FUNDS MANAGEMENT BY COMMERCIAL BANKS: A CASE STUDY OF LION BANK NIGERIA PLC.

BY

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A RESEARCH PROJECT SUBMITTED TO THE POST GRADUATE SCHOOL, AHMADU BELLO UNIVERSITY ZARIA. IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR AN AWARD OF MASTER IN BUSINESS ADMINISTRATION, IN THE DEPARTMENT OF BUSINESS ADMINISTRATION

MAY 1994

DECLARATION

I hereby declare this study to be my own personal work. It is original and any other person's work referred to have been gratefully acknowledge in the Bibliography.

SIGN:----------

BADAMASI RABI

CERTIFICATION

This Project entitled: "FUNDS MANAGEMENT BY COMMERCIAL BANKS: A CASE STUDY OF LION BANK NIGERIA PLC", by BADAMASI, RABI meets the regulations governing the award of the degree of MASTER OF BUSINESS ADMINISTRATION (MBA) of Ahmadu Bello University, and is approved for its contribution to knowledge and literary presentation.

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DEDICATION

This project is dedicated to the Memory of my Father.

ACKNOWLEDGEMENT

Foremost, I thank Almighty God for granting me the life, ability and opportunity for undertaking and seeing this course through.

I also extend my sincere gratitutdes to my supervisor, Mallam Abu-Abdissamad under whose scholarly guidance and advice this project was a reality and to all Lion Bank Nigeria PLC. staff who gave the necessary information for this research work.

Similarly, I extend my gratitude to Mr. C.S. Olukanmi, Mr. S.M. Wang for their advice, encouragement, support and contributions. I wish you all the best in your future endeavours.

To all who help in one way or the other, even those not mentioned, I give a special word of thanks to them. I earnestly desire that God would reward them accordingly to his riches in Glory even spiritual blessing. Amen.

ABSTRACT

Banking activities provides an essential lubricant for the 'wheel' of economic activity and, the faster rate of growth envisaged in the economy the more the facilities required from the banking industry.

Through the mobilisation of funds from surplus sector and dispensation of credit to the deficit sector, the banks transfer resources from current consumption to the creation of the plant, equipment and raw materials for production. By providing the means of production for those who otherwise would not have been able to get such opportunity, banks, thus, make tremendous contribution to economic growth and development.

While it is difficult to measure quantitatively, the contributions of banking institutions to economic development the growth in their operations as represented by deposits mobilised and credit disbursed over time, gives a reasonable indication of their contribution. Secondly, the indigineous bank and the rural banking scheme provides the economy with a good net work of banking services that enlarge banks contribution to the country's economic growth and development.

This study specifically would research into how Lion Bank Nigeria PLC manage it funds. It will look into the various ways *on* means it secure it funds and the manner it apply the funds into various uses.

It is hoped that by the end of the research study, commercial Banks generally and Lion Bank specifically would take appropriate steps in reframing their policy regarding the management of there funds for efficiency and effectiveness, and for the overall economy growth and development.

LIST OF TABLES

Page

1. Sources of Funds in Lion Bank (1990-93)

2. Lion Bank of Nigeria PLC: Deposit and Current Account 1990 -1993.

3. Application of Funds in Lion Bank 1990-1993.

4. Lion Bank of Nigeria PLC: Loans and Advances (1990 - 1993).

5. Lion Bank of Nigeria PLC: Loans and Advances: Analysis of Performance 1991 - 1993.

TABLE OF CONTENTS

	Page
Title Page	i
Declaration	ii
Certification	iii
Dedication	iv
Acknowledgement	v
Abstracts	vi
List of Tables	vii
Table of Contents	viii
CHPATER ONE: INTRODUCTION	
1.1 Introduction	1
1.2 Statement of the Problem	3
1.3 Purpose of the study	4
1.4 Scope of the Study	5
1.5 Limitation of the Study	5
1.6 Definition of Relevant Concepts	7
Footnotes	
CHAPTER TWO: LITERATURE REVIEW	
2.1 Overview of Commercial Banking in Nigeria	11
2.2 History and Management of Lion Bank Nigeria PLC	15
2.3 An Overview of Sources and Uses of Funds	18
2.4 Element of Funds Management	25
2.5 Sources of Funds	29
2.6 Application of Funds	35

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction 49

3.2 Approaches to Data Collection 49

CHAPTER FOUR: DATA PRESENTATION AND ANALYSIS

4.1 Introduction 53

4.2 General Information about Lion Bank Nigeria PLC54

4.3 Sources and Application of Funds in Lion Bank Nigeria PLC. 55

CHAPTER FIVE: SUMMARY, RECOMMENDATION AND CONCLUSION

5.1 Summary 69

5.2 Recommendation 70

5.3 Conclusion 74

Bibliography

Appendices

CHAPTER ONE

I N T R O D U C T I O N

1.1 INTRODUCTION

The banking industry which supplies credit facilities to the major sectors of the country occupies an indispensable position in the struggle for economic development of the nation. It is therefore, important that available credit facilities te allocated rationally by banks and this can only be done through judicious application of the concept of funds management by commercial banks.

Financial planning by any organisation (Banking sector inclusive) involves analyzing the financial flows of the firm as a whole; forecasting the consequences of various investment, financing and dividend decisions, and weighing the effects of various alternatives. The idea is to determine where the firm has been, where it is now and where it is going-not only the most likely course of events, but deviations from the most likely outcome. If things become unfavourable, the company would have a back up plan. So that it is not caught flat - footed, without financial alternatives; these therefore leads to a financial plan or strategies embracing investment, financing and dividend decisions of the company.

Therefore, the concept of funds management by commercial banks is a conscious application of policies to determine the level of funds at a particular period of time and, the judicious application of these funds towards the maximisation of profit, while making sure that the bank remains relatively liquid.

The concept of Funds management centres essentially on what is the volume of funds at any period of time, and what policies that should be adopted. Taking cognizance of the government's monetary policies, in the application of these funds, with profit maximisation objective in view It explains the sources of funds - available to a commercial bank, and how profitably they could be applied be applied. It also involves decisions to ascertain quantitatively what the volume of funds is, and the forecasting of the trend of lending, as dictated by market situations and the central banks selective credit guidelines.

Funds management can therefore be said to be the major business of the banking sector where in, the banks try as much as possible to make effective and efficient use of their funds so that they would not be forced out of business.

1.2 STATEMENT OF THE PROBLEM

Many Banks in the country have to grapple with a number of problems in carrying out their operation, especially in relation to fund management which is the primary purpose for which they are established.

The Banker-customer relationship, since the inception of banking in Nigeria, has never been without unwarranted suspicion on both sides. Ignorance on the part of the majority of the banking public regarding the functions and role of the banking system, and the apparent 'secret - society' attitude of the banks in the eyes of the banking community, have helped to worsen the situation and has contributed to the distortation of economic activities.

Banks generally therefore encounter a lot of difficulties in their sources and uses of their fund, that is how they secure their funds through various means and ways they apply these funds. Lion Bank Nigeria Plc also share similar experiences in its management of its funds.

1.3 PURPOSE OF THE STUDY

The purpose or objective of the study is to examine the concept of funds management, in order to trace the root cause of the problems mentioned above. The result will contribute to the successful realization of the primary objective of this project, namely, finding solution to the problem raised. For the successful implementation of the solutions, this project will select methods of approach that it find appropriate.

In the course of tracing the source(s) of the said problems and find solutions to them, this work will be examining the existing or current attempts being made by commercial banks themselves to solve the said problem, with particular interest on Lion Bank Nigeria Plc. Where any such attempts is found to be worthwhile, this work will incorporate it in it's package solutions. But where it is found to the proved ineffective or obsolete, it removal will be recommended.

It is hoped that the findings of this study will be use in developing a future policy framework on funds management in all banks ingeneral and Lion Bank Nigeria Plc in particular. The solutions also if implemented,

will be contributing in no small way to the rapid economic development of this nation.

1.4 SCOPE OF THE STUDY

The study covers the period of four years, that is (1990- 1993) of Lion Bank Nigeria Plc, sources and application of funds. However, the problem of funds raising and application is not peculiar to any one particular Bank. Therefore this study is empirical, flexible and applicable to any bank.

Means and ways in which banks generate as well as spends their money with particular attention to Lion Bank Nigeria Plc will be discussed . The study also, with a reasonable length, discusses the history, objectives, operation and progress of Lion Bank Nigeria Plc within the years under review.

1.5 LIMITATION OF THE STUDY

Almost every research project is bound to face some weaknesses and constraints which constitute some difficlties to the research study, and as such, this study is not left out. Moreso, to carry out a research of this nature,

examining fund management by commercial banks (which formed most sensitive area of every business organisation), some limitations and problems must be encountered.

i) One major limitation is that of obtaining data and information from most reliable source furthermore the Banking sector "secret syndrome" which characterises dealing on such sensitive matters onfunds, has been a major inhibiting factor since some vital documents which are very relevant to the research work could not be easily reached.

ii) Lack of adequate time is another factor that limited the efforts put into the research work.

iii) Due to the data collection procedure, the accuracy of the final results obtained from the analysis will depend very much on the degree of accuracy and reliability of the personnel who recorded most of the historical data. In addition, data analysis and interpretation were based on the knowledge and understanding of the researcher .

Notwithstanding the above mentioned limitations, the researcher tried as much as possible to see that the objective of the research work is being achieved to a larger extent.

1.6 DEFINITION OF RELEVANT CONCEPT

1.6.1 Funds:

Funds can be defined in several ways, because, it has not been possible to provide a single definition for the concept. The advanced Learner's Dictionary defined funds as 'store or supply (of non-material things), sum of money available for a purpose. Webster's Dictionary defined fund as 'permanent stock or capital; an invested sum, the income of which is used for a set purpose; a store; ample supply; money in hand'.

Therefore, from the above, it is clearly seen that the concept "Fund" has, as many definitions as they are varied. However, one can make a reasonable inference from these definitions. All the definitions show one thing in common, and that is the fact that 'fund' literally represents 'money available' or 'Money in hand', both in terms of store and supply of money for investment purposes.

This money could be in form of stock, capital or cash.

However, depending upon the analyst's objective, the definition can be broadened or narrowed. 'Because a funds - flow analysis on cash basis serves as a building block for analysis using broader definitions of funds'. Thus, the term 'funds' may mean:

i) Cash only;

ii) working capital (the differences between current assets and current liabilities) only;

iii) Financial resources, arising from working capital items and from financing and investing actitivites of enterprise, which may involve only non-current items.

1.6.2 Sources of Funds:

This can simple be defined as the places from which the financial resources come from. This can be further said to means either a decrease in assets or an increase in liabilities.

1.6.3 Uses of Funds:

This can be defined as the applications or employments or consumptions of funds. This may also means either an

increase in assets or decrease in liabilities.

1,6,4 Commercial Bank:

Commercial Bank means any person who transacts banking business in Nigeria and whose business includes the acceptance of deposits withdrawable by cheque. Banking business is that business in which monies are received from outside sources as deposite irrespective of the payment of interest or where money loans are granted and credits accepted. It also includes the purchase of bills and cheques, the purchase and sale of security on behalf of other and incurring of the obligation to acquire claims in respect of loans prior to their maturity.

Furthermore, banking business covers such transactions as the absumption of guarantees and other warantee for others, affecting transfers and clearing and such other transaction as may be defined from time to time in the Federal Gazette on banking.

Management:

According to Koontz and Weihrich, management is the "process of designing and maintaining an environment in

which individuals, working together in groups, accomplish efficiently selected aims" The definition involves;

i) carrying out managerial functions of planning organising, staffing leading and control.

ii) It is concern with productivity ie. effectiveness and efficiency.

iii) It aim is to create surplus, and it apply to mar gers at all organisational level and to any kind of organisation, (Banking Organisation inclusive).

FOOTNOTES

1. Nigeria Banking Decree No. 1 (1969), and as ammended.

2. Harold Kootz and Heinz Weihrich (1988). Management Pub. McGraw Hill Book Company, pp.4.

CHAPTER TWO

LITERATURE REVIEW

2.1 AN OVERVIEW OF COMMERCIAL BANKING IN NIGERIA

Commercial Banking in Nigeria started in 1892, when the African Banking corporation based in South Africa opened a branch in Lagos. This folded up in a short time. In 1894, the second expatriate bank, the Bank of British West Africa was established. The Bank of British West Africa was a banking institution whose organisation function and objectives were so constituted as could serve the colonial policy of c Great Britain. Infact, this was the initiative of Mr. G.W. Niville and Sir Alfred Lewis Jones who made possible the establishment of this bank, by organising the importation and exportation of currency, and providing banking services.

This bank, made a notable contribution towards, monetizing the economy. It remained the sole banking authority in Nigeria until 1917 when another colonial bank, the Barclays Bank (D.C. and O) was established in the country. In 1949, the third expatriate Bank, the British and French Bank was established. Over the years,

these three banks have however undergone a number of changes. The bank of British West Africa thereafter become the standard Bank, and today it is known as First Bank of Nigeria PLC. Similarly, Barclays Banks (D.C & O) came to be known today as the Union Bank of Nigeria PLC. And, the British and French Bank is now - U.B.A. The change of name however, did not, until recently affected operational and staff structures of the banks. The colonial framework was maintained until the nineteen seventies when Nigerian officers were allowed to fill up those administration and managerial posts previously reserved for expatriate personnel of the three banks.

It is correct, therefore, to say that commercial banking in Nigeria was before the second world war dominated by the expatriate banks. The activities of these banks were directed towards the interest of the colonial nations which owned then. Obviously, they could not cater for the interest of the Nigeria in general. This attitude on the part of these colonial banks continued even after Nigeria has gained her independence.

As a result of the difficulties the banking community were confronted with, when dealing with these expatriate banks, a group of Nigerians were forced into the banking business. This led to the banking boom of the late 1940.

After two subsequent unsuccessful attempts, in 1929 and 1931, The National Bank of Nigeria Limited, was established 1933. This success is credited to a group of prominent Nigerians including Dr. A. Moji, Chief T.A. Doherty and Mr. A.A. Subair. Other banks which were formed to assist indigeneous businessmen include Agbomagbe (Wema) Bank in 1945 and the African Continental Bank Limited which came into existence in 1947. Indigeneous bank also founded during this period include the Nigeria Former and Commercial Bank of Lagos, which failed in 1953 and onward Bank founded in 1951 together with the Premier Bank and Bank of the North was established in 1959, (Brawn C.V. 1966)

Over a century of banking in Nigeria, as at 1992 the country can boast of; 66 commercial banks with a total branch network of 2243 Branches; 228 Branches of peoples Bank. Meant to serve the need of the common man or less privellage. 402 community Banks brought about to stimulate

Banking habit among the rural populace and 54 Merchant Banks with a total Branch network of 12 across the nation.

It is noted therefore, that, prior to Nigeria's independence, commercial banks contributed remarkably to the monetization of the economy. With the extension of European trading enterprises and British rule to West African, the use of currency, greatly diminished the use of barter. These colonial banks had to organise the importation and exportation of currency in order to boast trade and to prove banking services to the banking community.

With the advent of indigeneous commercial banks, banking services, particularly to the Nigerian community improve, credit facilities were made more available to the Nigerians, unlike what the situation had been when expatriate banks dominated the banking scene.

Today, commercial banking plays an important role in the economic development process of Nigeria. The make available to the banking community idle loanable funds to boost their commercial activities. Credit facilities, under the surveliance of the central Bank's selected credit guidelines, are granted to desirous sectors of the economy. In this respect, the commercial banks provide

means of production for those, who otherwise, would not have been able to mobilise funds. These services rendered by banks, indicate their immense contribution to the economic development of the country

2.2 HISTORY AND MANAGEMENT OF LION BANK NIGERIA PLC.

2.2.1 Corporate Profile:

Lion Bank of Nigeria PLC., is the first commercial bank to be commissioned in 1987 with its Head Office in Jos.

The idea of a Bank by the Plateau State government was realized with the incorporation of Plateau Co-operative Bank in 1981. Envisaging the limited scope of a bank of this nature, a decision to operate a full fledged commercial bank was preferred. Consequently, the name was changed to Lion Bank of Nigeria Limited in 1982. The Bank was put into operational gear with the mandate given to international Merchant Bank (I,M.B) to establish and manage a commercial bank operation for the Plateau state Government. Lion Bank is one of the first Banks with a Technical working arrangement with an indigeneous bank,

International Merchant Bank of Nigeria PLC (IM.B.).

This arrangement opens Lion Bank to I.M.B. International and other correspondent Banking facilities world wides. This also ensures the provision of services backed up with a corp of well-trained, dedicated and service oriented staff, commplimented with a strategy based on concious use of modern technology.

The bank services have been computerized to compliment its philosophy of strength, speed and efficiency in modern banking. The bank currently has six branches spread across the nation.

2.2.2 Ownership:

The shareholding of the bank is as follows:

1.	Plateau State Government	29.41%
2.	International Merchant Bank Nigeria (IMB)	12. 5%
3.	General Public	58.09%

2.2.3 Services:

Lion Bank of Nigeria Plc offers the usual comprehensive Banking - services which include:

i) Savings

ii) Current Account

iii) Loans and Overdraft.

iv) Fixed Deposit Account

v) Standing Orders

vi) Safe Custody

vii) Domiciliary Accounts

viii) Business and Financial Advisory Services

ix) Treasury and Foreign Business Transactions.

With it's philosophy of 'strength, speed, and efficiency, the bank strive to provide efficient and courteous services to all categories of it customers.

2.2.4 Performance:

The banks total assets increased by 631.7% to ₦954.9 million in 1993 from 1998 figure of ₦130.5 million. The deposit base also recorded a rise of 380.8% from ₦117.3 million in 1988 to ₦564.4 million in 1993, while loans and advances rose to ₦99.6 million in 1993 from ₦13.9 million in 1988 given an increase of 616.5%

Shareholders' funds rose by 1000% from ₦7.9 million in 1988 to ₦86.9 million in the year 1993.

Inspite of the rought economic condition through the years, the bank has been able to make an impressive performance by making a profit after tax of ₦0.629 million, ₦3.78 million, ₦7.01 million, ₦4.58 million, ₦11.65 million

and ₦14.48 million for the years 1988, 1989, 1990, 1991, 1992 and 1993 respectively.

2.2.5 Organisation:

Major decision taking is carried out by the Board of Directors, headed by a chairman and other directors. They are supported by sub-committees of board level.

Next is the managing Director/Chief Executive who is charged with the responsibility of seeing to the day to day running of the bank. He is supported by the Deputy Managing Director who directly oversee the main four divisions, that is, banking operations, and systems, credit and marketing , Investment Banking and Administration. Secretariat, Legal and services.

2.3 AN OVERVIEW OF SOURCES AND USES OF FUNDS

It is often useful to develop certain financial statement as an aid in evaluating a firm's past or present performance. The sources and uses of funds statement which is closely related to funds management allows the financial

manager to analyse the firm's historical sources and uses of funds. This statement is often called a 'source and application of funds statement'.

The sources and uses statement help to provide answer to the folloing questions (which the bank manager will doubtless pose, when a firm requests a loan). What has the firm done with the money it had? What will it do with the new funds? How will it repay the loan? It also provide answers to questions that other interested parties may have about the firm. This information may indicate that the firm is making progress or that problems are arising. By sources and uses of funds analysis, we can determine over any period where a firm obtains its funds and what it did with them.

The flow of funds in a firm may be visualized on a continuous process. For every use of funds, there must be an offsetting source. In a broad sense, the assets of a firm represent the net uses of funds; its liabilities and net worth represent net sources. Therefore, the funds statement is a method by which the net funds flow is studied between two points in time. These points conform to the beginning and ending financial statement dates for

whatever period of examination is relevant - a quarter, a yearly or 5 years. However funds statement portrays net rather than gross changes between two comparable financial statement of different dates. Although, an analysis of the gross funds flows of a firm over time would be much more revealing than analysing of net funds flow, the financial information available, namely, balance sheets and imcome statement that span particular periods of time always poses constraints on financial analyst.

Sources of funds are items that increases a firm's cash, while uses of cash are items that decreases a firm's cash.

Sources: The basic sources of funds are:

i) A decrease in asset

ii) An increase in any liabilities

iii) Net profit after taxes

iv) Depreciation and other non-cash charges

v) Sales of stock.

A few points should be clarified with respect to these items.

Cash: A decrease in cash is a source of cash in the sense that if the firm's cash is decreased the cash released must

have gone toward some use of cash.

Decrease in Asset: For example, sales of non-current assets sales of long-term investment, land, Building and equipment.

Uses: The most common uses of funds are:

i) An increase in an asset

ii) A decrease in a liability

iii) A net loss

iv) Payment of cash dividends

v) The repuchase of retirement of stock.

A few point should also be clerified.

Cash: Since all items in the source and use of cash statement attempt to measure changes in cash, it may be hard to understand that an increase in cash can be use of cash. An increase in cash is a use of cash, in the sense that it is used to increase the firm's cash balance and therefore cash is being consumed.

NetLoss: If a firm were to experience a net loss, this would result in a use of funds. It is possible for a firm to have a net loss but still have positive cash flow from operations if depreciation in the same period is greater than the net loss.

Assets and Liabilities: Except for cases described above, increase in assets are uses of funds and decreases in assets are sources of funds. It takes cash to increase assets, and cash is generated through the sale of a fixed asset or the collection of accounts receivable. Increase in liabilities are sources of funds and decrease in liabilities are uses of funds. An increase in liability represents increased financing , which is expected to generate funds, while a decrease in liability represents the repayment of a debt, which requires a cash outlay.

Also stated in a broader form by Raymond G. Schultz and Robert E. Schultz, that "Any increase in liability of net worth item or decrease in an asset, constitutes a sources of fund; conversely an increase in an asset or decrease in a liability or net - worth account, constitutes a use of funds' They went on further to state that 'the sources and uses of funds course must equal each other (or an error must have been made).

Informations concerning the financing and investing activities of a business organisation (be it public or private), and the changes in its financial position for a a given period of time; can be termed as uses and sources of funds.

This sources and uses of funds can be represented in what is known as 'The statement of changes in financial position; as summarised below:

i) Changes in assets and liabilities resulting from financing and investment ransactions during the period as well as those changes which resulted due to changes in owners' w equity; and

ii) The way in which the firm used its financial resources during the period (for example to acquire fixed assets, to pay debts, to pay dividends to shareholdess etc).

The statement of changes in financial position can be regarded as important because it study changes in financial position of any organisation as well as an important planning tool. It gives a clear information of the causes of changes in the organisation's working capital position or cash position. It indicates the financing and investing policies followed by the firm in the past. The analysis reveals the non-current assets acquired by the organisation, and the manner in which they have bear financed from the internal and external sources. This study is useful as a tool of historical analysis, as or helps answer some of the important questions as below.

i) What is the liquidity position of the firm?

ii) What are the causes of changes in the firm's working capital position or cash position?

iii) What fixed assets are acquired by the firm?

iv) Did the firm pay dividends to its shareholders or not) if not was it due to shortage of funds?

v) How much of the firm's working capital needs were met by the funds generated from current operations?

vi) Did the firm use external sources of finances to meet its needs of funds.

vii) If the external financing was used, what ratio of debt and equity was maintained?

viii) Did the firm sell any of its non-current assets? if so, what were the proceeds from such sales?

ix) Could the firm pay its long-term debt as per schedules?

x) What are the significance investment and financing activities of the firm, which did not invdve in working capital.

2.4 ELEMENT OF FUNDS MANAGEMENT

The main elements of the concept of funds management by commercial banks include:

1) The acceptance of Deposits
2) The lending of loanable funds.

2.4.1 Acceptance of Deposit:

There are three main kinds of deposits accepted by commercial banks;

i) Demand deposits: The holders of the demand deposits include individuals, business enterprises state and Federal Government. The main features of demand deposit are:

a) A credit balance standing on a customer's account is payable on demand. A holder of demand deposit is therefore free to draw cheque upon his account without any condition of restriction. However, since business enterprises normally withdraw large sum from their account, which according to internal bank regulations, usually go beyond the competence of the reference clerk to endorse, the manager's approval or that of his assistant is usually sort for.

b) A customer may be granted an over draft, this means that cheques may be drawn up to an agreed limit, beyond the amount standing to the credit of the customer in his current account.

c) Commercial banks charge commissiion on turnover (C.O.T) monthly or quarterly on demand deposits and, this is based on how the customer has transacted business with the bank.

d) Interest is charged by the banks monthly on overdrawn accounts.

e) If a customer overdraws his account without the bank's prior agreement, an offence is infact committed and is viewed seriously.

ii) Saving Deposits: The holder of the saving deposits include individuals, business enterprises, state and Federal governments.

The main features of saving deposits are:

a) A credit balance standing on a customer's saving account is withdraw--able upon personal application, after a stated period of notice. However, this condition is usually waived.

b) There is no drawing of cheques. Withdrawal forms or slips are issued upon needs for withdrawal of saving deposit.

c) The bank does not usually charge commission - on - turnover on savings deposits.

d) The banks pay interest on sums standing to the customers credit at a rate which varies from time to time.

iii) Time Deposit: This class of deposits, have a time of maturity. In order words, when they are lodged, there is an agreed time after which the customer could then contemplate on making withdrawals. It is classified into two:

1) Short deposits, representing a shorter term of maturity.

2) Fixed deposits, representing a long-term maturity.

The following are the main features of time deposits:

a) No withdrawal is approved until Maturity.

b) Some days notice must be given prior to the time withdrawal is contemplated. This condition will not be waived.

c) The Banks pay interest on their customer who holds time account.

2.4.4 Lending of Loanable Funds:

The most profitable business of a commercial bank is lending. Initially, bankers were only engaged in deposit banking. By this, the simply store cash that had been deposited with them for safe-keeping. The banks now lend so long as they retain the confidence of the customers. Commercial banks lend through the following methods:

i) Provision of loan facilities: commercial Banks mainly honour three types of loans.

a) Commercial loan: In this type of loan, commercial banks makes short term, selfliquidating loans. In other words, banks lend to customers for a specific transaction on short term, which on terminatiion, provides the customer with funds to retire the loan

b) Customer loan: Commercial banks least honour these loans. It has short-term maturity.

c) Industrial and Agricultural loans: These are of long-term maturity. Interest is charged on this type of loans.

ii) Provision of overdroft facilities: Banks grant overdraft facilities to their customers, when a customer is permitted to draw cheque for a some more than the balance standing to the customer's credit.

2.5 SOURCES OF FUNDS

Sources of funds comprise those attivies which draws addition current assets into the entity. It involves also, activities that liberate 'money' in other forms from it. These activities include:

1) Issu ance of shares
2) Banks operations
3) Banks ability to create further deposits

2.5.1 Issuance of Shares:

It is statutorily granted that banks could market shares to attract funds for the financing of their activities. Shares are classified into ordinary and preference shares. These make up the share capital of the bank. The amount of issued and paid up capital of a bank at any particular time must not be above the authorised share statutorily allowed the bank.

i) Ordinary share: Commercial Banks prefer ordinary shares to preference shares. The number of shares, and its value strongly determine the level of dividends that could accrue to a commercial bank.

The cost of new issues of ordinary shares is calculated using the following formular:

$$Ke = \frac{D}{P} + g$$

Where:

Ke = Cost of outstanding share capital

D = Dividend per share

P = Prices per share.

G = Expected compound rate of growth of D,

2.5.2 Bank's Operation:

From daily services to their customers, and through an efficient mamanagerial capability, commercial banks accrue funds from a number of sources, which include:

a) Share premium.

b) Retained Profits

c) Customers deposits.

a) Share Premium: This is the total balance accruing from the market value of the issued shares and their normal values. On the faces of the shares, the normal value is printed. Usually, the forces of demand and supply are left, to determine the market price.

b) Retained Profits: Retained profits, represent opportunity cost to share holders. The holders of shares,

will have to forego their dividends, or some propertion of it, at a particular time so that the company or bank could retain earnings.

c) Customess deposits: customers deposits are largest source of commercial banks funds. These are classified into demand savings and time deposits. These sources constitute the most active funds of commercial banks.

2.5.3 Banks Ability to Create Further Deposits:

The concept of deposit creation by commercial banks holds under two principal assumptions:

a) That Cheques are generally acceptable.

b) That there are no 'leakages', that is, that cash is not taken out of the banks.

The following is an example of the process of deposit creation. Suppose a commercial bank received ₦1000 deposits from customers.

In the first stage: The balance sheet reads:

Liabilities		Assets	
Deposits	+1000	Cash	+1000
	+ 1000		+ 1000

Normally banks are statutorily required to keep a fraction of its deposits in the form of cash and other well defined liquid assets. For purpose of illustration therefore, suppose that this hypothetical banks is to observe a 10 per cent cash ratio. Hence our hypothetical bank may keep ₦100.00 in its vaults and employ the remaining ₦900.00 in investment activities, for example, making loans and advances to its customers

In the 2nd stage, the balance sheet reads:

Liabilities	Assets
₦	₦
Deposit +1000	Cash +1000
	Advance+1000
+1000	+ 1000

The receipient of the loans and advances will use these funds to buy goods and services from suppliers, paying for them by cheque. The suppliers, on receiving the cheques, will pay into their own bank account. The receiving banks will credit the cheques to the customers' account and they will be honoured by the paying bankers.

At this stage, the ₦900 granted as loans and advances earlier will come back into the banking system as further deposits.

In the 3rd stage, the balance sheet will read.

Liabilitiesm		Assets	
	₦		₦
Deposits	+9000	Cash	+90
		Advances	+810
	+900		=900

Working on the same principle as before, the ₦810 will come back into the system in the form of deposits, 10 percent cash ratio having been observed:

In the 4th stage, the balance sheet will read:

Liabilities		Assets	
	₦		₦
Deposit	+810	Cash	+81
		Advances	+ 729
	+810		+810

and so on:

From the initial deposit of ₦1000 the banking system has created further deposits. ₦900 at the second stage; ₦810 at the third stage and so on.

This process continue until finally, the limit is reached, and all the initial ₦1000 becomes just cash reserves, that is, 10% of total new 'money' in the economy.

The mathematical formular to determine this increase is

$$\text{Final Amount} + \% \frac{1}{\text{Cash Ration}} \times \frac{\text{Initial deposits}}{1}$$

From the above illustration therefore;

$$\text{Final Amount} \quad \frac{1}{100} \times \frac{1000}{1} = ₦10,000$$

In the final stage, the balance sheet will read:

Liabilities		Assets	
₦		₦	
Deposits	+10,000	Cash	+1000
		Advances	+9000
	+10,000		+ 10,000

From the above analysis, two principal deducations can be made:

i) That total deposit of the hypothetical banks has increased by ₦9000. This is a fund because, this amount has been issued out as loans and advances after subsequent 10% cash ratio has been retained.

ii) The hypothetical bank, all along the process, has charged interest on the loans and advances it has granted to the customers. The accumulated interest will become an additional fund. At the same time, the total money supply in the economy will increase.

2.6 APPLICATION OF FUNDS

Application of funds involves activities which reduce net current assets by reinvesting them in more permanent form. It involves also, the dispersing of funds outside the entity.

Commercial banks grant credit facilities to their customers through:

i) Loans and advances

ii) Overdrafts, and

iii) Other channles.

The banks recognise, however, that loans and advances to their customers are their most risky assets because, they involve a greater possibility of loss than any of the others.

In theory, banks' lending is repayable on demand but in practice, this is not always possible. They represent,

therefore, the least liquid of banks' assets. The banks, however, charge high interest rates to compensate for the lack of liquidity and the degree of risk involved. This situation defines loans and Advances as the most profitable but then, the most risky venture.

Judgement in lending is the real test of a banker's skill. The growing need of customers to increased cash resources is clear enough but in a number of cases, the credit facility would entail so great a lock-up, that a banker would prefer not to be inolved. Therefore, a banker's skill in making lending decisions is derived from his judgement in lending propositions in both set of circumstances below:

i) When full information is available

ii) When hardly any information is available.

Therefore, through his scrutiny of the financial statements, the position of the accounts of the company and the balance sheets; a banker becomes considerably informed to take reasonable actions if he is confident in the credibility of the company, will be more likely to accept its application for loans.

In the case of an individual, the bank rely on:

i) The individual's income

ii) Whether the individual has an account

iii) And how the individual has operated his/her account

It is therefore clear that banks do not just lend to any customer that makes request for a loan.

In the following subsequent chapters, we are going to study the administrative and operational activities of banks in terms of lending; which is a major aspect of application of funds.

2.6.1 Lending Strategies:

The issue of loans and Advances is of paramount importance in any modern banking system. Banks would therefore, embark on certain measures to attract customers. such measures include.

i) Enbarking on expansion programmes by establishing more branches.

ii) By offering useful expert financial advice to their customers.

iii) By maintaining a solid liquidity base, so that customers' confidence would always remain intact.

iv) By maintaining a healthy relationship with its customers, by way of offering quick and quarrel-free services at the counter.

However, the ability of the bank to map out strategies to attract more funds is checked by government's monetary policies, implemented through the central Bank.

2.6.2 Lending Directions:

The terms on which banks accept deposits from customers determines the terms at which they can lend. If the banks borrow on short-term basis, they would find it unsafe to lend on long-term. Since they must be ready to meet demands for withdrawal of customers' money lodged with them. However, as mentioned before, the trend of lending is largely influenced by the regulation of the Central Bank.

Inspite of all external constraints, each bank has its own desire, which it implements. Left to the discretion of the commercial banks, direction of lending would very much bend towards the commercial sectors. This is evident in the fact that commercial banks are first and foremost, profit motivated companies. However, this is not to say

that they would not find it interesting in lending to other sectors, as a significant item in their obejctives is to help develope the economy of the country. The problem is that, owing to the high per centage of liquidity expected of the commercial banks, they would favour credits that have short-term maturity.

2.6.3 Lending Regulation:

There are certain conditions that should be met before credit facilities are granted. These conditions can be categorised into three.

i) The prospective borrower, as an individual or a company, has certain condition to fulfil -

ii) The project or the need for which the credit facility is being sought for, has its own condition to meet.

iii) The safety or otherwise of the bank to honour this propsoal, from the point of view of how much liquid the bank is, at that particular time.

However, there are no rigid rules and no proposal is likely to fulfill every canon of good lending. Each case has to be judged on its merits and the advantages and weaknesses weighted. In the practical field, credit facilities have sometimes been granted and risks accepted.

From the above exposition, the tools of commercial banks' lending regulations falls into;

1) Central Bank credit Guidelines

The Central Bank credit Guidelines for 1993 and 1994 is has shown in the table below:

SECTORAL PERCENTAGE DISTRIBUTION OF COMMERCIAL BANKS' CREDIT

	PERCENTAGE ALLOCATION	
SECTOR	1993	1994
1. Priority Sectors	50.0	70.0
a) Agricultural Production	(15.0)	(18.0)
b) Manufacturing Enterprises	(35.0	(42.0)
c) Exports	-	(10.0)
2. Others	50.0	30.0

2) Banks' own Private Guidelines.

In addition to the central Bank's credit guidelines, commercial banks have their own guidelines that regulate their lending functions to their customers. For example, financial standing, feasibility study and market survey recommendations and so on.

2.6.4 Constraints to Lending:

There are difficulties which bankers faces in their daily services to the public. These includes.

1) Constraints Inherent in the system

a) Bank share of the market: This is the expected total deposit a commercial bank is deemed to have control of, in relation to others. This expected total deposit largely depend on three factors:

i) The size of the bank and the extent of the market.

ii) The bank's interest rate

iii) Expert financial advice by Bankers to their customers

The size of the market deals with the commerciality and size of the location of the bank. A small bank located in a small or medium sized town is unlikely to find it feasible to draw demand deposits from long distances or from large corporations.

Equally, share of the market at any particular period is greately determined by the rate of interest payable to depositors. This, if encouraging, will continue to strengthen customers interest to increases their respective volume of deposits lodged. This two conditions highlighted above, are strongly glued by how effective, expert financial advice

by the bankers to their customers is, such advice is in the area of profitability investment of the credit facility issued them. This, if positive, will largely encourage customers to open up banking transactions.

b) Banks' Yields:

Banks are profit motivated companies. Werefore, decisions to grant credit facilities to customers, would take into consideration expected returns from their earning assets and the cost of funds and other implicity costs. The situation here is that the banks would only be secure to grant on credit facilities, if the margin between the returns on lending and the cost of maintaining the volume of deposits at that particular time is sufficient to cover intermediary costs. What it implies is that, to maximise its profit, a bank would be guided by the principle of marginal cost equating marginal revenue.

There is a situation of negative returns, when marginal cost exceeds marginal revenue. This situation is established by certain factors, normally described as shocks to commercial banks.

c) The concept of shocks: A shock to the bank, is or unexpected event, which will cause an inconsistency in the balance sheet figures at the end of the day's activities or at any time the bank deems it fit to balance the account.

Principally, there are four types of shocks which may militate against a commercial Bank's ability to grant credit facilites. Those that are relevant to the study is discussed below.

I) The issue of excess withdrawal of demand deposit: This is a very bad case for the bank and may lead to a run on it.

Considering the following cases for example,

- Where there is a sudden unprecedented rise in the withdrawal of deposits by the customers.
- Where a large percentage of these deposits has been invested in earning assets for the bank. That bank would really be in for a very difficult time.
- Consider again, where a bank through experience, has known that average daily withdrawals in terms of total deposits (in cash) available at any particual period of time would not exceed ten percent

and the withdrawals rise up to twenty percent.

This situation,s spell out dangers for any bank. If the bank resorts to seek the help of the central bank, it may not succeed and, it can not call back its assets. This will lead to a lose of confidence in the bank, and may lead to instant liquidation.

ii) The issue of Bad and Doubtful Debts:

This is a situation that arises when it becomes doubtful or completely clear that a customer would not retrieve a certain loan.

This brings about a loss in the value of a bank's earning assets and therefore constitute a fall in the balance sheet figures.

2) Statutory Constraints:

One major category of statutory constraints to lending of credit facilities by commercial banks is the monetary policy of the government. Monetary policy is therefore a measure taken by the government in consultation with the Central Bank, to control the volume of money in circulation within a specific period and to direct credit facilities granted by banks to government selected priority areas, in order to achieve the objectives of general economic

policy. This is made possible by the use of policy instruments by the government through the Central Bank. These Policy instruments include:

1) Open Market Operation: Through the open market operations, the central bank has discredtionary powers to purchase and sell government or other eligible securities from and to the private sectors. By this measure, it regulates the volume of money in the country. There are defensive and dynamic open market operation. The former is aimed at preventing other fattors, such as changes in currency in circulation outside the banks from bringing about unwanted changes in the reserve positions of commercial banks. The later is aimed at altering the reserve positions of commercial banks.

2) Reserve Requirements: This is the percentage of the total amount of current deposits which the commercial bank set aside by central bank's injunction to meet emergent customers demand for withdrawal of their deposits. The central Bank also, has the right to increase or decrease this minimum as it deems fit.

3) Special Deposits and Supplementary Deposits:
The Central Bank, in addition to determining, the cash ration, also has the power to call for special deposits and supplementary special deposit as it deem fit, such funds are usually frozen and not available for the credit operation of commercial banks.

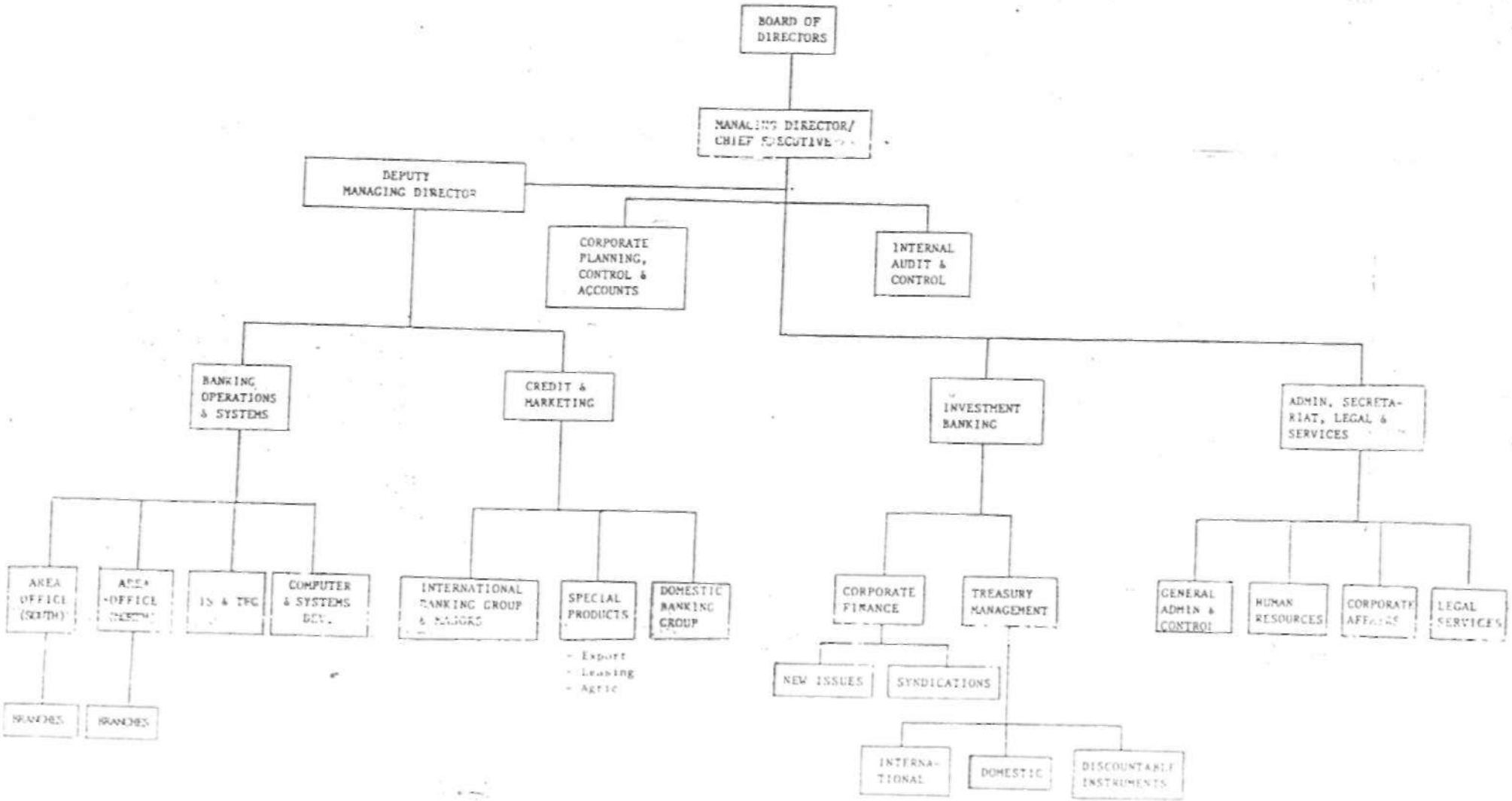
4) Direct Regulation of Interest Rate: As the Central Bank remains the lender of last resort, commercial banks borrow funds from it, when the need arises, by either discounts or advances. Discounting entails the sale (rediscount) of securities (Treasury Bills, Treasury certificates and certificate of Deposits) by commercial banks to the central Bank for cash. Advances are loans to commercial banks on its promissory notes secured by adequate collateral.
The rate of interest at which the central Bank is ready to hold such transaction with the commercial banks is referre to as the discount rate or bank rate. This is the rate around which the spectrum of interests revolve. A high rate in terms of Advances or a low rate in terms of discounting, is an indication to the commercial banks to raise their lending rates. This regulates the amount of credit made available by commercial banks to potential borrowers.

5) Selective Credit Guidelines: This policy instrument is not meant for the purpose of regulating the volume of money, it essentially, directs credits facilities available to the banks to major economic activities as desired by the government.

Moral suasion is also used by the Central Bank to achieve its objectives.

LION BANK OF NIGERIA PLC

FUNCTIONAL ORGANIGRAM



CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

Depending on the nature of a research study. Various source notwithstanding the difficulties in obtaing such sources are available for data collection. Basically, there are two major sources of data collection, classified as primary and secondary sources; This research study is intended to gather some data that would provide information on how Lion Bank Nigeria Plc specifically manages it's funds.

The research data for the study were gathered mainly through the primary source of survey research method. The study would therefore be conducted in such a manner as to derive necessary information/data essential for arriving at meaningful conclusions as regards to fund management by commercial banks and specifically on Lion Bank Nigeria PLC.

3.2 APPROACHES TO DATA COLLECTION

The collection of data was approached through the following methods:

3.2.1 Questionnaire:

A questionnaire is simply a formalized schedule to obtain and record specified and relevant information with some accuracy and completeness. The questions was therefore constructed so as to promote clear and adequate information by

a) Giving the respondent clear comprehensive of the study.

b) Induce the respondent to want to cooperate and to trust that answers will be treated confidentially.

c) Stimulate responses through greater introspective, plumbing of memory or reference to record.

d) Give instructions on what is wanted and the manner of responding.

The questionnaire was then carefully designed to produce an effective questionnaire and circulated to some of the banks personnels and managers, who are in responsible positions to volunteer the required information. A copy of the questionnaire is attached as appendix I. The question are structured nondisguised whereby respondents are to answer the specific questions posed to them with the

objective clearly opened and therefore known by the respondents; so that accurate responses and data would be collected for an accurate and effective analysis.

3.2.2 Interview:

Considering the fact that some respondents were more willing to give oral response, interview were conducted by me to complement data collected through questionnaire. The non-directive depth type interview was used to allow the respondents talk freely and fully on the topic. Questions were only asked to fill in the gaps and round off the discussion.

Therefore, with the primary data survey collection methods of both the questionnaire and personal interview employed, a lot of information were gathered for the successful and effective data analysis of how Lion Bank Nigeria PLC specifically manage it's funds through the sources and application of its funds.

3.2.3 Secondary Data:

In addition to the primary source as discussed above, a well carefully appraised and scrutinished secondary source was employed, through the use of some magazines,

periodicals, financial reports and journals of Lion Bank Nigeria PLC.

Therefore, from both the primary and secondary source of collecting data and information as discussed above, a lot of information was obtained which was the base on which the data was analysed and conclusion and recommendation drawn.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 INTRODUCTION

Funds management is the core of the total operations of the Banking Industry. This is because it represent the centre bolt or bone of the organisation. Therefore, it is the organization toy and sadness. The prudential guideline issued by the Central Bank of Nigeria in 1991, also created a general awareness on the need for effective and efficient funds management in Banking Industry.

Banks generally get their funds mainly from customers deposits, profits from operation and sales of shares and so on; and applies these funds to various uses most especially loans and advances. In addition to conforming with the Central Bank of Nigeria Credit guidelines, credit disbursement must also confine it self to loans and securities of highest quality, if the bank must cover this cost and make profit in order to meet the shareholders expectations.

Most of the Lion Bank personnel interviewed, gave information partaining to funds managements to thebest of their knowledge and try to suggest ways in which the Bank can improve for future efficiency.

4.2 GENERAL INFORMATION ABOUT LION BANK NIGERIA PLC.

From the information deducted or gathered from both the questionnaire administered and personal interview conducted, Lion Bank Nigeria PLC was established in 1982 from the its initial name of Plateau Co-operative Bank and was incorporated as a Public Liability Company in 1987.

The Bank has six branches located in strategic commercial centres across the nation and it's head office in Jos, Plateau State.

Therefore, from the general information as gathered and mentioned above, one can say that Lion Bank of Nigeria PLC. was established in other to satisfy the general public as a whole, so as to be able to generate larger funds from customers deposits, sales of shares to the general public and so on. With this, the Bank was able to increase it's volume of funds coupled with the fact that all the branches spread across the nation are located in strategic position of commercial centres (for example the Lagos and Kano branches). The Bank was able to increase it's volume of funds from it's daily operation due to it strategic position, and maximise it's profit from the differen

ways it apply these funds.

4.3 SOURCES AND APPLICATION OF FUNDS IN LION BANK NIGERIA PLC

In the course of the research, it was discovered that Lion Bank Nigeria PLC., sources, and application of funds conforms to the general ways of various uses and application of funds. Most of the senior staff interviewed saw the importance of the bank's sources of funds, to them, it is what is keeping the bank in existence today and further stated that without a source of funds, the question of the application will not even arise even though the application of these funds increases the bank's profit level, and to avoid financial risk the bank tries to apply these funds judiciously.

4.3.1 Analysis of Sources of Funds:

From the interview held with some of the Lion Bank Nigeria Plc senior staff and managers and from information gathered or extracted from the questionnaire administered, the following were identified as the bank's main sources of funds.

462974

i) Customer Deposite: These comprises of Demand otherwise known as current, savings, time and call deposits. According to information, it is the bank's largest source of funds and constitute the most active funds for the bank.

ii) Funds from the sales of shares: From the data gathered, the bank sell shares to the general public in form of ordinary and preference shares. This constitute 58.09% of the total shares.

iii) Profit from operations: This comprises of interest or loans and overdraft, retained profit that the bank make from it various operations.

iv) Sales of fixed assets and depreciation was also identified by some of the staff as a sources of funds to the bank.

However, looking at the overall source of funds in Lion Bank Nigeria Plc, between the years 1990 to 1993 as shown in Table I, the picture shows a percentage increase from and over the figure of ₦17,502 million in 1990 of 396.5% from the figure of ₦872,97 million in 1991. Also, there is an increase of 64.4% from the figure of

₦87,297 million in 1991 to ₦143.487 million in 1992, while there is an increase of 21-16 from the figure of ₦173,699 million.

However, looking at the table very closely, profit before taxation falls very sharply in 1991, this is due to the fact that, Bad and doubtful debts were not recorded as part of the profit as stated in the 1991 Central Bank of Nigeria Prudential guideline.

Generally, one can say that there is an annual bases improvement on the overall sources of funds. A further close look at customer's deposits which is the major sources of funds for the bank constituted 86.9%, 44.3% and 93.7% to the total funds generated for the year 1991, 1992, and 1993 respectively. Table II also shows an annual percentage increase in the total Deposits and current account position of the bank of 35.1%, 21.8% and 48.2% for the years 1991, 1992 and 1993 respectively.

From the Interview conducted and information gathered from the respondents, about 75% of them are of the opinion that, the total deposits could have been higher than the present figures, if the following measures are adopted for

future better and efficient service:

a) Opening of cash offices in commercial and market centres.

b) Opening of additional Branches.

c) Aggressive advertisement and effective use of other promotional tools such as raffle draws etc.

The two notch increament and other financial compensation at the end of the financial year introduced as an incentive for all staff in 1992 even though welcomed, as verified by some of the personnels interviewed, but did not play much significant role in the increase in deposits.

On the whole, with the observations made above, it is the researcher view point that the bank, given it age has performed fairly well in the sourcing of it's funds and in relation to the central Bank of Nigeria guideline on same.

4.3.2 Analysis of Application of Funds:

From data gathered from all the responses of both the personal interview conducted and the questionnaire administered, the following was said to be the various ways by which the bank applies or uses its funds.

i) Loan and Avances to various categories of customers.

ii) Purchase of fixed assets

iii) Payment of taxes and dividends.

Further detail is however shown in Table III of Lion Bank Nigeria Plc application of funds. Analysing the table, Thus, there is an increase of ₦25.8 million in 1991 as against the 1990 figure of ₦23.2 million. Whereas, a fall of ₦38.4 million was recorded for 1992 which was due to according to information obtained, the Central Bank of Nigeria prudential guideline in 1991, which led to selective lending while there is an increase of ₦61.6 million in 1993 from the figure of 1992.

Information gathered from the data collected, identified some of the constraints faced by the bank in its application of funds.

i) The Central Bank of Nigeria prudential guidelines which stipulate the various classification of Bad and Doubtful debts. The guidelines state that any loans and advances outstanding after 180 days is decleared doubtful while those outstanding for

360 days are decleared Bad. This therefore, makes the provision of loans and advances more difficult and selective as the Central Bank of Nigeria prudential guideline insist that adequate provision should be made in this respect.

ii) Even though loans and Advances are considered as the Bank most profitable assets, there is the constraint of high interest rates. For example, the high interest rate of the period between 1992 to 1993 made lending generally unattractive to most investors. This therefore limited profit in terms of interest from loans and advances to the bank.

iii) Government allocation to Priority sectors: The bank from the information gathered, is reluctant to grant loans to Agricultural sector because of the inherent risks, for example natural hazards and high rate of default from this sector. Therefore, since the loans and advances allocated to this sector is not totally disbursed to the sector, The Central Bank normally debit the bank for the short-fall.

It is therefore noted by the researcher, that since such funds are kept idle due to the Central Bank credit guideline to priority sector: the bank funds management is then faulty to this respect. The bank will have to find new opportunities and ways having the central bank allocation to priority sector in mind to use these idle funds so as to increase the profitability base of the bank. The bank can also increase it fixed deposits so as to be able to raise the total loans and advances to this sector to conform with the guidelines.

iv) The bank balance sheet position at any given time, also determine the amount of loans and advances to be granted.

v) Lack of adequate collateral security from customers also constitute a form of constraint to the bank.

It was further gathered that in order to adhere to the guidelines laid down by the Central bank, this led to some of the constraints mentioned above by the bank. Therefore it was gathered as claimed by the senior personnel and managers that the bank try as much as possible to adhere to various guidelines as laid down by the Central Bank. However the respondents were not ready

to disclose the various rigorouse ways and means the use, so as to conform to these guideline. To them it is a sensitive aspect they can not disclose to an outsider and having the fear of their superiors in mind. Therefore, the conclusion that can be drawn is that the bank sometimes pretend to give out Loans and Advances as laid down by the Central Banks through different ways and means so that it would conform to the central Bank guideline to this respect for it to stay and continue in business.

Due to the financial sound position of the Manufacturing sector and to the fact that this sector default less in their payment of principal plus interest compare to other sector, the bank from the information gathered usually favour this sector when granting it's loans and credit facilities.

Generally, it is the researcher view also, that, the bank is fairly doing well in its application of it's funds, especially in trying to adhere to the Cenetral Bank of Nigeria prudential guidelines and Monetary and credit guidelines, except for the constraints and observations made or outlined above.

4.4 LOANS AND ADVANCES IN LION BANK NIGERIA PLC.

From the data gathered, loans and advances constitute an important aspect to the bank. This is because it is the major ways in which the bank applys it funds. It was also gathered that despite the rate of defaults, the bank make a lot of profits from interest paid in respect to loans and Advances. Loans and Advances therefore, form the bank crucial function in relation to it's management of funds since it increases the profitability base of the bank.

The statement above is supported from the picture of Lion Bank Nigeria Plc Loans and Advances between 1990 and 1993 as shown in Table IV. There is an annual increase of Loans and Advances between these periods of 1990, 1992 and 1993. The figure of 1991 of ₦47.000 million was lower than that of 1990. This was explained to be the effect of the Central Bank of Nigeria prudential guide-line in this year.

However, then though, Table IV shows a fairly satisfactory level of the bank annual increase in the level of loans and advances so as to generate more profits

to the bank, there is also a corresponding annual increase in the level of Non-performance Loans and Advances given to customers in form of sub-standard, Doubtful and Bad debts as shown in Table V. A further analysis reveals that the percentage total non-performence debt (sub-standard, doubtful and Bad) as against Total loans and Advances ie. both non performance and performing were 24.78%, 15.37% and 31.60% for the years 1991, 1992 and 1993 respectively. The percentages for 1991 and 1993 are quite alarming. The conclusion that can be drawn is that, there is no proper loan monitoring and credit analysis of such loans. This as therefore led to an annual increase in the provision for bad and doubtful debt from the year 1991 to 1993 of ₦3.02 million, ₦11.47 million and ₦22.39 million respectively, made available by the bank.

It is noted therefore, that as the bank increases it Loan and Advances to it's various categories of customers, it's bad and doubtful debt also ascends upward. Some of the respondents interviewed try to explain why when loans and Advances increases, Bad and doubtful debt also increases as follows:

i) The rising level of inflation coupled with the increase rate of interest contributed to loan default.

ii) Lack of proper documentation and execution of securities by the bank to ensure recovery of loans have made them loose substantial loans grants.

iii) A good percentage of bad debt is also believe to fall within loans granted to government contractors who are unablet to collect such money from the government due to political changes resulting from political and economic instability.

iv) Managers who have authority to approve loans have been very careless in the excerse of such authority. Most loans that have been approved have not been properly secured. Security papers are not properly documented and well perfected. Some managers have relied on their personal knowledge of a customer and on that basis granted loans which is not properly secured. This has caused many loans to be turned bad since honesty and mutual trust fails to work.

v) Customers are also blame of dishonesty to make good their obligations. However, the bank is still to be blame for their reckless lending policies.

vi) Fraudulent behaviour of bank staff with approving, controlling or monitoring loan has been identified as or major causes of Bad and Doubtful debts in the bank. Some approuving officers agree or collude with customers to dupe the bank in the pretence of granting advances. This is because, all the bank does, is dismissal, warning letter and/or suspension, more officers therefore, are getting more fraudulent. Most of the bank's personnel who were cought in embesslement were merely dismissed without recovery of such amount. Unless a very serious measures are taken on fraudulent officers to serve as an example to others, this trend of fraudulent behaviour among the staff will continue.

Further information reveals that the legal department of the bank handle cases such as, where values of the items mortgaged as securities for loans depreciate below or

appreciate above the value of the item at the time of maturity. It was further revealed by the legal department that the try as much as possible to settle their differences with the different categories of customers on a larger extent outside the court and only in few circumstances do they refer or resort to court actions.

It was also revealed that Gilt-edged securities is generally prefered by the bank since it is less risky and more profitable and the bank's balance sheet position, also determine the directive and trends of lending attitude especially in cases of limited funds.

Generally, from the data gathered, the bank does not require customers to mortgage any item as security in the case of an overdraft, what the bank does is a general financial evaluation of the individual or company that request for the overdraft, so as to determine the various ways and means available to such individuals or company in the payment of the said overdraft and interest to be paid.

In conclusion, majority of the senior staff and managers interviewed and information got from the respondents, the bank generally try as much as possible to adhere

to the Central Bank credit guideline and therefore try to a larger extent to grant loans to different sectors especially for manufacturing purposes.

4.5 CONCLUSION

As earlier stated Lion Bank Nigeria PLC secure it funds from various means so as to generate large funds to be able to increase it's operational efficiency. The bank try as much as possible to make judicious use of this funds, keeping in mind the central Bank of Nigeria credit guideline and the recent prudential guideline. However for future improvement and for better and effective services, the bank should improve upon it sources and application of it funds for an effective funds management as would be recommended in the next chapter.

CHAPTER FIVE

SUMMARY, RECOMMENDATIONS AND CONCLUSION

5.1 SUMMARY

This study has examined the concept of funds management by commercial banks with particular attention on Lion Bank Nigeria PLC. It has been established that Funds management constitute the most important function by commercial banks, therefore it's administration is to be given adequate attention.

The study also discussed the element of sources of funds available to commercial banks and how they apply these funds, with special attention to Lion Bank of Nigeria PLC. It also discussed government involvement in the activities of commercial banks through monetary policy instrument; and examine some specific economic activities affected by the role played by commercial banks in the economy.

The study also looked into some aspect and causes of Bad and doubtful debt which arises due to the application of funds and how it could be avoided for an effective credit management. Recommendations was then drawn to help Lion Bank Nigeria Plc in particular and other banks in general to effect the necessary corrections and changes

for future efficient and effective management of funds

5.2 RECOMMENDATION

From the findings of this study, the following recommendations become eminent.

5.2.1 ENLIGHTENMENT CAMPAIGN

A look at the statistic available at the bank reveals the consistently increasing volume of deposit lodged by customers. Deposits from customers form a greater part of commercial banks operating funds. It is therefore necessary that the customers are accurately enlightened on the policies and operational activities of the banks.

The author, therefore, recommends that the bank should embark on enlightement campaign by creating mobile enlightement units. This would afford a massive education of the banking community. In addition, the bank should make use of mass media, periodic publications and brochures for this task.

The bank should organise seminar and symposia at intervals, where the bank staff should deliver lectures touching on such staff's functions, so that customers

would have an opportunity to ask questions and air their own views. This would increase customers and potential customers awareness to the bank and possible increase their volume of deposits and this will in essence increase fund available to the bank.

5.2.2 Special Training Scheme for Staff:

Management of commercial banks and Lion Bank Nigeria PLC specifically should introduce an orientation course for their newly employed. Also, there should be periodic training of bank staff to expose them to new operational methods. The essence of this recommendation, is that, it will help inculcate a sense of good public relations in banks staff and therefore, improve bank customer relationship.

5.2.3 Creation of Special Departments:

The author recommends, that the bank should establish strong agricultural and small scale enterprises departments with adequate staffing. This will make it possible for bank officials to efficiently monitor the use of the loans granted to the farmers and small scale enterpreneurs, and ensure that they do not commit loans to wasteful spending

as such, the banks would not find much difficulty in redeeming loans and advances granted to customers.

5.2.4 Opening of Cash Centres:

The author recommends opening of cash centres strictly meant for savings and withdrawals. This centre will enhance proper savings mobilization and further help in checking the existing chaotic situations in the banks. This in effect increase funds made available to the bank.

5.2.5 Rationalization of Work:

Efforts should be made by the management to make and intensive examination of the quality of services rendering to the banking community. There is the need to establish methods that will ensure quarel-free services at the counter and a cut down on the unnecessary waste of customer's time. These, can only be achieved by complete modernization of the instruments of operation, methods of service and laid down procedure of the bank.

The author, therefore, calls for the computerization of bank services from the counter to the control room at all branches of the bank. This makes for effective and

quick service to customers. However, as an immediate alternative to this because of the huge finance required for it, the author recommends that the management should assign at least, two reference clerks to each of the cashiers in the cage for quick services. This can lead to an efficient service to the customer and in effect an increase in financial base of the bank.

5.2.6 Efficient Credit Administration and Bank Management:

Credit administration and Bank management must ensure that loans policies and credit guidelines are effectively implemented and strictly adhered to in all cases. An efficient credit department with honest personnel should be established to develop facts that are both timely and accurate, permitting more current credit decisions.

It is, therefore, recommended that loans should be made available to individuals who the banks ascertain that would make profitable use of it. However, individuals qualification requirements for loans should not be made too rigid; loans may be limited to individuals confirmed annual income. In the case of private businessmen or companies, the presentation of another established business man who has account with the bank to stand as surety can serve as a collateral.

5.2.7 Management Committment:

Management committment to addressing the issue of Bad and doubtful debt must be real, so as to ensure adequate loan/asset review function with an appropriate risk 'grading and trend analysis capability, so as to address the issue of increase bad and doubtful debt for an effective credit portfolio.

5.2.8 Government Credit Guideline:

There should be a review of the penalties stipulated for defaults of credit guideline by the government. The penalties still are very elastic, and commercial banks may be less bothered for the consequences of a default. The penalties should be more severe.

5.3 CONCLUSION

If the above recommendations can be carefully and patiently-implemented by commercial banks and specifically Lion Bank Nigeria PLC, it will help banks to effectively and efficiently manage their funds for better and improved service for profit maximisation.

The recommendations, will also eliminate the ignorance on the part of the majority of the banking community and,

will help to remove the bottlenecks that exist in the money market which hamper the economic development of the country.

The recommendation would further remove the myth surrounding banking activities in the eye of the layman of the banking community and, finally improve on the relationship and understanding existing between bankers and their customers.

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APPENDIX I

Questionnaire Distributed to Lion Bank Nigeria PLC. Personnel

1. When was Lion Bank Established?
2. When was it incorporated?
3. How many Branches of the Bank do you have in Nigeria?
4. Briefly state the sources of funds for the Bank.....
5. Briefly state ways the Bank applies or uses it's funds
6. What are some of the constraints faced by the Bank in terms of the application of it's funds?
7. Has the Bank been found guilty of violating the governments credit guidelines as laid down government allocation on priority sectors. What sector(s) does your bank favour most in granting credit facilities?
8. Loans and Advances are considered banks must risky but most profitable assets owing to high interest. What is your own opinion with reference to your bank?.....
9. Items are mortgaged as security for loan; what happens, if such items depreciate below or appreciate above the value of the loan at the time of maturity, assuming the customer defaults? .....

11. What determine the limit of loans and overdraft facilities granted to individuals?.....

12. What determine the limit of overdraft facilities granted to companies? .....

13. In the case of overdraft would the customer be required to mortgage any item as security?.....

14. Does the Bank's own balance sheet position determined trend of lending? Comment.....

15. Sometimes, the purpose for which customers require credit facilities is not favoured by the Central Bank of Nigeria's credit guidelines, briefly state such purposes that are favoured: .....

TABLE I:

SOURCES OF FUNDS IN LION BANK (1990-93)

	1990 (₦'000)	1991 (₦'000)	1992 (₦'000)	1993 (₦'000)
Profit before taxation	12,542	3772	15,942	21,399
Adjustment for items not involving the movement of funds.				
Depreciation	1,341	2012	2,876	4,584
Less on disposal of fixed assets	-	-	7	-
Total funds generated from operations	13,865	5784	18,825	25,983
Funds from other sources:				
Increase in share capital	3,717	5660	-	35,000
Increase in share premium	-	-	-	14,000
Increase in customers deposit	-	75853	63,631	171,477
(Decrease)/Increase due to other banks	-	-	60,918	(72764)
Proceeds of sale of fixed assets	-	-	113	-
Total funds generated	17582	87297	143487	173696

Source: Lion Bank Nigeria Plc Reports and Accounts.

TABLE II

LION BANK OF NIGERIA PLC
DEPOSIT AND CURRENT ACCOUNT 1990-1993

	1990 (₦'000)	1991 (₦'000)	1992 (₦'000)	1993 (₦'000)
Demand	57141	142217	124911	207164
Savings	24319	64727	94208	118392
Time and Call	134397	84766	134703	191790
Domicillary	-	-	1519	9464
TOTAL	215857	291710	355341	526818

Source: Lion Bank Nigeria PLC. Annual Report and Account.

TABLE III:

APPLICATION OF FUNDS IN LION BANK (1990-1993)

	1990 (₦'000)	1991 (₦'000)	1992 (₦'000)	1993 (₦'000)
Share issue expenses	-	(1234)	-	(2326)
Increase in Loans and Advances	(4,941)	19,511	(24969)	(28155)
Tax Paid	(220)	(3203)	(3888)	(672)
Dividend Paid	-	(4002)	-	(7232)
Purchase of fixed assets	(4900)	(6289)	(9004)	(16228)
Increase/(Decrease) in other assets	5796	41403	7894	(265,459)
Increase/(Decrease) in other Liabilities	8660	(4272)	19354	247855)
Decrease in customer deposit	(8)	-	-	-
Decrease in due to other banks	(27590)	(8153)	-	-
Total Funds Applied	23,203	49,045	10,613	72,217
Net inflow of funds	(5621)	(38252	132874	101477

*Source: Lion Bank Nigeria Plc. Annual Report and Accounts

TABLE IV

LION BANK OF NIGERIA PLC.

LOANS AND ADVANCES (1990 - 1993)

	1990 (₦'000)	1991 (₦'000)	1992 (₦'000)	1993 (₦'000)
Secured against Real Asset	7933	11352	20558	49045
Otherwise secured	54150	34941	48516	56302
Unsecured	5143	12124	14108	16634
TOTAL	67226	58417	83182	121981
Les: Provision for bad and doubtful debt	-	8026	11744	22388
	67226	47004	71438	99593

Source: Lion Bank Nigeria PLC. Report and Accounts.

Table V

LION BANK OF NIGERIA PLC

LOAN AND ADVANCES: ANALYSIS OF PERFORMANCE (1991-1993)

	1991 (₦'000)	1992 (₦'000)	1993 (₦'000)
Non Performance:			
Sub Standard	914	2282	13882
Doubtful	2320	478	9080
Bad	11243	10038	15594
	14477	12798	38556
Performing	43940	70384	83425
	58417	83182	121981

Source: Lion Bank Nigeria PLC Annual Report

FOOTNOTES

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