

RELATIONSHIP BETWEEN LIQUIDITY AND PROFITABILITY IN  
NIGERIA COMMERCIAL BANKS  
(A CASE STUDY OF FIRST BANK OF NIGERIA PLC)

BY  
EDIMEH OHIEMI SAMUEL  
BF/2007/105

DEPARTMENT OF BANKING AND FINANCE  
FACULTY OF MANAGEMENT AND SOCIAL SCIENCES  
CARITAS UNIVERSITY, AMORJI-NIKE, ENUGU  
ENUGU STATE.

AUGUST 2012

RELATIONSHIP BETWEEN LIQUIDITY AND PROFITABILITY IN  
NIGERIA COMMERCIAL BANKS  
(A CASE STUDY OF FIRST BANK OF NIGERIA PLC)

BY  
EDIMEH OHIEMI SAMUEL  
BF/2007/105

DEPARTMENT OF BANKING AND FINANCE  
FACULTY OF MANAGEMENT AND SOCIAL SCIENCES  
CARITAS UNIVERSITY, AMORJI-NIKE, ENUGU  
ENUGU STATE.

AUGUST 2012

COVER PAGE

RELATIONSHIP BETWEEN LIQUIDITY AND PROFITABILITY IN  
NIGERIA COMMERCIAL BANKS  
(A CASE STUDY OF FIRST BANK OF NIGERIA PLC)

BY

EDIMEH OHIEMI SAMUEL

BF/2007/105

BEING A PROJECT SUBMITTED TO THE DEPARTMENT OF  
BANKING AND FINANCE, FACULTY OF MANAGEMENT AND  
SOCIAL SCIENCES, CARITAS UNIVERSITY AMORJI-NIKE, ENUGU  
STATE, NIGERIA. IN PARTIAL FULFILMENT OF THE  
REQUIREMENT FOR THE AWARD OF BACHELOR OF SCIENCE  
(B.SC) DEGREE IN BANKING AND FINANCE.

AUGUST 2012

CERTIFICATION PAGE

I EDIMEH OHIEMI SAMUEL an under graduate student of banking and finance with the Reg.No BF/2007/105 have submitted this project report for the award of degree of B.sc in banking and finance. This project report is my original work and has not been submitted in part or in full for any degree or diploma in this university or any other institution.

-----

EDIMEH SAMUEL

(STUDENT NAME)

-----

DATE

We certify that this project has been successfully defended and accepted for the award of Bachelor of Science (B.sc) degree in banking and finance.

-----

MR.S.M. TAKON

(PROJECT SUPERVISOR)

-----

DATE

-----

MR. I.G. OKAFOR

(HEAD OF DEPARTMENT)

-----

DATE

-----

(EXTERNAL EXAMINER)

-----

DATE

## APPROVAL PAGE

This is to certify that SAMUEL EDIMEH is an undergraduate in the department of banking and finance with the Reg.No BF/2007/105 and has satisfactorily completed the requirement of the course and research work in the award of Bachelor of Science (B.Sc) degree in banking and finance.

-----  
MR.S.M. TAKON  
(PROJECT SUPERVISOR)

-----  
DATE

-----  
MR. I.G. OKAFOR  
(HEAD OF DEPARTMENT)

-----  
DATE

-----  
(EXTERNAL EXAMINER)

-----  
DATE

## DEDICATION

This project is dedicated to the Almighty God for guiding and protecting me throughout my stay in this university.

## ACKNOWLEDGEMENTS

Firstly, I want to thank God Almighty for making me to successfully complete this research work may his name be praised.

My profound gratitude goes to my parents Mr. and Mrs. Mathias Odoma Edimeh for their financial, moral and spiritual support during my stay in this university. Special thanks also go to Mrs. Justina Ocholi, my siblings: Rose, Ruth, Peter, Stephen and Joseph may God bless you all.

I am greatly indebted to my able supervisor Mr. S.M Takon for guiding me throughout this work may the Lord bless you sir.

My gratitude goes to my honorable H.O.D Mr. I.G Okafor for his fatherly advice during my course of study. Special thanks also go to my lecturers in the department; Mr. Anthony Nwadiubu, Professor F Okafor, Mr. Martin Ezeamama, Miss. Nsofor Ebere for their tutelage.

I also want to express my gratitude to my friends and classmates among whom are Mike, Marcel, Victor, Dozie, Uche, Chisom, Ifeanyi, Austin, Anthonia, umoh, D.D, and others .

## ABSTRACT

*The banking sector is of utmost importance to the Nigerian economy because of its role as the sole issuer of currency and other functions it carries out. This can be seen in the light of the economic meltdown, and various banking reforms such as the recapitalization of banks to ₦25 billion just to boost the economy. Striking a balance between liquidity/profitability represents the ability to work efficiently, accommodate decrease in deposits, and fund increase in the portfolio of the banks. It is on this note that the research work centered on the relationship between profitability and liquidity. The chapters were arranged logically in such a way that it was easier to analyze. Chapters one and two dealt with the background and literature review concerning this topic bringing out various diverse points or areas in the work. Chapter three and four presented the methodology adopted in gathering information such as primary and secondary sources as well as the information gathered. Analysis was done using simple tables, percentage and chi-square. Finally, in chapter five, summary of findings, recommendations and conclusion were made.*



## TABLE OF CONTENT

Cover page .....	i
Certification.....	ii
Approval page .....	iii
Dedication.....	iv
Acknowledgement.....	v
Abstract.....	vi
Table of content .....	vii
<b>CHAPTER ONE – INTRODUCTION</b>	
1.1 Background of the Study.....	1
1.2 Statement of the Problem.....	3
1.3 Objectives of the Study.....	4
1.4 Research Questions.....	4
1.5 Research Hypotheses.....	4
1.6 Significance of the Study.....	5
1.7 Limitations of the Study.....	5
1.8 Definition of Terms.....	6
<b>CHAPTER TWO – REVIEW OF RELATED LITERATURE</b>	
2.1 The Concept of Commercial Banking.....	7
2.2 Commercial Bank as a Business Firms.....	8
2.3 The Genesis of Liquidity in the Banking Industry in Nigeria.....	8

2.4	Regulatory/Policy Measures or Frame Work on Banks Liquidity the Nigeria Banking Industry.....	10
2.5	Liquidity of Commercial Banks assets.....	15
2.5.1	Liquidity Requirements of Commercial Banks in Nigeria.....	16
2.6	Liquidity Policies.....	16
2.7	Liquidity Measurement.....	19
2.8	Sources of Bank Liquidity.....	19
2.9	Functions of Banks Liquidity.....	22
2.10	Consequences of Low Liquidity.....	23
2.11	Concept of Profitability.....	24
2.12	Consequences of Low Profitability.....	24
2.13	Determination of Bank Profitability.....	25
2.14	Capital Size.....	25
2.15	Credit Quality.....	27
2.16	Liquidity Risk.....	29
2.17	Credit Risk.....	32
2.18	Banks Liquidity versus Profitability.....	32
2.19	Commercial Banks Theory.....	33
2.19.1	Commercial Loan Theory.....	33
2.19.2	Shiftability Theory.....	34
2.19.3	Anticipated Income Theory.....	34
2.19.4	Summary.....	35
 <b>CHAPTER THREE – RESEARCH DESIGN AND METHODOLOGY</b>		
3.1	Research Design.....	38
3.2	Area of Study.....	38

3.3	Population of the Study.....	39
3.4	Sampling Technique and Sample Size Determination.....	39
3.5	Sources of Data.....	39
3.5.1	Primary Sources.....	39
3.5.2	Secondary Sources.....	39
3.6	Method of Data Analysis.....	40
3.7	Hypothesis Testing using Chi-square.....	41
CHAPTER FOUR – PRESENTATION AND ANALYSIS OF DATA		
4.1	Data Presentation.....	42
CHAPTER FIVE – SUMMARY OF FINDINGS, CONCLUSION AND RECOMMEDATIONS		
5.1	Summary of Findings.....	57
5.2	Conclusion.....	58
5.3	Recommendations.....	59
BIBLIOGRAPHY.....		61
APPENDIX i.....		63
APPENDIX ii.....		64