THE IMPACT OF LIQUIDITY ON THE PERFORMANCE OF COMMERCIAL BANK IN NIGERIA PLC

A CASE STUDY OF FIRST BANK OF NIGERIA)

BY

ABANG-ANOH CHARITY.A.

EC/2008/617

DEPARTMENT OF ECONOMICS

FACULTY OF MANAGEMENT AND SOCIAL SCIENCES

CARITAS UNIVERSITY,AMORJI NIKE,EMENE,ENUGU STATE

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APPROVAL PAGE

This research report written by ABANG-ANOH CHARITY ACHU is hereby certified as meeting the partial requirement for the award of the Bachelors of Science (B.S.C.) in ECONOMICS, CARITAS UNIVERSITY AMORJI-NIKE ENUGU.

....	....
MR UCHE E.O. PROJECT SUPERVISOR	DATE
....	....
ESq P.C. ONWUNDINJO HEAD OF DEPARTMENT	DATE
....	....
Dr C.C. UMEH DEAN OF FACULTY	DATE
....	....
EXTERNAL EXAMINER	DATE

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DEDICATION

This work is dedicated to God Almighty for his wonderful work he did and also the extravagant grace to my family for their joint support that the Lord will grant them all their heart desires.

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ABSTRACT

This study examined the impact of liquidity performance in commercial using First Bank of Nigeria Plc as case study. Secondary data used in this study were carried from text books, journals, magazines and newspaper. Our findings indicate that there was a positive relationship between liquidity management and the existence of any banks. Based on this findings we recommend that should be prudent in extending credit facilities to their client/customers to avoid problem of load loss management and competence in banking system should be enhanced to increase asset quality.

CHAPTER ONE

INTRODUCTION

BACKGROUND OF THE STUDY

The impact of liquidity position in management of financial institution and other economic unit have remained fascinating and intriguing, though very elusive in the process of in investment analysis visa- visa bank port folio management.

There appears to be an interminable argument in the literature over the years on the roles, meaning and determinants of liquidity and credit management. The Nigeria financial environment has noticed increase in credit which has become a problem to the country.

Credit control described as to maximize the value of the firm by achieving a trade a trade off purpose of credit control is not to maximize sales or to minimize the risk of bad debt.

In fact the firm should manage it credit in such a way that sales are expanded to an extent to which risk remains within an acceptable unit. These costs include the credit administration expenses bad debt, losses and opportunity cost of the fund field up in receivables, the aim of liquidity management should be to regulate and control these cost that cannot be eliminated together.

According to Begg, fisher and Rudiger (1991:130) liquidity refers to the speed and certainty with which an asset can be converted back into money (cash, income) whenever the

Asset holder desires, money itself is the most liquidity asset o all liquidity management seeks to ensure attainment of the short term objective.

A liquid bank is one that stores enough liquid assets and cash together with the ability to raise funds quickly from other source to enable it meet its payment obligation and financial commitment in a timely manner.

Therefore according to Ngwu (2006:36) liquidity management is the act of storing enough funds and raising funds quickly from the market to satisfy depositor loan customer and other parties with a view to maintain public confidence.

STATEMENT OF THE PROBLEM

Liquidity is considered as the success of as bank, therefore ay ineffectiveness in its management consuetude's a huge problem i.e. it encounter a huge problem that affect the affairs of the financial institution. This problems is therefore analyses here as the basis for this research study.

The analysis commence from the era of banking in inception in Nigeria through it growth stages and till what is it today. The initial bank failures recorded were principal dues to inefficiencies in the management of the liquidity of such bank which in one way or the other had something to do with either liquidity inadequacy and the relative inefficiency in their management.

As an institutional problem, it has persisted over the years, in determining the survival or otherwise of banks. Although it must be said that some relative degree of banking it is believed that any banking institutions that is properly managed and has adequate liquidity should be able to swim above troubled waters.

Problems sometimes also evolve from banks inordinate urge to make phenomenal profit. In the process of doing this there is the tendency for these banks to get carless in the resources utilization and particularly their management of liquidity.

The resultant effect is usually loss substance and consequently, loss accumulation, a situation which can lead to banking failure. The marginal loans in the banking system calls to mind the important factor that national government of all` time preoccupy themselves with banks. This shows the degree of importance attached to liquidity and its management by these governments and deviation from its ratio or inadequacy of it management always spells trouble for the banking concerned.

The far reacting consequences of inadequate liquidity management can also be examined. Apart from profit declines. Other of attendant consequences to a bank includes loss of confidence in the particular bank its inability to fulfill both its short term and long-term obligation, lack of trust on the part o depositors and other customers alike; and the concomitant reduction in level of operations.

A recent example of the eminent distress facing Nigeria bank which is as a result of improper liquidity position management as well as loan loss-accumulation (marginal loans)

OBJECTIVES OF THE STUDY

Considering the nature of banking itself which is a risk taking venture, i.e borrowing short and lending long one sees the indispensability of liquidity for a banks effective and profitable operation liquidity is needed to finance the gap created by mismatching funds. Again liquidity adequacy is a sure way of minimizing the risk portfolio of any bank. The need to put some family into the management of banks liquidity has always been considered a serious issue by the authorities and this has often influenced periodic prudential regulation. As a check on banks against holding excessive cash, Central Bank presently stipulated liquidity ratio of 24.69%, is considered by the Apex bank as being the reasonable maximum any an expression of the bank liquidity assets which comprise cash marketable securities and investments over the bank banks total liabilities (Ngwu 2006:56)

The objectives of the study include

(a). To examine in details the liquidity position of banks in Nigeria using first bank Nigeria as a case study.

(b). To identify causes of illiquidity or factors that influence liquidity management.

(c). To examine how these banks are able to adjust their liquidity and control management in Nigeria financial environment.

(d). To analyses the consequences of inadequate of liquidity control management.

(e). To make some suggestion on policy guideline to the monitory authorities who can after banks current liquidity and credit management practices.

RESEARCH QUESTIONS

The essence that the respective bank should manage their balance sheet inn such a way as to operate within that maximum range and still remain liquid.

The basic questions this research attempt to answer includes:

(a). what is the impact of liquidity position in management?

(b). what is the relationship between liquidity and profitability?

(c). what are the criteria for determining adequate liquidity for a bank?

(d). how does liquidity influences a bank investment policy?

(e). what are the predicament of inadequate liquidity control management.

SIGNIFICANCE OF THE STUDY

The study justification arises given the unsavory experience of the deregulated banking era in Nigeria and the present global economic meltdown. Apart from this liquidity has always been a source of concern with some Nigeria banks. The importance of liquidity has even acquired a new dimension in the advanced countries of the world in recent years. This is basically because of responses to structural changes and funds management techniques in these countries. The development of new technical innovations that do not necessarily fit into the world of the age long liquidity tests.

The key role played in any banking set-up further epitomizes it importance. Right from time liquidity has been associated with allocation of assets. According to their capacity to generate the cash necessary to satisfy creditors and depositor calls on the bank liabilities.

However, with the emergence of active liability management strategies liquidity has been more than a function, particularly in some instance of the of the banks capacity to acquire additional funds in the market place.

Limitation of the study

Time constraints were one of the limitations encountered in the case of the study.

This is because, this study was carried out during an academic session, the researcher did not have enough time to properly concentrating on this particular study.

Secondly, finance was yet another problem that put a check on the extent of investigation.

Finally there was the problem of inadequate information and unavailable material or information for the study.

SCOPE OF THE STUDY

Due to time and resources constraints the study at hand has been limited to First Bank of Nigeria Plc.

DEFINITION OF TERMS

The following definition terms are given to facilitate better understanding.

LIQUIDITY MANAGEMENT

This is the act of storing enough funds and razing funds quickly from the market to satisfy depositors, Loan customers and other parties with a view to maintain public confidence.

BANK

A bank is a financial house established for the purpose of accepting deposits and lending out funds in addition to other services.

Central bank of Nigeria

This is the national apex and financial institution that regulates the banking system value supply and cost of finds in the economy.

FINANCIAL SYSTEM

The aggregation of financial market arrangement institutions agent that inter-act with each other and other economic unit together with the se of rules and regulation that guide their interactions.

NIGERIAN DEPOSIT INSURANCE CORPORATION (NDIC)

This is the body which ensures that customer funds are insured in the commercial banks at liquidation they make sure the customer are paid bank their deposits.

PROFITABILITY RATIO

This a class of financial metrics that are used to asses a business ability to generate earning and compared to it expenses and other referent costs incurred during a specific period of time, for most of these ratios, having a higher value relative to a competitors ratio or the same ratio from a previous period is indicative that company is doing well.

LIQUIDITY ASSTS THEORY

This theory argues that banks should hold large sum of liquid assets to avert sudden payment request that might be received.

CALL MONEY

They are banks excess reserves on daily or short-term basis with the correspondent banks.

SHORT-TERM GOVERNMENT SECURITIES

These are gifted securities with short-term maturity which are being bought and sold in active market.

MARGINAL LOANS

This is a loan made by a brokerage house to a client that allows the customer to buy stocks on credit

LIQUIDITY RATIO

This is a class of financial metrics that is used to determined a company ability to pay off its short term debts obligation. Generally the higher the value of the ratio, the larger the margin of safety that the company posses to over short-term debts.

LIQUIDITY PORTFOLIO

Liquidity is the ability for the bank to have sufficient capital in it account or cash deposited by individuals and portfolio is any collection of financial assets such as stock bonds and cash it may be held by individual investor and or managed by financial professionals hedge financial institution, or a portfolio is a brief case for caring lose papers.

CHAPTER TWO

LITERATURE REVIEW

INTRODUCTION

Practically almost everything which has been written in the vast macro-economic literature has some direct or remote connection with liquidity, this reflect its importance as a factor investment decision and the concomitant effect on economic growth. A review of relevant literature is ranged on the examination of related factors such as the historical background of the subject matter as incorporated into the wider scope of banking, the conceptual framework review of variable, current model and theories.

The historical background touch on the establishment in the first set of banks. And existence coupled in the role of liquidity management in sustaining the banks. Consequently the relationship between different parameters influencing the role liquidity management is also examined under the conceptual framework.

Finally, a review of related valuable affecting the subject matters is looked into with eventual determination of which ones are more relevant.

SELECTED THEORY ON LIQUIDITY MANAGEMENT

Over the year's theories in ensuring the availability of sufficient liquidity at any point in time have been developed.

LIQUID ASSET THEORY

This focuses on the asset side of the balance sheet and argues that banks must hold large amount of liquid assets against possible demand or payment cushion of readily marketable short term liquid assets against unforeseen circumstances. This approach is however very expensive in a current world of dynamic money market (Ngwu, 2006:58)

SHIFTABILITY THEORY

This is based on the proposition that bank liquidity is maintained if it hold assets that could be shifted or sold to other lenders or investors for cash. If loans are not required the collateral from security loan i.e marketable securities or example could be sold for cash. If finds are needed, loan could be shifted to the Central Bank, when bank deposited securities with the Central Bank in order to meet the demand for funds, loan are said to be shifted to the Central banks. Thus, the individual banks should be able to meet it's liquidity needs provided because it always has assets to sell. (Ngwu 2006:56)

ANTICIPATED INCOME THEORY.

The anticipated income theory of liquidity of commercial bank holds the view that banks liquidity can be estimated, And met if scheduled payments are based on the income of the borrowers. This theory does not deny the applicability of self liquidating and suitability theories.

It emphasized on relating loan repayment o income rather than relying heavily on collaterals.

It also holds that, banks liquidity can be influenced by the maturity pattern of the loans and investment portfolios, short-term business and customer installment loans which would have more liquidity than those secured by real estate.

(Ngwu 2006:57)

LIABILITY MANAGEMENT THEORY

Advocate of liability management theory of liquidity of commercial bank maintain that banks can meet liquidity requirement by biding the marked for additional funds. This approach originally found its strongest advocates in the large money market centers, the banks, and later develops the negotiable type of certificate of deposit (CD) as a major money market instrument.

COMMERCIAL LOAN THEORY.

The commercial loan theory was the outgrowth of English banking practices during the 10th century. The proponent of these theory contended that the commercial bank liquidity would be assured as long as the assets were held in short term loan that would be liquidated in the normal course of business.

In other words, commercial banks should finance the movement of goods through the successive process to consumption. Such financing of the movement would be termed inventory or working capital loans.(Ngwu 2006:54)

LIQUIDITY POSITION OF FIRST BANK IN 2008)

ASSET CASH AT BANK	2004 NM	2005N M	2006N M	2007N M	2008NM
SHORT TERM FUND DUE	15501	10724	30220	22509	49444
FROM OTHER BANKS AND	117299	116547	64143	80369	94029
FINANCIAL INSTITUTIONS					
BILL DISCOUNTED	54178	94226	100135	92922	108316
INVESTMENT	780	7343	24655	16825	63729
LOANS AND ADVANCED FINANCE	-	56040	114673	78040	175667
OTHER ASSETS	-	17428	937	-	1701

EQUIPMENT ON EASE	8664			11596	-
FIXED ASSETS	190	644	30625	665	31317
TOTAL ASSETS	196612	311958	250715	302926	524193
LIABILITIES DEPOSI TO OTHER BANKS	1826	8620	9565	12108	139552
TAX PAYABLE	266356	320578	312490	377496	538145
DEFERRED TAXATION	168064	191088	206643	264988	390840
DIVIDEND	111	2867	539	390	323
OTHER LIABILITIES	11761	33123	4022	3954	4148
	694	1165	1533	2010	479149
	2642	3811	5429	6325	2751
	74922	93484	55704	55157	5238
	248609	295538	272869	332824	75845
TOTAL LIABILITIES	771400	920284	329572	1055252	1510597
SHAREHOLDER FUND	17717	25040	28621	44672	58996

	266356	320578	312490	377396	538145
GROSS. EARNING	41717	45055	45121	29475	61246
PROFIT ON ORDINARY ACTIVITIES	5087	13393	14106	15145	16128
DEPOSIT BEFORE TAXATION	-	-	-	-	-
EXCEPTIONAL ITEMS	-	-	-	-	3703
PROFIT ON ORDINARY ACTIVITIES AFTER TAX					16053
PROFIT AFTER TAX	3979	10323	11096	12184	16053
DIVIDEND	2642	3811	5429	6325	5239
RETURN ON SHARE HOLDER FUND	22%	415	28%	27%	275
EARNING ON SHARE HOLDER ACTUAL 196K	196K	406K	381K	308K	306K

Divided cover times	1.51k	2.91k	2.04k	1.93k	3.06k

2008

Current rate = Current Assets = 52.4193 = 0.35

Current Liabilities 1510397

2007

CA = 302926 = 0.29

CL 1055252

2006

CA = 250715 = 0.76

CL 32972

2005

CA = 311958 = 0.34

CL 9202804

2004

$\frac{CA}{CL} = \frac{196612}{771400} = 0.25$

NOTE:

earning per share is based on profit attributable to 5538145 here holders and 532,669, 388 ordinary share of 50k each

SOURCES:

First Bank of Nigeria Plc Annual report and accounts 2008.

IMPACT OF LIQUIDITY MANAGEMENT ON COMMERCIAL BANKS

It is relatively very easy to inject liquidity into the system especially through deficit financing. It is however, difficult and costly to withdraw it. Cash reserve and liquidity ratio requirements are generally regarded as instruments of financial regression, to the extent that they represent unilateral action by the central bank.

Consequently, their usefulness as instruments for liquidity management imposes financial burden on the banks even when they are effective. However, the effectiveness of the instrument which the Central Banks of Nigeria currently employs to manage the level of liquidity in the banking system is also influenced by their monitory and measurement. For example, it is necessary for the instrument to be measured and monitored with the reserve maintenance period.

This will ensure that the targeted monetary aggregate is closely linked to the based money. But do to the absence of a wide area net work of he banking industry and the later rendition of returns by banks, CBN measurement and maintenance period are few and far between, consequently, instruments are not buildings as intended despite their present high levels.

The open market operations involve buying and selling of securities by Central Bank, the central bank's transaction in security charge the volume of reserves in the banking system a purchase adds to the non-borrowed reserves, and a sale reduces them.

This characteristics exchange in the reserve of the system with a purchase or sales of securities by the Central bank makes open market operation the most powerful, flexible and precise tool of monetary policy.

(George et al, 2004)

THE ROLE OF NIGERIA DEPOSIT INSURANCE CORPERATION IN BANK LIQUIDITY MANAGEMENT.

The Nigeria deposit insurance corporation (NDIC) as another regulatory body of licensed banks has a coordinal responsibility to ensure safe and sound banking practice in Nigeria.

Liquidity problem provides a signal of banks potentials in solvency if the liquidity problem is not adequately managed.

A PREVENTIVE MEASURE:

In order to prevent a liquidity problem in banking system fro a while, the NDIC periodically evaluates the funds management strategies to each insured bank. The process of evaluation involves a through appraisal of the banks quality of management capital nature of assets, and liabilities, especially the quality of loans and advances, the loans and advances are usually classified into sub-standard doubtful and lost. The NDIC examination ensures that, adequate provision NHAS BEEN made for these categories of loans and advances in addition the NDIC analyses the monthly statement of bank asset and liabilities to ensure bank liquidity and also to regulate the onsite and the offsite examinations.

(a). To assess the management of the bank assets and liabilities.

(b). To asses if the bank has adequate plans for liquidity needs and the bank's ability to meet anticipated liquidity demands.

(c). to asses weather the parameter for the banks rate sensitivity position is reasonable and if the bank is operating within the prescribed par ammeters.

(d). To recommend and ensure that ensure that corrective actions are initiated where und management policies the analysis of the bank returns and on the spot assessment, the adequacy of a bank liquidity position is determined.

This determination of a bank liquidity position is usually based on the examiners analysis of the following.

(a). compliance with CBN guiltiness liability mix and trends.

(b). grant loans to the insured bank, given guarantee for loan taken by the insure bank.

(c). acceptance and accommodating bill with interest for a period not exceeding 90 days, maturity exclusive of days of grace and subject to renewals of not more than four times.

(d). subject to the approval of the minister of finance and on the recommendation of the CBN to take over the management of the bank until it financial position has substantially improved or indirect specific of the bank within such time as the cooperation may specify.

The cash reserve ratio (CRR)

This is the minimum level o cash deposition liability which a bank is expected to maintain at the CBN the ratio can be computed as follows

$$\text{Cash reserve} = \frac{\text{Cash balance of the bank}}{\text{Demand deposit}}$$

The cash balances are made up of vault cash allowance with CBN. Thus from 1999 the following cash reserve balances were to be maintain by commercial banks depending on banks deposit liabilities.

BANK CASH RESERVE BALANCE

Bank class	Total deposit liabilities	Demand deposit
A	N 1 billion or more	0.0
B	N 5000 million or more but less than N 1billion	8.0
C	N 100 Million Or More But Lass Than N500 Million	7.0
D	Less than N100 Million	6.0

SOURCE:

Bank return on the above shows that the cash reserve ratio for 1999 varies from 6-9% of banks demand deposit. It must be noted that these required reserve are first and for most intended to ensure bank liquidity and secondly, it is useful as a monetary policy pool of CBN. The monetary authority raised the ratio and when it desires to curtail bank money creating ability and reduces the ratio when desires to expand credit.

THE LIQUIDITY RATIO (LR): This is a ratio of a bank total liquid asset total deposit liabilities measured as follows;

$$\text{Liquidity Ratio:} \quad \frac{\text{Total liquid assets}}{\text{Total deposit liabilities}}$$

Sources: Bank Management (test and cases by George et al, (2004)

PROBLEM OF MAINTAINING ADEQUATE LIQUIDITY

There are various problems facing the maintenance of adequate liquidity they include:

1. Reserve Ratio: The liquidity issue centers first on the supply of the reserve assets. This is common money for members of the system. The

supply of this money must be value, a medium of exchange and as store of wealth in a growing world economy.

There are three types of reserve assets and they include.

a. Pure commodity standard, precious metal (eg gold)
b. Commodity backed paper standard currency issued by governments that commit to buy it back for a commodity of a fixed price.
c. Flat paper standard: Currency not backed by anything, the supply of the assets must increases in line with demand for it set by world output trade and investments.

THE LENDER OF LAST RESORT

The second concern about liquidity center on the availability of emergency or shorten lending during financial crises. Borrowers are at risk of financial failure must have a place to turn for loans in order to prevent spreading default through the financial system.

The trick here is to avoid the problem of moral hazard. If a bailout is guaranteed borrower have incentive to run higher risk.

IMPLICATION OF BANK CAPITALIZATION ON THE LIQUIDITY OF BANK.

Bank capital consists of the following paid up capital resources, Stationary reserve the strength of any bank depends on the nature of liquidity resources capital available to each bank.

Capital is the difference between bank assets and bank liabilities; the purpose of bank capital is three fold.

Firstly, bank capital act as a cushion against public deposit with the bank which constitute a liability to the bank.

Secondly bank capital enabled the CBN to assess the strength threat and opportunity facing the bank.

Thirdly bank capital provides additional basic finds for operation and acquisition of certain assets, for better performances.

Bank capital adequacy represents the amount of capital resources needed by a bank for it operation consistent with its level of assets risk assumption.

The re-capitalization of the banking industry has continued to change. The change however, as positive as banks are now expected to play a role in the development of our economy and also the main vehicle for the rapid economic growth (Ngwu 2006)

THE LIQUIDITY POSITION OF FIRST BANK NIGERIA PLC

Those in charge of managing bank's liquidity position are not conscious of following any one liquidity theory. From a practical point of view all theories are employed to some extent with some banks emphasizing one theory and other. But it is possible to distinguish between two district policies followed by first bank in the management of their reserve position according to research. At one extreme is the policy to use supervision of reserve to ensure that no non-earning assets if virtually no funds are held in excess of the requirement. At the other hand is the policy of maintenance of reserve requirements. When deposits are not of their peak.

The majority of the bank probably falls within these two extreme. All banks find it profitable to closing mange their liquidity positions, as are aware of the contribution cash or liquidity management can make to overall profitability. Liquidity is mangled to ensure that bank maintains the required level of reserve at the Central Bank and sufficient liquidity for expected and contingent needs, the other adding goal of liquidity management is to ensure that cash needs can always be met at reasonable cost.

LIQUIDITY RISK AND RETURN

Risk has generally been seen as a situation where actual outcome does not match expected out come with the result that a loss is sustained. It is common to associate risk with uncertainly in liquidity management in the Nigeria banking industry describing risk as a situated where the probabilities of pout comes associated with the situation or less can be ascertain objectively. In banking and finance the two terms tends to used interchangeably. In some situations subjective probabilities can be attached to outcome. The riskily situation common in banking relate to credit interest, inflation and liquidity and we shall examine these briefly.

Credit risk in banking

Which is the risk that those we owe us many default in payment, thereby making it difficult for the bank to meet the banking obligations to others it is sometimes called functional risk? It is in recognition of the prevalence and magnitude of these looses for bad and doubtful debts.

In fact Bofid No 25 of 1999 stipulates that no licensed bank shall pay dividend in it share until there is adequate provision for bad and doubtful debt which has been made to the satisfaction of the Central bank of Nigeria.

In compliance with this stipulation CBN examiners are required to classify bank loan. A provision of 100% B recommended for lost loan assets and 50% provision for doubtful ones. 10% provision for sub-standard and 1% for good loan (Osubor 2008:64)

INTEREST RATE RISK

This risk refers to the change in value of a financial assets or liability rate. Changes in interest rates may create losses for banks.

If interest rate increases, the market value of fixed income securities a bond will decrease, interest rate risk are common during periods of light money of the type current experienced by Nigerian bankers until the current liquidity squeegee interest and risk was never a serious risk for Nigeria bankers. (Ibid p67).

PURCHASING POWER RISK (IN FAILURE RISK)

This is the risk that naira may face depreciating value and loss purchasing power. This risk one of the greatest risk that is facing the national now due to rapid changes in the price level. Sources
(Ibid).

LIQUIDITY RISK.

According to Babble (1995) liquidity risk is a cost to many economies. This is the risk there will be a sudden call upon the resources of the bank that will strain its finance capacity liquidity risk also arises when a bank is unable to meet. Maturing commitments and obligations is unable to undertake a new transaction as desired (Ibid)

LIQUIDITY VERSUS PROFITABILITY.

Fiancé theory argues that there is a positive linkage relationship between risk and return. This is saying that the higher the profit in context of liquidity, the liquidity position of a bank the less risk is the bank, little return. In other words, high bank liquidity implies little risk which translated into how profitability.

CHALLENGES FACING FIRST BANK OF NIGERIA PLC IN LIQUIDITY MANAGEMENT

The challenges that First Bank face in other to achieve a maximum liquidity position and the reasonable demand by the depositions and others such as borrowers to this extent, the bank to this extent, the bank must be liquidity. The other challenges are;

(a). **THE STERILITY OF CASH:** cash is sterile that is it yield no income but it is the risk is less.

(b). **THE ILLIQUIDITY OF EARNING ASSETS**: such as loans, is income yielding but they are illiquidity since they cannot instantaneously be converted into cash without loss of time and value and hence are riskily.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

INTRODUCTION

This chapter deals in broad terms the research work, how it is carried out, that is the research design, sources of data method of data collection, method of data and analysis, population and sample size. All this shall be treated in this subsequent paragraph.

RESEARCH DESIGN

The design of the study was a simple survey, which sought the opinion of the workers/staffs of First Bank.

SOURCES/METHOD OF DATA COLLECTION

The data of First Bank was collected from the financial publication of the (mainly from the financial statement).The industry data, which is commercial banks, were gathered from Central Bank of Nigeria(CBN)statistical bulletin and the banks major economic, financial and banking indicators.

Therefore, we sampled the following data for the banks

(a)Liquidity ratio

(b)Investment

(c)Assets

(d)Gross earning

POPULATION AND SAMPLE SIZE

The population is the aggregate of all case confirm to some designated set of specification i.e. staff of the bank. The population of the study in this research is the entire commercial banks in Nigeria are banking industry. The sample size for the study is on First Bank PLC, due to constraint in which the total of 50 questionnaires was distributed to clerical, senior and management staffs of the bank.

SAMPLE SIZE

The sample size for this study is thirty (50)on First Bank of Nigeria Enugu due to some constraints in which the total of (50) questionnaire was distributed among this categories and this include the staffs, senior and management staffs

QUESTIONNAIRE DESIGN

A questionnaire design is a method of obtaining specific data and information about a defined problem, so that the data and information about a defined problem, so that the data collected after the analysis can be interpreted and also be presented in a way that when a researcher glances through it, it could help him understand or be in an appropriate manner to solve the defined problem.

The questionnaire is carefully planned and executed, the objectives of the study were fully borne in mind while compiling or formulating the questionnaire. At a point, a single questionnaire question was designed for the bank's respondent under the study only. In designing of the questionnaire due consideration was given to the kind of information being soughted from the respondents and steps were taken to reflect it in the most appropriate way that are needed. Open-ended and close-ended question problem responses were employed.

SAMPLE TECHNIQUE

This is the method used in getting the solution to the defined problem. For the purpose of the study, a simple random sampling and a stratified sapling was used, where the simple random sampling signifies the distribution of questionnaires to members of staffs in the bank not specific about the rank i.e. those you think can give accurate solution to the defined problem and not cleaners or the security that have no idea about what you are asking about. And the stratified is the distribution of the questions to specific members of staffs in the bank i.e. clerical, senior and management staffs. It is also a probability sampling technique where the researcher divides the entire population into different subgroups or strata, and then randomly selects the final subject proportionally from the different staffs. This sample technique was used to make sure that all the employees of the selected company or bank has the equal chance of being selected.

VALIDITY AND RELIABILITY OF MEASUTRING INSTRUMENT

Validity and reliability of measuring instrument focus on the adequacy, scope and truthfulness of research validity. This ensures that, the questionnaire distributed was free from errors and, the questionnaire were structured in a simple and correct sentence and administered to the respondents.

Reliability deals with how an accurate research instrument is measured on the defined matter and the number of time taken in getting answers from the respondent, such measurement is taken for reliability. This however, encouraged most of them to be objective as required so as to obtain generalization. Some questionnaires were dumped by the respondent due to being choked with official duties.

TECHNIQUES OF DATA ANALYSIS

The data collected were presented in a tabular form after summarizing and classifying the. The data was also analyzed in a simple percent method to compare responses. The higher the percentage means, the level of acceptance of the respondent.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

INTRODUCTION

The research employed the use of frequency table for presenting and analyzing data from questionnaire responses.

PRESENTATION OF DATA

QUESTION 1

Does liquidity have any influence on the performance of commercial banks?

Option	Frequency	Percentage
Yes	40	80
No	10	20
Total	50	100

QUESTION 2

Does the new policy posture of monetary authorities help to ameliorate the liquidity problem?

Option	Frequency	Percentage
Yes	45	85
No	5	15
Total	50	100

QUESTION 3

Do you think that liquidity can actually affect the profitability of a bank?

Option	Frequency	Percentage
Yes	30	69
No	20	31
Total	50	100

QUESTION 4

Do you think liquidity affect investor confidence?

Option	Frequency	Percentage
Yes	30	40
No	20	60
Total	50	100

QUESTION 5

Does liquidity necessarily affect the investment portfolio performance?

Option	Frequency	Percentage
Yes	49	90
No	1	10
Total	50	100

QUESTION 6

Do you think bank liquidity affect/lead to bank crisis?

Option	Frequency	Percentage
Yes	10	10
No	40	90
Total	50	100

QUESTION 7

Do you think bank liquidity affect sectional lending? (Agriculture, manufacturing etc)

Option	Frequency	Percentage
Yes	10	50
No	40	30
Total	50	100

QUESTION 8

Does bank's liquidity affect inflation rate in the economy through commercial bank lending process?

Option	Frequency	Percentage
Yes	30	90
No	20	10

Total	50	100

QUESTION 9

Do you think bank liquidity would affect money supply?

Option	Frequency	Percentage
Yes	30	90
No	20	10
Total	50	100

QUESTION 10

Is liquidity of bank affected by the global financial crisis?

Option	Frequency	Percentage
Yes	47	89%
No	3	11
Total	50	100

QUESTION 11

Is the effectiveness of liquidity management relevant to the survival and growth of commercial banks.

Option	Frequency	Percentage
Yes	39	90

No	11	10
Total	50	100

QUESTION 12

Do you agree that liquidity problem is a phase that would soon be over when then banks recapitalizes

Option	Frequency	Percentage
Yes	35	80
No	15	20
Total	50	100

QUESTION 13

Is bank liquidity a function of expansion any or right monetary policy of central bank of Nigeria?

Option	Frequency	Percentage
Yes	40	60
No	10	30
Total	60	90

QUESTION 14

Do you agree that liquidity problem should have hoisted approach in solving the problem?

Option	Frequency	Percentage
Yes	20	20
No	30	80
Total	50	100

QUESTION 15

Does adequate liquidity help commercial bank meet up with customer withdrawal or demand for loan?

Option	Frequency	Percentage
Yes	50	90
No	-	10
Total	50	100

QUESTION 16

Does adequate liquidity assists commercial bank maintain stability in it operation

Option	Frequency	Percentage
Yes	40	100
No	10	0
Total	50	100

QUESTION 17

Is the any significant relationship between the bank level of deposit and liquidity?

Option	Frequency	Percentage
Yes	30	70
No	20	30
Total	50	100

QUESTION 18

Does the level of loan advances granted to customers which depends on liquidity significantly affect profitability level?

Option	Frequency	Percentage
Yes	40	70

No	10	10
Total	50	80

QUESTION 19

Does commercial bank (FBN) in Nigeria keep a minimum liquidity ratio as required by CBN at all times?

Option	Frequency	Percentage
Yes	30	50
No	20	10
Total	50	60

QUESTION 20

Do you think that the current banking reforms of (CBN) will improve the liquidity position of banks?

Option	Frequency	Percentage
Yes	40	80
No	10	20
Indifferent	-	-
Total	50	100

DATA ANALYSIS

Data from respondent as presented above was grouped into forms that would enable us make inference and deductions.

INTERPRETATION OF RESULT.

1. In the table 1: indicates that a large number of respondents agreed with that fact liquidity influence the performance of commercial banks.
2. Responses to question (two) 2: indicates that 85% of e the respondents agree that the new policy posture of sp authority help to ameliorate the liquidity problem while 15% disagreed.
3. responses to question: three (3) indicate a very good number of respondents agrees that liquidity can actually affect the profitability of a bank while few disagreed
4. Responses to question (4) indicate that majority of respondent disagreed to the fact that bank's liquidity affect investor inference because majority of the investor operate without loans from the bank so it doesn't affect their inference.
5. Responses to question (5) indicates that it can be ascertained that a very large number of respondents were of the view that liquidity necessary affect the investment portfolio performance.

6. Responses to question (6) indicate that majority of respondent indicated or agreed that bank liquidity doesn't cause bank crisis because the bank needs to be liquid in other implement daily activities.
7. Responses to question (7) indicates that bank liquidity affect the sect oral lending because those that own large farms and in other for faster implementation they get loans from the bank (started Obansanjo's regime) and if the bank is not liquid it can grant loan hence the table shows that majority of respondent agree that bank liquidity can affect the sect oral lending.
8. Responses to question (8) indicates that bank liquidity cause inflation because if the bank has excess money they tend to grant big loan and that lead to excess money in the circulation which monetary policy is used to regulate the rate of inflation hence table (8) shows that the respondent to bank liquidity causing inflation is high showing that banking liquidity can cause inflation.
9. Responses to question (9) indicate that bank liquidity affect money supply because when the bank has enough money the tend to grant loan to business will be move therefore it is agreed that the bank liquidity affect money supply in the economy and this too can cause inflation.
10. Responses to question (10) indicate that majority of respondent agree to the fact that global financial crisis affect bank liquidity.

11. Responses to question (11) above indicate that a good number of respondent were in concurrent with the fact that the effective of liquidity management is relevant to the survival and growth of commercial bank.

12. Responses to question (12) indicate that 80% of the respondents agreed that recapitalization of banks can solve liquidity problem while 20% disagreed.

13. Responses to question (13) indicate that the total of 60 indicate concluded that liquidity is a function of expansionary to the bank that is 50 gave a positive result showing that it is a function of expansionary function of bank and 10 gave a negative answers showing that it doesn't affect the bank liquidity.

14. Responses to question (14) indicate that few respondent agreed that liquidity problem should have holistic approach in solving the problem while a good number of respondents disagreed.

15. Responses to question (15) indicate that the population that stood to the fact that liquidity help commercial bank meet up with customers withdrawal or demand for loan are more than does that said no to be question and this means that a banks liquidity can help the commercial bank meet up with the customers' demands.

16. Responses to question (16) indicate that due to the number of responses from the respondent it shows that liquidity is important in commercial bank maintenance.

17. Responses to question (17) shows that “yes” there is a good relationship between the bank’s deposit and liquidity because they both involve money.

18. Responses to question (18) it shows that the loans and advances granted to customers which depends on liquidity significantly affects profitability level because when more loans are given to customers and collateral are not gotten back when the customer is suppose to give if the bank stand the change to lose because it gives out without getting back and the level of profitability will fall.

19. Responses to question (19) indicate that the level of which first Bank operate on this condition is not up to a full percentage which means it is checking which means the don’t do that at all times.

20. Responses to question (20) above we observe that over 80% of the respondents agreed that the current banking reforms of the CBN will improve the liquidity position of banks, while 20% disagreed and none of the respondent agrees with the option of indifferent.

In conclusion it indicate that liquidity performance can be influenced if the bank don't create a means of avoiding loss i.e. by granting excess loans to customers and that customer not returning it at the appropriate time, this eventually makes the bank to start losing it liquidity position and thereby affecting the operational aspect of the bank.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

INTRODUCTION

The need for liquidity management arises from the inevitable mismatch which emanate from the risk inherent in bank borrowing short and lending long. In a simple term; adequate liquidity management is to meet every financial commitment.

To achieve adequate liquidity was at one time a matter or selling short term assets but many big banks, prominence is given to managing the maturity structure and finding needs.

It is apparent that adequate liquidity and it proper management is a sine-quenon for bank profitability.

SUMMARY OF FINDINGS

Adequate liquidity enable banks to mandate it risk and thereby helping to sustain public confidence in the operation of the banking institution which in turn leads to more patronage consequently, more profit

Also, there is the objective of analyzing the problem associated with liquidity management to determine respective ways of solving such problems thereby enhancing a profit making of a bank.

A literature review was carried out in the below chapter of the study to examine related factors to study such as historical background, conceptual frameworks, review of variables etc.

The review of current models and theories was meant to describe management as it is, and also to generate predication of forecast out possible direction or trend of economic problem including liquidity management.

The next chapter which was devoted to the methodology used for the researcher was discussed including; collection processing and analyzing of data were used to support hypothesis postulated the analysis of findings, which is contained in the fourth chapter. The asset and liquidity structures of some commercial banks were examined and the various observations were enumerated in this chapter.

First bank was considered in the observation liquidity profile of this bank in relation to their asset portfolios were also highlighted since the form an integral part of the analysis of the study.

CONCLUSION

For effective liquidity management for the attainment of maximum profitability, It is therefore important that commercial banks should obtain utilization of all reserves holding the minimum of such resources in non-earning assets, considering the liquidity and reserves need in a competition and uncertainty environment. By so doing, the would not only be keeping their liquidity position in check but also increasing their potentialities.

Conclusively, the study has been able to establish the role of liquidity management in the attainment of maximum profitability is indispensable of any bank that does not place premium on this role will have witnessed earlier on the study.

RECOMMENDATION

The liquidity of a bank is therefore a function of the amount of funds the bank can raise in a certain time and at specific cost. In the same vein, the sooner a bank can raise a given amount of funds in a certain period of time the more liquid it is.

For effective and dynamic liquidity management the following recommendations are required for implementation.

(1) A bank must make sure to meet up with the permissible range.

(2) In managing liquidity, banks also has to take into consideration local and national factors such as the type, sources and stability of deposit which are primary factors for the local level. The social political and economic level of development should be considered.

(3) Moreover, banks should consider the structure of it liabilities and the structure of structure of economic influences, the extent of diversification of the economy influences, the extent of diversification

and security of various deposit sources. The more diversified the economy, the more diversity their service and structure of deposits, the more stable they are, the higher the demand deposit, the greater the liquidity need and vice verse.

(4) Monetary policy should be designed to stimulate growth in the banking industry. The upward review of minimum paid up capital to 25 billion has led some banks to encounter liquidity crisis. So liquidity ratio of bank should not be over regulated to avoid complete collapse of the banking system.

(5) Government should take caution of the indiscriminate use of deficit financing to ameliorate the problem of liquidity control. It is pertinent that banks adhere to the various recommendations highlighted above to ensure their maximization of their profitability.

QUESTIONAIRE

INTRODUCTION:please tick(   )in the box provided as the appropriate answer.

1.Name of respondent……………………………………………………….

2.Departmentment……………………………………………………….

3.State of origin………………………………………………………….

4.Local government…………………………………………………….

5.Sex………………………………………………………………………

6.Marital status……………………………………………………………

7.profession……………………………………………………………….

8.Years in the office……………………………………………………

9.Nationationaility………………………………………………………

SECTION B

1. Does liquidity have any influence on the performance of commercial banks? Yes ( ) no ( )
2. Does the new policy posture of monetary authorities help to ameliorate the liquidity? Yes ( ) no( )
3. Do you think that liquidity can actually affect the profitability of a bank? Yes ( )   no ( )
4. Do you think liquidity affect investors confidence? Yes( )   no( )

5. Does liquidity necessarily affect the investment portfolio performance?

   Yes ( ) no ( )

6. Do you think bank liquidity affect/lead to bank crisis? Yes ( ) no ( )

7. Do you think bank liquidity affect sectional lending? (Agriculture, manufacturing etc) Yes ( ) no ( )

8. Does bank's liquidity affect inflation rate in the economy through commercial bank lending process? Yes ( ) no ( )

9. Do you think bank liquidity would affect money supply? Yes ( ) no ( )

10. Is liquidity of bank affected by the global financial crisis? Yes ( ) no ( )

11. Is the relevance of liquidity management relevant to the survival and growth of commercial banks? Yes ( ) no ( )

12. Do you agree that liquidity problem is a phase that would soon be over when banks recapitalizes? Yes ( ) no ( )

13. Is bank liquidity a function of expansion any or right monetary policy of central bank of Nigeria? Yes ( ) no ( )

14. Do you agree that liquidity problem should have hoisted approach in solving the problem? Yes ( ) no ( )

15. Does adequate liquidity help commercial bank meet up with customer withdrawal or demand for loan? Yes ( ) no ( )

16. Does adequate liquidity assists commercial bank maintain stability in it operation? Yes ( ) no ( )

17. Is the any significant relationship between the bank level of deposit and liquidity? Yes ( ) no ( )
18. Does the level of loan advances granted to customers which depends on liquidity significantly affect profitability level? Yes ( ) no ( )
19. Does commercial bank (FBN) in Nigeria keep a minimum liquidity ratio as required by C.B.N at all times? Yes ( ) no ( )
20. Do you think that the current banking reforms of (CBN) will improve the liquidity positions of banks? Yes ( ) no ( )

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