ABSTRACT

Universalbanks generally provide avenues for savings to those who have surplus funds.The bulk of such funds are then lent out to needy personnel and businesscustomers in loans and overdrafts, its has been widely appreciated that morethat half of the total gross earnings of universal banks is earned frominterest on loans and advances, which constitute the single must importanceassets of the banks.

Demandssavings and time deposited constitute the major source of banks profitability,it has to be aggression in its lending function. At the same time, it has to beliquid to meets the depositors request and maintain public confidence.

Ittherefore, has to strike a balance between liquidity and profitability. Aslending is one of the most intricate services provide by banks, this paper willexamine in 8rme details many theories emanating from developed environment andtheir effect on the operation of universal banks especially the credit, lendingactivities.

Theyinclude the consumer loans theory, and the anticipated income theory.

Thosetheories will thus be evaluated to measure the extents to which they guide thelending activity of the first bank of Nigeria Plc in a developing environment.This is a with a view of highlighting the degree of compliance to thesetheories by the universal banks and also proffer solutions and recommendationsto resolve the liquidity and profitability position in a developing economysuch as Nigeria.

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CHAPTER ONE

1.0 INTRODUCTION

Liquiditymanagement seeks to ensure the attainment of short term objectives of monetarypolicy, which means maintenance of dose rue monetary aggregate. It is veryimportant aspect of monetary policy implementation and control.

Universalbanks create money every day, but when the quantity created is compatible withthe absorption capacity of the economy macro economic instability may result.In order to maintain relative macroeconomics stability, mush reliance is placedon liquidity, growth in the banking system.

Lendingand investment operation of universal banks have been widely and extensivelydiscussed in various literatures. It has also been stated that any one whoexpects to borrow from the universal banks should be most concerned with theloans investment policy and techniques. The concept profit making activity of auniversal bank is making loan available to its customers. It facesuncertainties and therefore risk of many kinds. A bank does not considerearning alone instead it seeks some optimum combination of earning; liquidityand safely.

Forexample to gather higher earnings, a bank has to increase more risk andliquidity and vice versa. However, universal banks are limited in their abilityto assure risks because of the very high ratio of their liability to theirtotal assets.

1.1 BACKGROUND OF THE STUDY

Commercialbanking in Nigeria into the nineteenth century started as a means to facilitatethe slipping business of a British shipping line Elder Dempster agenciesoperating in the Nigeria territory. The chairman of the company, Mr. AlfredJones perceiving the advantages that were acquirable, and its agents in NigeriaMr. George William Neville to establish a bank in Lagos.

Thiswas how the First Bank of Nigeria Plc was opened in Lagos in 1894.

1.2 STATEMENT OF THE PROBLEM

Liquidityand credit management have implication on bank profitability and theauthorities' depositors and shareholders. It could trigger off mass cashwithdrawal thus plunging the bank into deeper crisis. In analyzing the creditand liquidity management of First Bank of Nigeria Plc, I shall examine itsassets quality, which includes its performing and non – performing loans. Inaddition efforts would be made to look into the bank's capital adequacy ratioand its shocks of risk assets different measures of liquidity and solvency.

1.3 RESEARCH HYPOTHESIS

Thefollowing hypothesis is developed and tasked to ensure a more effective andresult oriented research work.

Hi: the liquidity of universal banks could be determinedefficiently from the effectiveness of its credit management.

Ho: the liquidity of a universal bank could not be determinedefficiently from the effectiveness of its credit management.

Hi: lending and investment operations of universal banks dependwidely and extensively on its liquidity.

Ho: Lending and investment operations of universal bank does notdepend widely and extensively on its liquidity.

1.4 THE PURPOSE OF THE STUDY

Abank is considered liquid it has sufficient cash and other liquid assets in itsportfolio together with the ability to raise fund quickly from other sources toenable it meet its payment obligations and financial commitment in a timelymanner, therefore the main purpose is to highlight how liquidity and creditmanagement in this Nigeria Banking Industry is being discovered and the extentto which First Bank of Nigeria Plc is guided in the management of its lendingfunctions.

1.5 SCOPE OR DELIMITATION OF THE STUDY

Universalbanks act as intermediaries by collecting deposits and paying interest on themand granting loan charging the borrowers interest at the higher rate. Improvingthese services to borrowers and the depositors the main goal of the bank is tomake profit. Apart from granting loans bank also generate profit oninvestments. In order to maximize their earnings every bank attempts tostructure its assets and liabilities such a manner as to yield the highestreturns, subject to some constraints.

Abank is considered liquid if it has sufficient cash and other liquid assets inits portfolio, together with the ability to raise fund quickly from othersources to enable. It meets its payment obligation and financial commitments ina timely manner. This study therefore aims to cover the extent to which FirstBank of Nigeria, Plc is guided by the above enumerated theories in t hemanagement of it lending functions and know now it has been able to surviveover years in spite of the global liquidity problems to supplement his effortthe lending practices and procedure of the bank will also be evaluated.

1.6 LIMITATIONS OF THE STUDY

Theresearch was faced with many problems in the course of collecting informationrelating to this project, as many staff is not willing to divulge relatedinformation. The directions at various departments dealing with creditmanagement and liquidity in first bank refuse to disclose detail informationrelating to liquidity and credit management. Access to departmental ledgeraccount was denied through verbal information relating to questions, asked wasgiven another limitation was the inability to cover various branches ofNigerian banks, which are throughout the federation. This was mainly due to thefinancial and logistical difficulties that such exercise of this would entail.

1.**THE SIGNIFICANCE OF THESTUDY**

Liquidity is defined in itsbroadest sense as the ability to meet cash quickly and at a reasonable cost.Credit management is the way universal bank, lend money out to borrowers.However, this study tends to reveal the problems that one involved in theliquidity is essentially that of having sufficient fund to meet at all timesthis demand of money that may be made on a bank. Bank must be maintain adequateliquidity in order to provided for and line in deposit for and otherliabilities, to satisfy unforeseen increased investment in particular desirableearning assets when such opportunities arises the liquidity requirement of anybank out of the bank. It is the responsibility of management to measure theserequirements and to anticipate them on a current and continuous manner.

1.8 DEFINITION OF TERMS

Functionsof universal banks the services offered by universal banks are numerous andthey include;

1.**Mobilization ofsavings: -** universal banks perform a very important function to all sectorsof the economy by providing facilities for the mobilization of savings andmaking the available for investing purpose by the process of granting creditfacilities to other customers. In this may those funds are made available tobusiness to enable them expand their productivity capacity and to individualsand household to facilitate consumptions.

2.**Extension ofcredit facilities:-** According to read (1984). He establish that the primaryfunction of universal banks is the extension of credit to commuting borrowers.In making credit available, universal banks are rendering great social servicethrough their actions production is increased capital investments are expandedand higher standard of living is realized.

Banks make it possible forindustries to produces a larger quantity of goods, which may remain the stockas inventory before eventually being sold or reprocessed into another from. Agood example is the food industry where the quantity produced may be far inexpress of what can be consume immediately.

3.**Transfer offund:-** universal banks serve as medium for transfer funds they facilitatespayment by enabling business, government and consumers to transact withoutcash, cheques and credit cards which are used for bulk purchases as measured bynaira amount of transaction cheques drawn and deposited at the bank merelyindicated transfer of fund from one account to the other.

4.**Creating money:-**universal banks create money used to expand productive facilities otherwisethere would be a short down of economic activity generally as business would beforced to wait until sufficient profits are made before they could expand.However, the money create activity of universal banks is kept under the controlby the monetary to ensure that it is not excessive.

5.**Internationaltrade services**:- all universal banks are involved in the financial aspectof international trade and servicesrequired supporting this important part of the country’s economy, such includebill for collection, documentary credit and open account which are investmentused in import and export trade.

Liquidity and credit management in Nigerian Banks