 2 capital. CET1 represents the highest-quality form of capital because it has strong and readily available loss-absorbing capacity while the bank remains a going concern. Additional Tier 1 capital provides further loss-absorption capacity, while Tier 2 capital provides supplementary protection, particularly in circumstances involving the resolution or winding-up of a bank. The Basel III framework consequently places considerable emphasis on the quality, permanence, and loss-absorbing capacity of regulatory capital rather than simply its numerical amount (BCBS, 2024a, 2024b).

The conceptual framework for this study explains the expected relationship between liquidity management and share price of deposit money banks in Nigeria. It identifies share price (SP) as the dependent variable and current ratio (CUR), quick ratio (QR), and cash ratio (CAR) as the independent variables. The framework is premised on the view that the liquidity position of a bank provides important information about its ability to meet short-term obligations, withstand financial pressure, utilise financial resources efficiently, and maintain investors' confidence. Recent empirical evidence indicates that accounting and liquidity information can influence market valuation, although the direction and magnitude of the relationship may differ



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according to the liquidity measure and institutional setting (Edokpa & Akpadaka, 2025; Zarefar & Armadani, 2024).

Share price represents the market value assigned to a company's equity by investors and is therefore an important indicator of shareholder value. In a listed deposit money bank, the share price reflects investors' expectations concerning the bank's profitability, risk, growth prospects, financial stability and future cash flows. Changes in accounting and financial information can influence investors' assessment of a bank and consequently affect the market price of its shares. Agbo and Odo (2024) note that financial ratios provide useful information for assessing the condition and investment prospects of quoted commercial banks in Nigeria. Similarly, recent Nigerian evidence shows that firm-specific financial indicators can explain variations in share prices, although their effects are not necessarily uniform across firms and sectors (Edokpa & Akpadaka, 2025).

Conceptually, share price is regarded as the dependent variable because it represents the market outcome that may respond to changes in the liquidity position of deposit money banks. Investors generally seek information that assists them in evaluating the risk and expected return associated with holding bank shares. Consequently, a bank that demonstrates adequate liquidity may be perceived as financially sound and less exposed to short-term financial distress. Conversely, inefficient or excessive liquidity may raise concerns about the productive utilisation of financial resources. This explains why the relationship between liquidity and share price may be either positive or negative depending on the composition and level of liquidity maintained by a bank. Recent evidence supports this contextual interpretation, with current and quick liquidity showing positive valuation effects in some Nigerian studies, while cash liquidity has produced negative or insignificant effects in other settings (Nnaji et al., 2026; Zarefar & Armadani, 2024).

Current ratio (CUR) measures an entity's capacity to meet short-term obligations using its current assets. It is generally expressed as:

$$\text{Current Ratio} = \text{Current Assets} / \text{Current Liabilities}$$

A higher current ratio ordinarily indicates a stronger short-term liquidity position because the entity has a larger amount of current assets relative to current liabilities. In the context of deposit money banks, liquidity is particularly important because banks must maintain sufficient liquid resources to meet withdrawals and other obligations while simultaneously deploying funds into income-generating assets. Recent literature identifies the current ratio as one of the important measures through which liquidity management can be assessed (Bagana et al., 2024).

From a conceptual perspective, current ratio may have a positive relationship with share price because adequate liquidity can reduce perceived financial risk and strengthen investor confidence. When investors observe that a bank

possesses sufficient resources to meet short-term commitments, they may perceive the bank as more financially stable, which can increase demand for its shares and improve market valuation. Evidence from Nigerian listed firms also indicates that current liquidity can be relevant to market valuation, although the relationship is not universally significant. For example, Sinebe et al. (2025) found that current ratio had limited predictive power for share prices among Nigerian non-financial firms, while more recent evidence on Nigerian firms reports positive valuation effects from current and quick ratios.

Quick ratio (QR) provides a more stringent measure of liquidity than the current ratio because it concentrates on assets that can be converted into cash relatively quickly. It may be expressed as:

$$\text{Quick Ratio} = \text{Quick Assets} / \text{Current Liabilities}$$

The conceptual importance of QR lies in its ability to assess whether an organisation can meet short-term obligations without depending heavily on assets that may require more time to convert into cash. Consequently, the ratio provides investors with additional information concerning the immediate financial strength of an institution. Recent literature recognises current ratio, quick ratio and cash ratio as complementary measures of liquidity because each captures a different dimension of an entity's ability to meet short-term financial obligations (Bagana et al., 2024).

The expected relationship between QR and share price is positive. A strong quick ratio can signal that the bank possesses adequate readily available resources to withstand short-term liquidity pressure. Such a position may reduce investors' perception of financial distress risk and improve confidence in the bank's financial condition. However, the relationship may vary across industries because investors do not necessarily attach equal importance to liquidity indicators. Sari and Andayani (2024), for example, found no significant effect of quick ratio on stock price in Indonesian food and beverage firms, while Nigerian evidence demonstrates that liquidity measures can be relevant to market valuation

Cash ratio (CAR) is the most conservative of the three liquidity measures because it focuses on cash and cash-equivalent resources available to meet current obligations. It may be expressed as:

$$\text{Cash Ratio} = \text{Cash and Cash Equivalents} / \text{Current Liabilities}$$

The ratio provides information about an entity's immediate ability to settle short-term obligations without relying on the conversion of other current assets. For banks, adequate cash liquidity is necessary for meeting immediate payment requirements and maintaining public confidence. Nevertheless, maintaining excessively high levels of cash may involve an opportunity cost because funds held in idle or low-yielding form may not generate returns comparable



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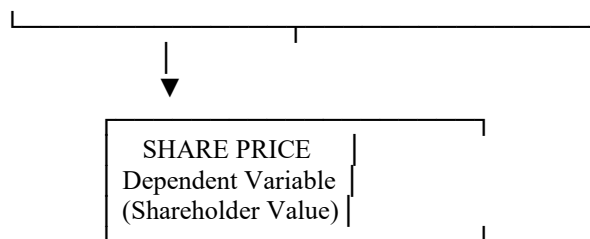
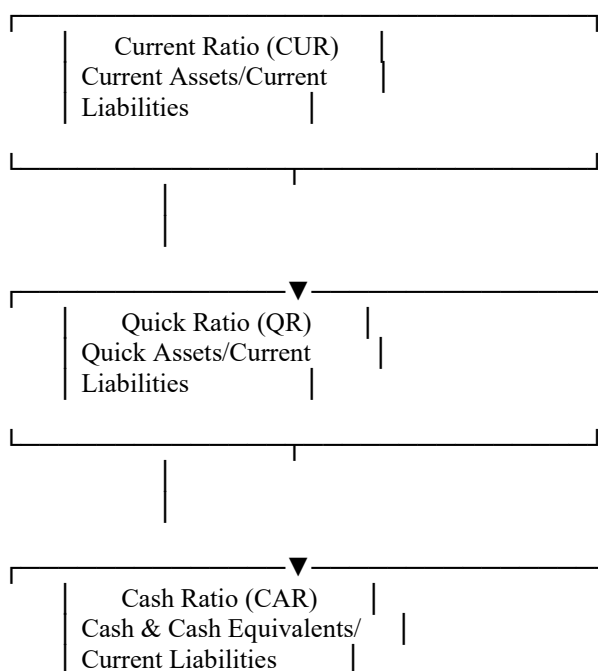
to those obtainable from productive lending and investment activities.

Accordingly, the conceptual relationship between CAR and share price may be negative when cash holdings become excessive. Investors may interpret unusually high cash holdings as evidence of inefficient asset utilisation, particularly where the funds could have been deployed into productive activities. This argument is supported by Zarefar and Armadani (2024), who reported a negative effect of cash ratio on stock prices. Recent Nigerian evidence similarly emphasises the importance of distinguishing adequate liquidity from excessive liquidity in understanding market valuation.

The framework therefore proposes that liquidity management influences the share price of deposit money banks, but the effect depends on the specific liquidity measure. Current ratio is expected to provide information about overall short-term solvency; quick ratio provides a more stringent assessment of readily realisable liquidity; while cash ratio captures the most immediate liquidity position. Adequate CUR and QR are conceptually expected to strengthen investor confidence and support share price, whereas excessive CAR may signal inefficient utilisation of funds and consequently exert downward pressure on market valuation. This is consistent with recent evidence showing that liquidity policy can significantly influence market valuation and that optimal rather than excessive liquidity is important for enhancing investor confidence and firm value (Nnaji et al., 2026).

Conceptual Framework Diagram

INDEPENDENT VARIABLES LIQUIDITY MANAGEMENT MEASURES



Source: Researcher's conceptualisation based on the reviewed literature (2025).

As a result, the framework assumes that CUR, QR and CAR independently influence SP, with the direction of influence determined by the quality and level of liquidity maintained by the deposit money banks. The framework provides the basis for empirically testing whether liquidity management significantly explains variations in the share prices of selected Nigerian deposit money banks.

Theoretical framework Bottom of Form

• Trade-off Theory

The Trade-off Theory, primarily associated with Kraus and Litzenberger (1973) and extended to corporate liquidity and cash-holding decisions by subsequent scholars, explains how firms determine an appropriate level of liquid resources by balancing their benefits against their associated costs. The theory proposes that holding cash and other liquid assets provides important advantages, particularly by enabling firms to meet short-term obligations, avoid costly external financing, and take advantage of profitable investment opportunities when external funds are unavailable or expensive. However, excessive liquidity also has an opportunity cost because funds retained in low-yield liquid assets cannot be invested in productive activities that may generate higher returns.

The theory therefore suggests that firms should establish an optimal liquidity level rather than maintaining either excessively high or excessively low liquidity. Excessive liquidity may reduce profitability because idle funds generate relatively low returns, whereas inadequate liquidity may expose a firm to difficulties in settling current obligations, increased financing costs and financial distress. In this respect, the trade-off is between liquidity and profitability. A firm must maintain sufficient liquid resources to protect its financial stability while ensuring that excess funds are productively employed to enhance shareholders' wealth. This argument is particularly relevant to liquidity ratios such as the current ratio, quick ratio and cash ratio, since these measures indicate the extent to which a firm can meet its short-term obligations using different levels of liquid assets.

The theory is appropriate for this study because the variables under investigation reflect different dimensions of a firm's liquidity position and their possible implications for share price. Investors may perceive adequate liquidity as evidence of financial strength and the capacity to meet short-term obligations. Conversely, excessively high



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liquidity may signal inefficient utilisation of assets and lower expected returns. Thus, the Trade-off Theory provides a logical basis for explaining why changes in current, quick and cash ratios may influence investors' assessment of firm value and consequently affect share prices.

Miller–Orr Cash Management Model

The Miller–Orr Cash Management Model, developed by Miller and Orr (1966), explains how firms can manage cash balances when daily cash inflows and outflows are uncertain and fluctuate randomly. Unlike models that assume predictable cash flows, the Miller–Orr model recognises that firms may experience irregular movements in their cash positions. The model establishes three important cash-balance points: the lower control limit (L), the return point or target cash balance (Z) and the upper control limit (H). Under the model, management allows cash balances to fluctuate within the established upper and lower limits without undertaking any corrective transaction. When the cash balance reaches the upper limit, the firm invests the excess cash in marketable securities or other productive assets until the balance returns to the target level. Conversely, when the cash balance reaches the lower limit, the firm raises liquidity by selling marketable securities or obtaining other funds to restore cash to the target level. The model therefore seeks to minimise the combined transaction costs associated with adjusting cash balances and the opportunity costs of holding excessive cash.

The model is relevant to liquidity management because it emphasises that firms should establish an appropriate minimum cash reserve while avoiding unnecessary accumulation of idle funds. The determination of the control limits is influenced by factors such as the variability of cash flows, transaction costs and the opportunity cost of holding cash. Consequently, effective cash management requires firms to maintain sufficient liquidity for operational requirements while investing surplus resources in assets capable of generating returns.

Although the Miller–Orr Model provides useful insights into cash management, it focuses primarily on the management of cash balances rather than the broader relationship between liquidity and market valuation. Therefore, it serves as a complementary theoretical perspective in this study.

The study is anchored primarily on the Trade-off Theory of Kraus and Litzenberger (1973). This theory is considered the most appropriate foundation because the study examines whether current ratio, quick ratio and cash ratio influence share price. These liquidity measures represent different levels of a firm's ability to meet short-term obligations, while share price reflects investors' evaluation of the firm's financial prospects and value. The Trade-off Theory directly explains why neither extremely low nor excessively high liquidity is necessarily desirable. Adequate liquidity can reduce financial constraints and

strengthen investors' confidence, whereas excessive liquidity can indicate underutilisation of resources and reduce potential returns. The theory therefore provides a strong explanation for the expected relationship between liquidity management and share price.

The Miller–Orr Model complements the Trade-off Theory by explaining how firms can manage fluctuating cash balances and determine appropriate cash-control levels. However, because the present study extends beyond cash management to examine the effects of broader liquidity indicators on share price, the Trade-off Theory provides the stronger primary anchor, while the Miller–Orr Model offers supporting theoretical justification.

Empirical Review

(Sinebe, et al, 2025) examined the predictive ability of liquidity metrics on share price movements among 50 non-financial firms listed in Nigeria over the period 2015–2024. Using panel regression, the study investigated current ratio, quick ratio and operating cash-flow ratio, while controlling for market capitalisation. The findings revealed that current ratio had no statistically significant effect on share price. The authors argued that although current ratio provides information about a firm's ability to meet short-term obligations, investors in the Nigerian capital market may place greater emphasis on profitability, market size and other value-relevant information when determining share prices.

The study is particularly relevant to the present research because it employed Nigerian listed firms and examined liquidity ratios directly against share price. However, its use of operating cash-flow ratio rather than cash ratio leaves a gap that the present study seeks to address. Similarly, Tirimisiyu et al. (2025) investigated accounting ratios and share prices of quoted consumer goods firms in Nigeria using 15 firms over the 2013–2022 period. The study employed an ex-post facto design and balanced panel regression, with current ratio included alongside earnings per share, dividend per share, return on assets and macroeconomic variables.

The results indicated that current ratio significantly influenced stock price, with the reported coefficient suggesting a positive relationship between liquidity and share price. The study concluded that improved liquidity could strengthen investors' confidence and contribute to higher market valuation. The finding contrasts with Sinebe et al. (2025), thereby demonstrating the inconsistency in previous evidence and providing justification for further investigation of the current ratio–share price relationship in Nigerian firms.

Sari and Andayani (2024) examined the effect of leverage, liquidity and dividend policy on investor response among food and beverage companies listed on the Indonesia Stock Exchange during 2020–2022. Investor response was measured by stock price, while liquidity was proxied by the quick ratio. Using multiple linear regression on 22 sampled



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firms, the study found that quick ratio had no significant effect on stock price ($p = 0.448$). The result suggests that investors may not necessarily interpret a firm's ability to meet short-term liabilities after excluding inventories as a decisive determinant of market price. Rather, dividend-related information appeared more influential. This finding is relevant because it demonstrates that a stronger immediate liquidity position does not automatically translate into higher share prices.

In a more recent study, Nurmatama et al. (2025) investigated the effect of financial performance on stock prices of firms included in the LQ45 Index, using data covering 2022–2024. The study considered earnings per share, quick ratio and total asset turnover as explanatory variables and applied multiple regression to 78 observations. The findings showed that quick ratio had a positive but statistically insignificant effect on stock prices. The researchers therefore concluded that, although improved quick liquidity may provide a favourable signal concerning short-term financial strength, investors appeared to attach greater importance to profitability indicators such as earnings per share.

This finding reinforces the evidence that the relationship between QR and share price may be weak or statistically insignificant. (Halimah, et al, 2025) examined the influence of profitability and liquidity ratios on the stock price of PT Bank Central Asia Tbk over the period January 2022 to December 2024. The study used 36 monthly observations and multiple regression analysis. Liquidity was measured using both quick ratio and cash ratio, while profitability and selected macroeconomic variables were also included. The findings indicated that cash ratio had a significant effect on stock price, together with quick ratio, interest rate, return on investment and operating profit margin. The result suggests that investors may regard readily available cash as an important indicator of a firm's capacity to meet immediate obligations and withstand financial pressure.

Also, Kumshe et al. (2024) investigated liquidity and stock price among listed deposit money banks in Nigeria. Cash ratio was specifically measured as cash and bank balances divided by current liabilities, while stock price was measured using the logarithm of the share price at the end of the accounting period. The study incorporated cash ratio and stock price into its empirical model and examined the relationship between liquidity and market-related outcomes of Nigerian deposit money banks.

The inclusion of cash ratio is particularly relevant to the present study because it represents a more stringent measure of liquidity than the current and quick ratios, focusing on resources immediately available to settle short-term obligations. Beyond individual liquidity measures, Akbar (2024) examined the effect of liquidity, profitability, and solvency on share prices of LQ45 companies listed on the Indonesia Stock Group for 2017–2019. Liquidity was measured using the current ratio, while share price represented the dependent variable. Based on panel-data

regression involving 26 companies, the study found that current ratio did not significantly influence share prices, whereas profitability and solvency indicators were significant. The evidence suggests that investors may consider earnings-generating capacity and financial risk more important than conventional liquidity when pricing shares.

Likewise, Edokpa and Akpadaka (2025) investigated dynamic determinants of share prices among listed consumer goods and agricultural firms in Nigeria using a System-GMM approach and panel data covering 2012–2023. The study incorporated current ratio together with earnings per share, return on equity, debt-to-equity ratio, total asset turnover, exchange rate and GDP per capita. Its theoretical foundation combined the Efficient Market Hypothesis, Signalling Theory and Agency Theory. The study is important to the present research because it demonstrates that the effect of current liquidity on share price should be assessed within a broader dynamic framework rather than in isolation.

III. METHODOLOGY

The ex-post facto research design was adopted; because it is a quasi-experimental study examining how independent variables present prior to the study, affect the dependent variable. The design ideally fits the work as it is not possible or permissible to manipulate the characteristics of the variables under investigation. The study covered 2013–2025, and sourced secondary data from the annual financial statements and accounts of the deposit money banks in Nigeria. The study population covered 22 deposit money bank in Nigeria as at 31st December, 2025. Variables under investigation include: share price (proxy for shareholder's value) as the dependent variable, and current assets, Current ratio, Quick ratio, and Cash ratio as the independent variables of the deposit money banks.

This study adopted the modified model of Maina (2011) and Ehiedu (2014) which follows the Classical Linear Regression Model (CLRM) accordingly to Wooldridge (2009) as specified in equation 3.1. Particularly, the study made use of panel simple regression model as specified in equation 3.2.

$$Y_t = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \dots + \beta_k X_k + \varepsilon_t \quad (3.1)$$

Where;

Y_t = Dependent or Response variable

X_1, X_2, X_3 = Independent or Explanatory variables.

β_0 = Constant

$\beta_1, \beta_2, \beta_3$ = Regression parameters or coefficients of the regression estimates.

ε_t = Error term

In this case, the five regression models for the five deposit money banks were pooled to obtain a more efficient estimator of β . The equation system is written as:



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$$Y = \begin{bmatrix} Y_{i,1} \\ Y_{i,2} \\ Y_{i,3} \\ Y_{i,4} \\ Y_{i,5} \end{bmatrix}; \quad Z = \begin{bmatrix} X_{ij,1} \\ X_{ij,2} \\ X_{ij,3} \\ X_{ij,4} \\ X_{ij,5} \end{bmatrix}; \quad \text{and} \quad e = \begin{bmatrix} e_{i,1} \\ e_{i,2} \\ e_{i,3} \\ e_{i,4} \\ e_{i,5} \end{bmatrix} \quad (3.2)$$

Where;

$$Y = \begin{bmatrix} Y_{i,1} \\ Y_{i,2} \\ Y_{i,3} \\ Y_{i,4} \\ Y_{i,5} \end{bmatrix}; \quad Z = \begin{bmatrix} X_{ij,1} \\ X_{ij,2} \\ X_{ij,3} \\ X_{ij,4} \\ X_{ij,5} \end{bmatrix}; \quad \text{and} \quad e = \begin{bmatrix} e_{i,1} \\ e_{i,2} \\ e_{i,3} \\ e_{i,4} \\ e_{i,5} \end{bmatrix}$$

SP = Share Price (Dependent variable),
CUR = Current Ratio (Independent variable),
QR = Quick Ratio (Independent variable),
CAR = Cash Ratio (Independent variable),
 β_O = Overall mean of the regression equation,
 β_i 's = Regression parameters,
 ε = Error term.

Such that:

$$SP_t = \beta_O + \beta_1 CUR_t + \beta_2 QR_t + \beta_3 CAR_t + \beta_4 CASH_t + \varepsilon_t \quad (3.3)$$

The study made use of the following symbols to denote the respective variables in the model.

IV. RESULTS

Table 4.1.1: Summary of descriptive statistics of the variables under study

Variables	Mean	Std. Dev.	Minimum	Maximum	Skewness	Kurtosis
EPS	1.48	0.44	0.72	1.92	-0.73	2.02
CUR	1.07	0.39	0.70	2.01	1.33	3.86
QR	1.36	0.49	0.99	2.43	1.22	2.95
CAR	1.16	0.21	1.01	1.77	2.24	6.76

SOURCE: Researcher's extract from EViews 9.0 output

The descriptive statistics in table 4.1.1 show the mean, standard deviation, minimum and maximum values, skewness, and Kurtosis of the variables under investigation. From the result, it was ascertained that EPS stood at average value of N1.48 with a standard deviation of N0.44. Its minimum value for the five selected deposit money banks is N0.72 while the maximum value is N1.92. The CUR stood at average value of 1.07 with a standard deviation of 0.39.

The minimum value is 0.70 while the maximum value is 2.01 for the period. QR stood at average value of 1.36 with a standard deviation of 0.49. The minimum and maximum values are 0.99 and 2.43 respectively. The CAR for the five selected banks stood at average value of 1.16 with a standard deviation of 0.21. The minimum and maximum values are 1.01 and 1.77 respectively.

The skewness result which measures the degree of departure from symmetry of the distribution indicates that series of EPS of the selected deposit money banks are negatively skewed (i.e. skewed to the left) while those of CUR, QR, and CAR are positively skewed (skewed to the right). An excess kurtosis ($k > 3.0$) was discovered in the series of CUR and CAR. The Jarque-Bera goodness of fit

test indicates that the dataset (with prob (J-B) < 0.05) are not normally distributed.

Table 4.1.2 Summary of Levin, Lin & Chu t* panel unit root test

Variable	Levin, Lin & Chu t*	p-value	Order of integration	Comment
LNSP	-5.68	0.0000	I(0)	Stationary
LNCR	-8.98	0.0000	I(0)	"
LNQR	-2.55	0.0053	I(0)	"
LNCaR	-2.01	0.0224	I(0)	"

Source: Author's Extract from E-views 9.0 output (See Appendix I)

The panel unit root test result indicates that the variables are stationary at their level as their respective probability values of Levin, Lin & Chu t* is less than 0.05. This therefore justifies the use of Ordinary Least Square (OLS) panel regression analysis for the hypothesis testing.

Table 4.1.3 Summary of Pedroni Residual Cointegration Test
Null Hypothesis: No cointegration

Alternative hypothesis: common AR coeffs. (within-dimension)					
	Statistic	Prob.	Weighted Statistic	Prob.	
Panel v-Statistic	-1.663614	0.9519	-1.663614	0.9519	
Panel rho-Statistic	2.393853	0.9917	2.393853	0.9917	
Panel PP-Statistic	-14.29453	0.0000	-14.29453	0.0000	
Panel ADF-Statistic	-3.826056	0.0001	-3.826056	0.0001	

Source: Author's Extract from E-views 9.0 output



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The cointegration test result with a panel rho-statistic value of 2.394 and an associated probability value of 0.9917 > 0.05, indicates there is no cointegration for which course the null hypothesis is upheld.

The Panel correlation test result presented measures the degree of linear association (in pairs) among the study variables.

Covariance Analysis: Ordinary				
Date: 10/27/25 Time: 22:00				
Sample: 2013 2025				
Included observations: 75				
Correlation				
t-Statistic				
Probability				
Observations	LEPS	LCUR	LQR	LCAR
LEPS	1.000000			

	50			
LCuR	0.578724	1.000000		
	4.916499	-----		
	0.0000	-----		
	50	50		
LQR	0.508510	0.807415	1.000000	
	4.091554	9.481516	-----	
	0.0002	0.0000	-----	
	50	50	50	
LCaR	-0.359780	-0.153388	-0.131540	1.000000
	-2.671523	-1.075432	-0.919327	-----
	0.0103	0.2876	0.3625	-----
	50	50	50	50

Source: Researcher's E-views 9.0 output

The correlation test result indicates that current ratio (LCUR) and quick ratio (LQR) with correlation coefficients $r = 0.579$ and 0.509 respectively, interact positively with SP of the deposit money banks in Nigeria. The cash ratio (LCAR) with a coefficient value of -0.360 is negatively associated with SP of the deposit money banks in Nigeria for the periods under review.

Hypothesis one

Ho: Current ratio (CuR) has not positively and significantly influenced the share price (SP) of the Deposit money banks in Nigeria.

Level of significance (α) = 0.05

Decision rule/Criteria: Reject the null hypothesis if the p-value is less than 0.05; otherwise, do not reject.

Table 4.2.2 Result of effect of CuR on SP

Dependent Variable: LESP				
Method: Panel Least Squares				
Date: 11/11/25 Time: 15:51				
Sample: 2013 2025				
Periods included: 15				
Cross-sections included: 5				
Total panel (balanced) observations: 75				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.328451	0.041354	7.942510	0.0000
LCUR	0.638040	0.129775	4.916499	0.0000
R-squared	0.334922	Mean dependent var		0.334159
Adjusted R-squared	0.321066	S.D. dependent var		0.354742
S.E. of regression	0.292299	Akaike info criterion		0.417096
Sum squared resid	4.101046	Schwarz criterion		0.493577



Log likelihood	-8.427401	Hannan-Quinn criter.	0.446220
F-statistic	24.17196	Durbin-Watson stat	2.122933
Prob(F-statistic)	0.000011		

The panel least square estimate indicates that current ratio (LCUR) with a coefficient value of 0.638, t-statistic value of 4.916 and associated probability value of $0.0000 < 0.05$ indicates that current ratio has a significant positive influence on share price (LESP) of the deposit money banks in Nigeria. The researcher therefore rejects the null hypothesis and upholds the alternative. The result also shows that a unit increase in value of current ratio of the deposit money banks will lead to about 0.638 unit increases in share price of the deposit money banks in Nigeria. The R-square estimate with a coefficient value of 0.335 (33.5%) indicates about 33.5% of the proportion of total variations in share price (SP) of the deposit money banks can be accounted for by current ratio within the period. The

remaining 66.5% is attributed to other relevant variables not included in the model. This implies that the model is not a good one. The Durbin Watson statistic value of 2.122933 following the rule of thumb indicates that the model is free from first order autocorrelation problem.

Hypothesis Two

Ho: Quick ratio (QR) has not positively and significantly influenced Share price (SP) of the selected deposit money banks in Nigeria

Level of significance (α) = 0.05

Decision rule/Criteria: Reject the null hypothesis if the p-value is less than 0.05; otherwise, do not reject.

Table 4.2.3 Results of the effect of QR on SP

Dependent Variable: LESP				
Method: Panel Least Squares				
Date: 11/11/25 Time: 15:50				
Sample: 2013 2025				
Periods included: 15				
Cross-sections included: 5				
Total panel (balanced) observations: 75				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.189395	0.056185	3.370914	0.0015
LQR	0.575376	0.140625	4.091554	0.0002
R-squared	0.258582	Mean dependent var		0.334159
Adjusted R-squared	0.243136	S.D. dependent var		0.354742
S.E. of regression	0.308618	Akaike info criterion		0.525756
Sum squared resid	4.571776	Schwarz criterion		0.602237
Log likelihood	-11.14390	Hannan-Quinn criter.		0.554880
F-statistic	16.74081	Durbin-Watson stat		1.731984
Prob(F-statistic)	0.000163			

Source: Researcher's E-views 9.0 output

The empirical result in table 4.2.3 indicates that quick ratio (LQR) with a coefficient value of 0.575, t-statistic value of 4.092 and associated probability value of $0.0002 < 0.05$ indicates that quick ratio has a significant positive effect on share price (SP) of the selected deposit money banks in Nigeria. The researcher therefore rejects the null hypothesis. The result with a coefficient of CAR = 0.575 indicates that a unit increase in quick ratio of the selected deposit money banks will lead to about 0.575 unit increases in share price of the selected deposit money banks in Nigeria.

The R-square estimate with a coefficient value of 0.259 (25.9%) indicates only about 25.9% of the proportion of total variations in share price of the selected deposit money banks can be attributed to quick ratio within the period. The remaining 74.1% is attributed to other relevant variables not

included in the model. This implies that the model is not a good one.

The Durbin Watson statistic value of 1.731984 following the rule of thumb, indicates that the model is free from first order autocorrelation problem.

Hypothesis three

Ho: Cash ratio (CAR) has not positively and significantly influenced the share price (SP) of the selected deposit money banks in Nigeria.

Level of significance (α) = 0.05

Decision rule/Criteria: Reject the null hypothesis if the p-value is less than 0.05. Otherwise, do not reject.



Table 4.2.4 Result of effect of QR on SP

Dependent Variable: LESP				
Method: Panel Least Squares				
Date: 11/11/25 Time: 15:54				
Sample: 2013 2025				
Periods included: 15				
Cross-sections included: 5				
Total panel (balanced) observations: 75				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.444822	0.062869	7.075320	0.0000
LCAR	-0.809966	0.303185	-2.671523	0.0103
R-squared	0.129442	Mean dependent var		0.334159
Adjusted R-squared	0.111305	S.D. dependent var		0.354742
S.E. of regression	0.334418	Akaike info criterion		0.686326
Sum squared resid	5.368089	Schwarz criterion		0.762807
Log likelihood	-15.15815	Hannan-Quinn criter.		0.715450
F-statistic	7.137034	Durbin-Watson stat		1.540751
Prob(F-statistic)	0.010280			

Source: Researcher's E-views 9.0 output

The least squares pooled regression result with cash ratio (LCAR) having a coefficient value of -0.810, t-statistic value of -2.67 and associated probability value of 0.0103 < 0.05 indicates that cash ratio has a significant negative influence on share price (LESP) of the selected banks in Nigeria. The researcher therefore rejects the null hypothesis and accepts the alternative. The result (with coefficient of CAR = -0.810) also indicates that a 100% increase in cash ratio of the selected banks will lead to about 81.0% decreases in share price (LESP) of the deposit money banks in Nigeria.

The R-square coefficient which measures the proportion of total variation in earnings per share (LEPS) of the selected banks that is accounted for by cash ratio (LCAR) indicates that only about 12.9% of the total variations in earnings per share (LEPS) of the banks can be accounted for by cash ratio (LCaR) for the period under review. The remaining 87.1% is attributed to other relevant variables not included in the model. This implies that the model is not a good one. The Durbin Watson statistic value of 1.540751 which is closer to 2 than to zero indicates that the model is free from first order autocorrelation problem.

V. DISCUSSION OF FINDINGS

The findings indicate that liquidity management has a significant but differential effect on the share prices of selected Nigerian deposit money banks. The current ratio (CUR) exhibited a moderate positive correlation with share price ($r = 0.579$; $p = 0.0000$), while the panel regression showed a positive and statistically significant effect ($\beta = 0.638$; $t = 4.916$; $p = 0.0000$). Thus, the null hypothesis was rejected. The result suggests that stronger current liquidity enhances investors' confidence because banks with

adequate current assets are better positioned to meet short-term obligations and maintain financial stability. The model explained 33.49% of the variation in share price and was statistically significant. This finding agrees with Tirimisiyu et al. (2025) but differs from Sinebe et al. (2025) and Akbar (2024), who reported insignificant effects. The differences may arise from variations in industry, sample, and study period, and market conditions.

Similarly, quick ratio (QR) had a positive and significant relationship with share price. The correlation coefficient was 0.509 ($p = 0.0002$), while the regression coefficient was 0.575, with a t-statistic of 4.092 and p-value of 0.0002. Consequently, the null hypothesis was rejected. The finding indicates that improved ability to meet short-term obligations using relatively liquid assets can enhance investor confidence and market valuation. The QR model explained 25.86% of the variation in share price and was statistically significant. This result differs from Sari and Andayani (2024) and Nurmatama et al. (2025), who found insignificant effects of quick ratio on stock prices, but supports the broader evidence of Halimah et al. (2025) that liquidity indicators can influence stock prices. The differences may reflect the particular importance of liquidity and confidence in the banking sector.

In contrast, cash ratio (CAR) recorded a negative and statistically significant relationship with share price. The correlation coefficient was -0.360 ($p = 0.0103$), while the regression coefficient was -0.810, with a t-statistic of -2.672 and p-value of 0.0103. The null hypothesis was therefore rejected. The negative relationship suggests that excessive cash holdings may be perceived by investors as inefficient utilisation of financial resources because funds retained as idle cash could otherwise be deployed into loans, securities and other income-generating investments. The CAR model explained 12.94% of the variation in share price and was



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statistically significant. Although Halimah et al. (2025) also found cash ratio to be significant, the direction of their finding differs from the present study. The result nevertheless supports the argument that adequate liquidity should be distinguished from excessive liquidity.

Generally, the study demonstrates that liquidity is relevant to the market valuation of Nigerian deposit money banks, but the nature and level of liquidity matter. CUR and QR positively influence share price, suggesting that adequate short-term liquidity strengthens investor confidence, whereas CAR has a negative effect, implying that excessive cash holdings may reduce perceived investment efficiency. The findings therefore support the view that banks should seek an optimal liquidity position rather than simply maximising liquidity. Importantly, because the models use logarithmic variables, the coefficients should be interpreted as elasticity's. Thus, a 1% increase in CUR is associated with approximately a 0.64% increase in share price, a 1% increase in QR with about a 0.58% increase, and a 1% increase in CAR with approximately a 0.81% decrease in share price, *ceteris paribus*.

VI. CONCLUSION

Based on the empirical findings, the study concludes that liquidity management significantly influences the share price of selected deposit money banks in Nigeria, although the direction and magnitude of the effect vary according to the specific liquidity measure employed. The findings demonstrate that current ratio, quick ratio and cash ratio do not affect market valuation in the same manner.

First, the study concludes that current ratio has a positive and significant effect on share price. The positive coefficient indicates that improved current liquidity is associated with higher share prices. This suggests that investors attach value to the ability of deposit money banks to meet their short-term obligations and maintain adequate financial stability. A sound current liquidity position may therefore strengthen investor confidence and enhance the market valuation of banks. Second, the study concludes that quick ratio has a positive and significant effect on share price. The finding implies that banks with stronger capacity to meet short-term obligations using relatively liquid assets tend to enjoy better share-price performance. This reinforces the importance of maintaining adequate liquid resources and demonstrates that investors consider the short-term financial strength of banks when making investment decisions.

Third, the study concludes that cash ratio has a significant negative effect on share price. Although cash availability is essential for maintaining liquidity and meeting immediate obligations, excessive cash holdings may indicate inefficient utilisation of financial resources. Investors may perceive excessive liquidity as an indication that funds are not being sufficiently deployed into loans, investments and other productive assets capable of generating returns. Consequently, very high cash liquidity may negatively

affect market valuation. Largely, the study concludes that effective liquidity management requires an appropriate balance between liquidity and profitability rather than the maximisation of liquid assets. Adequate current and quick liquidity appears to enhance investor confidence, while excessive cash holdings may adversely affect share price. The findings therefore establish that the quality, composition and level of liquidity are important considerations in determining the market value of Nigerian deposit money banks.

Recommendations

Deposit money banks should maintain optimal current and quick ratios to meet short-term obligations while avoiding excessive investment in low-yielding liquid assets.

Banks should also control excessive cash holdings by deploying surplus funds prudently into productive lending and investment activities to enhance profitability and shareholder value.

Investors and regulators should closely monitor liquidity indicators and promote transparent disclosure to strengthen financial stability, investor confidence and efficient share-price formation.

Finally, future researchers should incorporate additional determinants such as profitability, earnings per share, dividend policy, capital adequacy, leverage, bank size, non-performing loans, interest rates, inflation and exchange rates to provide a more comprehensive explanation of bank share prices.

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