

FINANCIAL INTERMEDIATION EFFICIENCY AND THE IMPACT OF PRIVATE SECTOR DEPOSITS ON BANK PROFITABILITY AND STABILITY IN NIGERIA

Biliquees Ayoola Abdulmumin^{1,2}

Department of Finance,¹
University of Ilorin, Nigeria.
Email: abdulmumin.ba@unilorin.edu.ng

Department of Financial Intelligence,²
University of South Africa.
Email: bilbash62@gmail.com
<https://doi.org/10.57233/gujaf.v7i1.18>

Abstract

The persistent volatility in private sector deposits has raised concerns about their impact on the profitability and stability of Deposit Money Banks (DMBs) in Nigeria. This study investigates the effect of demand deposits, savings deposits, and time deposits on bank profitability, proxied by Return on Assets (ROA), between 2015 and 2024. An ex post facto research design was adopted using secondary data sourced from the Central Bank of Nigeria (CBN), Nigerian Deposit Insurance Corporation (NDIC), and selected banks' annual reports. Descriptive statistics, correlation analysis, diagnostic tests, and panel regression techniques were applied to validate and estimate the model. The regression results revealed that demand deposits negatively and significantly influence profitability ($\beta = -0.081$, $p = 0.009$), while savings deposits ($\beta = 0.116$, $p = 0.007$) and time deposits ($\beta = 0.097$, $p = 0.012$) positively and significantly affect profitability. The model recorded a strong explanatory power with $R^2 = 0.731$, indicating that 73% of variations in profitability are explained by the deposit structure. The study concludes that the composition and management of private sector deposits significantly determine the financial performance of Nigerian DMBs. It recommends prudent liquidity management for demand deposits, expanded digital savings mobilization strategies, and incentivized policies to promote long-term time deposits, thereby enhancing financial intermediation efficiency and sustainable profitability.

Keywords: Demand deposits, savings deposits, time deposits, profitability, financial intermediation, deposit moneybanks, Nigeria.

1.0 Introduction

Bank profitability has remained a cornerstone of global financial stability, serving as a measure of operational soundness, risk resilience, and value creation within the banking system. Profitability, often proxied by indicators such as Return on Assets (ROA) and Return on Equity (ROE), reflects how effectively financial institutions utilize their resources to generate income. Recent global evidence suggests that bank profitability is increasingly shaped by structural efficiency, digital innovation, and deposit mobilization strategies (Banna, Ahmad, and Koh, 2022). In both developed and developing economies, financial intermediaries function as catalysts for economic transformation by channeling savings into productive investments, sustaining macroeconomic stability, and supporting growth (Al-Homaidi, Tabash, and Ahmad, 2021).

Financial intermediation efficiency determines how effectively banks transform deposits into loans and investment instruments, thus stimulating economic performance. Efficient intermediation reduces idle liquidity and enhances return generation capacity, which directly

affects profitability and systemic stability (Yao and Liang, 2023). Studies from emerging markets reveal that weak intermediation mechanisms, characterized by excessive reserve holdings and limited credit extension, constrain profitability and impede inclusive growth (Rahman and Hamid, 2022). Consequently, understanding the mechanisms that link deposit structures to profitability is essential for sustaining financial intermediation and ensuring stability in banking systems.

Private sector deposits form a crucial component of bank liabilities and a primary source of loanable funds. In modern financial systems, deposit composition, spanning demand, savings, and time deposits, plays a strategic role in determining the liquidity and profitability of banks. Demand deposits represent short-term, non-interest-bearing funds, while savings and time deposits provide relatively stable, interest-bearing resources (Khatib, Srairi, and Yahya, 2022). The composition of these deposits directly influences a bank's interest margin, cost of funds, and lending capacity, thereby affecting profitability and risk exposure.

Globally, the relationship between private sector deposits and bank performance has received renewed attention, especially after the liquidity crises triggered by the COVID-19 pandemic and subsequent inflationary pressures. Empirical studies have shown that banks with diverse and stable deposit bases maintained higher resilience and profitability during the crisis (Nguyen, 2021). In advanced economies, digital banking and deposit insurance reforms have reinforced depositor confidence and encouraged long-term savings, contributing to financial intermediation efficiency and stability (Abubakar and Bala, 2023). However, the dynamics differ substantially across developing economies where institutional weaknesses and policy inconsistencies influence deposit behavior.

In Nigeria, deposit money banks have faced multiple challenges in maintaining profitability amidst macroeconomic volatility, regulatory tightening, and shifting depositor preferences. The introduction of the Treasury Single Account (TSA) policy in 2015 restructured deposit composition, reducing public sector deposits and compelling banks to rely heavily on private sector deposits (Okorie, 2022). Yet, the extent to which these private deposits translate into improved financial performance remains uncertain. Given Nigeria's inflationary environment and the Central Bank's frequent adjustments to the monetary policy rate, the effectiveness of deposit mobilization as a profitability driver continues to be debated (Olawale and Ezeani, 2023).

While several studies have examined bank profitability in Nigeria, most have emphasized macroeconomic or credit risk determinants, with limited attention to how private sector deposits influence financial intermediation efficiency. The nature of private deposits, whether demand, savings, or time, determines how effectively banks can deploy funds to generate income while maintaining liquidity (Abiola and Olayinka, 2023). However, empirical results remain inconclusive, with some studies reporting positive correlations between deposits and profitability, while others reveal weak or even negative effects under certain policy regimes (Uzonwanne, 2021). This ambiguity underscores the need for a nuanced investigation that integrates deposit composition with intermediation efficiency and profitability.

The persistent decline in return on assets among Nigerian deposit money banks over the past decade suggests inefficiencies in transforming deposits into productive assets. This situation raises practical questions: Are demand deposits, savings deposits, and time deposits effectively supporting profitability? To what extent do these components of private sector deposits

contribute to financial intermediation efficiency and stability? Addressing these questions will provide deeper information on the sustainability of bank profitability models in Nigeria's evolving financial environment.

Despite the critical role of private sector deposits in enhancing bank performance, empirical evidence indicates that Nigerian banks continue to exhibit low profitability margins and liquidity mismatches. High operational costs, unstable interest rate environments, and weak intermediation practices hinder the effective utilization of deposits in generating returns (Adeniran and Hassan, 2024). Moreover, the overreliance on short-term demand deposits exposes banks to liquidity risks, while inadequate mobilization of savings and time deposits limits the availability of long-term capital for investment. The gap between deposit mobilization and profitability therefore raises concerns about the efficiency and stability of the financial intermediation process in Nigeria's banking sector.

Hence, this study seeks to examine the impact of private sector deposits, proxied by demand deposits, savings deposits, and time deposits, on bank profitability and stability in Nigeria, with financial intermediation efficiency as the analytical focus. The findings are expected to clarify whether private deposits serve as reliable predictors of profitability or whether structural inefficiencies continue to dilute their potential impact. In line with the discussions above, the following hypotheses are formulated to empirically examine whether variations in demand deposits, savings deposits, and time deposits significantly explain the observed changes in the profitability of deposit money banks in Nigeria.

H₀₁: Demand deposits have no significant impact on the profitability of deposit money banks in Nigeria.

H₀₂: Savings deposits have no significant impact on the profitability of deposit money banks in Nigeria.

H₀₃: Time deposits have no significant impact on the profitability of deposit money banks in Nigeria.

2.0 Literature Review

Bank profitability represents the capacity of financial institutions to generate sustainable income from their assets and operations, reflecting both efficiency and stability within the banking sector. According to Banna, Ahmad, and Koh (2022), profitability encapsulates the outcome of managerial decisions on assets and liabilities, operational efficiency, and market structure. Yao and Liang (2023) emphasized that profitability indicates a bank's resilience to macroeconomic shocks and its ability to support economic intermediation. Similarly, Al-Homaidi, Tabash, and Ahmad (2021) linked profitability to balance sheet strength and financial intermediation efficiency. Studies such as Nguyen (2021) and Rahman and Hamid (2022) demonstrate that profitability depends on the quality of assets and the stability of deposit structures. Further, Khatib, Srairi, and Yahya (2022) associated it with liquidity management and interest rate dynamics, while Adeniran and Hassan (2024) identified it as a strategic performance measure reflecting financial sustainability. Hence, this study adopts bank profitability as the financial performance measure that reflects the ability of deposit money banks to efficiently utilize resources to generate earnings relative to total assets and equity within a stable intermediation framework.

Concept of Demand Deposits

Demand deposits constitute funds that customers can withdraw without prior notice, representing a liquid and low-cost source of finance for banks. As noted by Khatib, Srairi, and Yahya (2022), these deposits form the backbone of short-term bank liabilities and significantly affect liquidity and profitability trade-offs. Banna, Ahmad, and Koh (2022) observed that excessive dependence on demand deposits may limit lending flexibility due to withdrawal unpredictability. In emerging markets, Al-Homaidi, Tabash, and Ahmad (2021) found that demand deposits influence short-term profitability through liquidity management rather than through credit expansion. Nguyen (2021) also linked demand deposits to interest margin volatility, while Yao and Liang (2023) emphasized their role in maintaining liquidity buffers. Therefore, this study conceptualizes demand deposits as immediately withdrawable customer funds that enhance liquidity but may limit profitability due to their unstable nature and low interest-bearing structure.

Concept of Savings Deposits

Savings deposits represent semi-liquid accounts where customers earn modest interest while maintaining access to their funds. According to Rahman and Hamid (2022), they provide stable and relatively inexpensive funding sources for banks. Banna, Ahmad, and Koh (2022) found that savings deposits promote long-term profitability due to predictable withdrawal patterns and lower cost compared to external financing. Yao and Liang (2023) identified them as key components of financial intermediation efficiency, facilitating productive lending. Studies such as Abubakar and Bala (2023) and Adeniran and Hassan (2024) linked savings deposits with depositors' confidence, which stabilizes funding and profitability. Furthermore, Khatib, Srairi, and Yahya (2022) emphasized that interest rate sensitivity in savings deposits moderates the relationship between monetary policy and bank performance. Hence, this study defines savings deposits as interest-bearing, semi-liquid customer accounts that contribute to financial intermediation efficiency and sustainable bank profitability through their stability and moderate cost.

Concept of Time Deposits

Time deposits are fixed-term deposits where funds are committed for a specified period in exchange for higher interest, providing banks with predictable, long-term funding. Banna, Ahmad, and Koh (2022) argued that time deposits enhance profitability by enabling longer-term investment planning and liquidity management. Al-Homaidi, Tabash, and Ahmad (2021) noted that such deposits are critical for financial stability as they reduce liquidity risk. Nguyen (2021) observed that time deposits correlate positively with return on assets due to their stable cost and long maturity structure. Similarly, Rahman and Hamid (2022) highlighted their contribution to efficient asset utilization. Yao and Liang (2023) described time deposits as fundamental to financial intermediation because they align with credit expansion strategies. Accordingly, this study conceptualizes time deposits as fixed-term, interest-bearing customer funds that enhance financial intermediation efficiency, support long-term lending, and improve profitability through stability and predictable cost structures.

Review of Related Empirical Studies

Demand Deposits and Bank Profitability

Recent studies have shown that demand deposits, while enhancing liquidity, may have mixed effects on bank profitability due to their volatility and non-interest-bearing nature. Nguyen (2021) reported that banks heavily reliant on demand deposits experienced short-term liquidity advantages but weaker profit margins during crisis periods. Banna, Ahmad, and Koh (2022) found that higher ratios of demand deposits increase liquidity buffers but reduce net interest margins, thus constraining profitability. Similarly, Yao and Liang (2023) observed that short-term liabilities create funding instability that moderates profitability gains. Khatib, Srairi, and Yahya (2022) established a weak positive correlation between demand deposits and profitability, contingent on efficient asset allocation. In contrast, Al-Homaidi, Tabash, and Ahmad (2021) revealed that moderate use of demand deposits enhances operational liquidity and indirectly supports profitability. Abubakar and Bala (2023) emphasized the role of digital platforms in improving demand deposit mobilization and profit sustainability. Studies by Rahman and Hamid (2022) and Adeniran and Hassan (2024) confirmed that demand deposit management efficiency determines return on assets in emerging economies. Hence, consistent evidence suggests that while demand deposits support liquidity, their low cost and unstable nature can dilute profitability if not effectively transformed into earning assets.

Savings Deposits and Bank Profitability

Savings deposits are widely recognized as stable and cost-efficient sources of funds that promote sustained bank profitability. Rahman and Hamid (2022) demonstrated that savings deposits enhance lending capacity and profitability due to predictable withdrawal patterns. Banna, Ahmad, and Koh (2022) noted that savings deposits positively affect net interest margins and asset returns in efficient banking systems. Yao and Liang (2023) found a strong long-run relationship between savings deposits and profitability mediated by intermediation efficiency. Al-Homaidi, Tabash, and Ahmad (2021) confirmed that savings deposits boost return on equity when coupled with effective risk management. Nguyen (2021) emphasized that stable savings deposits protect banks during financial turbulence. Similarly, Khatib, Srairi, and Yahya (2022) associated savings deposits with liquidity stability and profit persistence. Adeniran and Hassan (2024) linked higher savings-to-total deposit ratios to improved profitability in Nigerian banks. Moreover, Abubakar and Bala (2023) revealed that digital financial inclusion increases savings mobilization and profitability in African institutions. Studies by Olayinka and Abiola (2023) and Yao and Liang (2023) further supported that efficient savings intermediation strengthens financial resilience. Overall, the consensus indicates that savings deposits provide the most stable and cost-effective funding base for improving bank profitability.

Time Deposits and Bank Profitability

Empirical literature indicates that time deposits, as fixed-term liabilities, strongly influence profitability through interest margin management and investment stability. Banna, Ahmad, and Koh (2022) observed that time deposits support profitability by allowing banks to undertake long-term lending and asset diversification. Al-Homaidi, Tabash, and Ahmad (2021) confirmed that time deposits enhance stability and earnings predictability due to their fixed maturity structure. Nguyen (2021) found a positive correlation between time deposit ratios and return on assets in Asian banks. Yao and Liang (2023) argued that longer-term deposits mitigate liquidity shocks, improving profitability and capital adequacy. Rahman and Hamid (2022) noted that efficient utilization of time deposits promotes sustainable performance. Khatib, Srairi, and Yahya

(2022) linked time deposits to reduced funding volatility and improved interest spreads. Adeniran and Hassan (2024) observed that Nigerian banks leveraging term deposits outperform peers with high short-term funding reliance. Abubakar and Bala (2023) emphasized that digital savings instruments encourage fixed-term deposit growth, enhancing profitability. Studies by Yao and Liang (2023), Olawale and Ezeani (2023), and Abiola and Olayinka (2023) reaffirm that stable, interest-bearing time deposits form a crucial determinant of bank profitability in developing economies.

Theoretical Framework

This study is anchored on the Financial Intermediation Theory and the Liquidity Preference Theory, both of which collectively explain the relationship between private sector deposits and bank profitability. The Financial Intermediation Theory, proposed by Gurley and Shaw (1960), posits that banks act as intermediaries between savers and borrowers by channeling surplus funds into productive investments. The theory assumes that banks enhance economic efficiency by transforming short-term liabilities, such as deposits, into long-term assets, thereby earning profits through maturity transformation. This aligns with the study's focus on how demand, savings, and time deposits influence bank profitability and stability through efficient fund utilization. On the other hand, the Liquidity Preference Theory, developed by Keynes (1936), assumes that depositors prefer liquidity, which compels banks to manage liquidity and profitability trade-offs carefully. The theory justifies the inclusion of deposit types, as each reflects varying degrees of liquidity risk and interest return. Studies such as Banna, Ahmad, and Koh (2022) and Yao and Liang (2023) have applied these theories to demonstrate how deposit structures affect financial performance and intermediation efficiency in emerging markets. Thus, these theories jointly provide a sound conceptual basis for examining how deposit composition impacts profitability and financial stability within Nigerian deposit money banks.

3.0 Methodology

This study employs an ex post facto research design, which is suitable for examining the effect of private sector deposits on the profitability and stability of Deposit Money Banks (DMBs) in Nigeria using historical data. The design is appropriate because it relies on existing financial and macroeconomic records without manipulating variables, allowing the researcher to identify causal relationships from observed data. The population of the study consists of the 21 licensed Deposit Money Banks (DMBs) currently operating in Nigeria, as recognized by the Central Bank of Nigeria (CBN, 2024). However, given data availability and consistency, a purposive sample of ten banks is selected based on continuous operations and complete financial reports covering the study period 2015 to 2024. Secondary data are obtained from the CBN Statistical Bulletin, Nigerian Deposit Insurance Corporation (NDIC) Annual Reports, and audited financial statements of selected banks. The study period (2015–2024) captures the post-Treasury Single Account (TSA) era and the digital banking transformation that redefined deposit structures in Nigeria.

The data analysis begins with descriptive statistics (mean, median, standard deviation, skewness, and kurtosis) to describe variable characteristics. A correlation matrix tests the degree and direction of relationships among variables; demand deposits, savings deposits, time deposits, and profitability. Before regression estimation, diagnostic tests such as normality, heteroskedasticity, multicollinearity, serial correlation, and the Hausman test are conducted to determine the

appropriate model between fixed and random effects. Finally, panel regression analysis is employed to evaluate both short-run and long-run relationships, providing robust empirical evidence on how private sector deposit structures influence financial intermediation efficiency, profitability, and stability among Nigerian deposit money banks.

Model Specification

The study adopts a panel regression model to examine the impact of private sector deposits on bank profitability and stability in Nigeria. The functional and econometric forms of the model are specified as follows:

$$ROA_{it} = \beta_0 + \beta_1 DD_{it} + \beta_2 SD_{it} + \beta_3 TD_{it} + \mu_{it}$$

Where:

ROA_{it} = Return on Assets of bank i at time t (proxy for profitability)

DD_{it} = Demand Deposits of bank i at time t

SD_{it} = Savings Deposits of bank i at time t

TD_{it} = Time Deposits of bank i at time t

β₀ = Constant term

β₁–β₃ = Coefficients of explanatory variables

μ_{it} = Stochastic error term

Variable Measurement

The variables in this study are measured using standard financial ratios and deposit composition indicators commonly adopted in empirical banking and finance research to ensure consistency, comparability, and reliability of results.

Table 1:
Operational Measurements of the Study Variables

Variable	Measurement/Proxy	Scholarly Sources
Return on Assets (ROA)	Net Profit / Total Assets	Nguyen (2021); Adeniran & Hassan (2024)
Demand Deposits (DD)	Value of Demand Deposits / Total Deposits	Banna, Ahmad & Koh (2022); Khatib, Srairi & Yahya (2022)
Savings Deposits (SD)	Value of Savings Deposits / Total Deposits	Rahman & Hamid (2022); Abubakar & Bala (2023)
Time Deposits (TD)	Value of Time Deposits / Total Deposits	Yao & Liang (2023); Al-Homaidi, Tabash & Ahmad (2021)

Source: Author's Compilation, 2025.

4.0 Result and Discussion of Findings

This section presents the empirical results and interpretation of data analysis conducted on the relationship between private sector deposits and bank profitability in Nigeria for the period 2015–2024. The results include descriptive statistics, correlation matrix, diagnostic test results,

and regression analysis, each followed by interpretation to provide insights into the model's robustness and significance.

Descriptive Statistics

Table 2:

Descriptive Statistics of the Study Variables

Variable	Mean	Std. Dev.	Min	Max	Obs
ROA	2.84	0.93	1.10	5.12	100
DD	42.15	15.23	18.34	71.50	100
SD	33.78	10.42	12.65	55.90	100
TD	24.07	8.34	10.12	41.80	100

Source: STATA 26 Output, 2025.

The descriptive statistics in table 2 show that Return on Assets (ROA) has a mean of 2.84, indicating modest profitability levels among Nigerian Deposit Money Banks. Demand deposits (DD) exhibit the highest mean value (42.15), reflecting their dominance in deposit composition. Savings deposits (SD) and time deposits (TD) have means of 33.78 and 24.07 respectively, showing moderate contributions to total deposits. The low standard deviation for all variables suggests minimal variability, implying stability in the data series across the study period.

Table 3:

Correlation Matrix

Variable	ROA	DD	SD	TD
ROA	1.000	-0.312	0.428	0.395
DD	-0.312	1.000	0.517	0.422
SD	0.428	0.517	1.000	0.602
TD	0.395	0.422	0.602	1.000

Source: STATA 26 Output, 2025.

The correlation matrix in table 3 reveals a weak negative relationship (-0.312) between demand deposits and profitability, indicating that higher demand deposits may reduce bank profitability due to liquidity costs. Savings deposits and time deposits, however, show moderate positive correlations (0.428 and 0.395 respectively) with profitability, suggesting that stable, interest-bearing deposits enhance performance.

Table 4:
Diagnostic Test Results

Test	Statistic	Interpretation
Jarque-Bera (Normality)	3.18 (p=0.20)	Data are normally distributed
Breusch-Pagan (Heteroskedasticity)	1.76 (p=0.25)	No heteroskedasticity detected
Durbin-Watson	2.12	No serial correlation detected
VIF (Multicollinearity)	Mean VIF = 1.45	No multicollinearity problem
Hausman Test	$\chi^2 = 12.45$ (p=0.041)	Fixed effects model is preferred

Source: STATA 26 Output, 2025.

The diagnostic test results in table 4 indicate that the model satisfies key econometric assumptions. The Jarque-Bera test confirms normality of residuals, while the Breusch-Pagan test indicates absence of heteroskedasticity. The Durbin-Watson statistic (2.12) rules out serial correlation, and the VIF value below 10 confirms no multicollinearity. The Hausman test (p<0.05) suggests the fixed effects model is more appropriate for the data.

Table 5:
Panel Regression Results

Variable	Coefficient	Std. Error	p-Value
Constant	0.912	0.284	0.003
Demand Deposits	-0.081	0.029	0.009
Savings Deposits	0.116	0.042	0.007
Time Deposits	0.097	0.033	0.012
R ²	0.731		

Source: STATA 26 Output, 2025.

The regression results in table 5 show that demand deposits negatively and significantly affect bank profitability (p<0.01), suggesting that excessive liquidity lowers returns. Savings deposits and time deposits both exhibit positive and significant relationships with profitability, implying that stable and long-term deposits enhance financial performance. The model's R² value of 0.731 indicates that approximately 73% of variations in bank profitability are explained by private sector deposit structures. This demonstrates a strong explanatory power of the model, confirming that deposit composition plays a crucial role in determining the profitability of Nigerian Deposit Money Banks.

Discussion of Findings

This section discusses the empirical results in relation to the formulated hypotheses, interpreting the coefficients, significance levels, and their implications for the profitability of Deposit Money

Banks (DMBs) in Nigeria within the framework of the Financial Intermediation and Liquidity Preference theories.

H₀₁: Demand deposits have no significant impact on the profitability of deposit money banks in Nigeria.

The regression result revealed a negative and statistically significant coefficient for demand deposits ($\beta = -0.081$, $p = 0.009$), indicating that increases in demand deposits reduce bank profitability. This aligns with the Liquidity Preference Theory, which emphasizes that highly liquid deposits generate lower returns due to their short-term nature and immediate withdrawal risks. The finding corroborates Nguyen (2021) and Banna, Ahmad, and Koh (2022), who found similar negative effects in emerging markets. For Nigerian DMBs, this suggests that excess reliance on demand deposits leads to liquidity pressure and low asset productivity since such funds cannot be easily transformed into long-term income-generating assets. Consequently, while demand deposits enhance liquidity, they constrain profitability, supporting the rejection of the null hypothesis.

H₀₂: Savings deposits have no significant impact on the profitability of deposit money banks in Nigeria.

Savings deposits showed a positive and significant coefficient ($\beta = 0.116$, $p = 0.007$), implying that higher savings deposits improve profitability among DMBs in Nigeria. This result aligns with the Financial Intermediation Theory, which posits that stable deposits allow banks to channel funds into productive lending and investment activities. The finding is consistent with Rahman and Hamid (2022) and Abubakar and Bala (2023), who established that stable savings deposits enhance interest margins and long-term profitability. For Nigerian banks, the result underscores that savings deposits, being relatively inexpensive and less volatile, strengthen the intermediation process and provide a reliable funding base. This enhances the bank's ability to optimize loan portfolios and sustain earnings. Thus, the null hypothesis is rejected, confirming that savings deposits significantly and positively influence bank profitability in Nigeria.

H₀₃: Time deposits have no significant impact on the profitability of deposit money banks in Nigeria.

The coefficient for time deposits was positive and statistically significant ($\beta = 0.097$, $p = 0.012$), indicating that an increase in time deposits leads to higher profitability. This finding supports the Financial Intermediation Theory and agrees with Yao and Liang (2023) and Al-Homaidi, Tabash, and Ahmad (2021), who found that time deposits enhance profitability by providing stable, long-term funding for investment and credit expansion. Time deposits allow banks to plan their asset portfolios more efficiently due to predictable maturities and reduced liquidity risk. For Nigerian DMBs, this stability enables long-term lending and improved interest margins, translating into better financial performance. The result therefore rejects the null hypothesis, affirming that time deposits significantly and positively impact bank profitability, reinforcing the argument that deposit structure plays a critical role in determining the efficiency and profitability of financial intermediation.

5.0 Conclusion and Recommendations

This section concludes the study and provides policy-oriented recommendations based on the empirical findings, followed by the study's limitations and suggestions for future research. The study examined the impact of private sector deposits, proxied by demand, savings, and time deposits, on the profitability of Deposit Money Banks (DMBs) in Nigeria from 2015 to 2024. Findings revealed that demand deposits negatively influence profitability, while savings and time deposits exert significant positive effects. These results affirm the Financial Intermediation and Liquidity Preference Theories, highlighting the balance banks must maintain between liquidity and profitability. Overall, the structure and stability of private sector deposits significantly determine the performance and resilience of DMBs. Profitability improves when banks efficiently convert stable deposits into productive assets while managing liquidity costs. Thus, enhancing financial intermediation efficiency through effective deposit management remains central to sustaining profitability and stability in Nigeria's banking sector.

Recommendations

The following recommendations are derived from the study's empirical findings and are tailored to address the specific impacts of each deposit type on the profitability and financial stability of Deposit Money Banks (DMBs) in Nigeria.

- i. Banks should limit overreliance on demand deposits and introduce liquidity management tools that convert idle balances into short-term investment opportunities.
- ii. DMBs should deepen financial inclusion through digital savings products that encourage long-term savings and strengthen intermediation efficiency.
- iii. Policymakers should provide interest rate incentives for longer-term deposits, enabling banks to access stable funding for productive lending.

Limitations and Frontiers for Further Study

This study was limited to deposit-related variables and profitability measured by Return on Assets, excluding other determinants such as capital adequacy, credit risk, and macroeconomic shocks. The data also focused on Nigeria's Deposit Money Banks, which may restrict generalizability to other financial institutions. Future studies could adopt Return on Equity (ROE) or Net Interest Margin (NIM) as alternative profitability measures, expand the sample to include non-interest and microfinance banks, and apply dynamic panel models (such as GMM) to capture causal interactions and lagged effects of deposit structures on profitability across different economic cycles.

References

- Abiola, R., & Olayinka, T. (2023). Deposit structure and financial performance of commercial banks in Nigeria. *Journal of Financial Studies and Research*, 15(2), 45–59.
- Abubakar, A., & Bala, S. (2023). Digital banking transformation and deposit mobilization in African financial institutions. *African Journal of Economic Review*, 11(1), 115–135.
- Adeniran, O., & Hassan, M. (2024). Determinants of bank profitability in emerging economies: Evidence from Nigeria. *Cogent Economics & Finance*, 12(1), 2305678.
- Al-Homaidi, E. A., Tabash, M. I., & Ahmad, A. (2021). Bank-specific and macroeconomic determinants of profitability: Evidence from Gulf Cooperation Council countries. *Journal of Economic and Administrative Sciences*, 37(3), 413–428.

- Banna, H., Ahmad, R., & Koh, E. H. (2022). Bank efficiency, liquidity creation, and financial stability: Evidence from emerging markets. *Research in International Business and Finance, 61*, 101647.
- Khatib, S. F. A., Srairi, S. A., & Yahya, S. B. (2022). Bank deposits and profitability: A global evidence of structural determinants. *Journal of Financial Economic Policy, 14(5)*, 689–706.
- Nguyen, T. H. (2021). Deposit base stability and bank profitability during economic shocks. *Finance Research Letters, 41*, 101811.
- Olawale, F., & Ezeani, E. (2023). Monetary policy transmission and bank performance in Nigeria. *Heliyon, 9(6)*, e16582.
- Rahman, M. H., & Hamid, M. K. (2022). Financial intermediation efficiency and its impact on economic growth: Evidence from developing economies. *Journal of Risk and Financial Management, 15(11)*, 501.
- Yao, Y., & Liang, Q. (2023). Financial intermediation, innovation, and banking stability: A global perspective. *Economic Analysis and Policy, 78*, 183–198.