ANALYSIS OF FUNDS MANAGEMENT IN PROVIDING A SOUND BANKING SYSTEM IN NIGERIA

(A CASE STUDY OF UNION BANK OF NIGERIA PLC, ILORIN)

By

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CERTIFICATION

This is to certify that this project work by **OJERINDE HABIBAT MORENIKEJI,** with matriculation number **HND/23/BFN/FT/0052** has been read and approved as meeting the requirements for the award of Higher National Diploma (HND) in the Department of Banking and Finance, Institute of Finance and Management Studies, Kwara State Polytechnic, Ilorin.

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DEDICATION

This project is dedicated to almighty God for his faithfulness, blessings and mercy over my life throughout the course of my study. Am grateful Lord. I also equally dedicated this project to my wonderful and beloved husband.

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All praises, adoration and glorification are due to Almighty God the most gracious, the most beneficent, the most merciful.

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ABSTRACT

This study investigates the role of funds management in ensuring a sound banking system, using Union Bank of Nigeria Plc, Ilorin as a case study. The research focuses on evaluating the effectiveness of current funds management practices, identifying internal and external challenges, and examining their impact on the bank's financial performance and overall banking system stability. Adopting a descriptive survey design, data were gathered through questionnaires, interviews, and financial records, with a sample size of 50 bank employees. The findings reveal that effective funds management significantly contributes to improved liquidity, operational efficiency, and risk mitigation. However, challenges such as economic volatility, regulatory pressures, and declining liquidity were identified as major constraints. The study concludes that strategic funds management is crucial for enhancing financial stability and recommends adopting modern analytics tools, strengthening risk management frameworks, and improving governance structures. These measures are essential for Union Bank and other financial institutions to maintain competitiveness and sustainability within Nigeria's evolving financial landscape.

Keywords: *Funds Management, Banking Stability, Liquidity, Risk Management, Union Bank, Financial Performance, Nigeria, Asset-Liability Management*

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The banking system serves as the backbone of any economy by facilitating financial intermediation, ensuring liquidity, and promoting economic growth Adeniran & Yusuf, (2020). Banks play a pivotal role in mobilizing funds from surplus sectors and allocating them to deficit sectors, thus driving economic development Ogunleye, (2019). Effective funds management is critical to maintaining a sound banking system, as it involves the prudent allocation of resources to maximize returns while minimizing risks Ekundayo, (2021).

In the Nigerian banking sector, the need for effective funds management has become more pronounced due to recurring challenges such as liquidity crises, credit risks, and economic volatility. These challenges have highlighted the importance of sound financial management practices to ensure the stability and efficiency of banks Adewumi, (2020). Union Bank of Nigeria PLC, as one of the key players in the industry, provides an excellent case for examining how effective funds management contributes to the overall health of the banking system.

Funds management encompasses the strategies and practices involved in balancing the inflow and outflow of resources, maintaining liquidity, and investing prudently to achieve profitability Onoh, (2022). The dynamics of the Nigerian banking environment, including regulatory frameworks, competition, and macroeconomic factors, further emphasize the necessity for banks to adopt robust funds management strategies Eke, (2021). Union Bank's operations in Ilorin provide a representative context for exploring these dynamics within a specific geographic and organizational setting.

The banking industry has adopted a lot of strategies in checking credit management in order to stay in business. Thu the banking industry in Nigeria has lost large amount of money as a result of the turning source of credit exposure and taken interest rate position. Nigerian banks are being required in the market because of their competence to provide transaction efficiency, market knowledge and funding capability. To perform these roles, the banks act as the most important participants in their transaction process of which they use their own balance sheet to make it easier and making sure that their associated risk is absorbed.

Credit extension is essential function of banks and the bank management strive to satisfy the legitimate credit needs of the community it tends to serve. This credit advances by banks as a debtor to the depositor requires exercising prudence in handling the funds of depositors. The Central Bank of Nigeria established a credit act in 1990 which empowered banks to render returns to the credit risk management system in respect to its entire customers with aggregate outstanding debit balance of one million naira and above Ijaiya and Abdulraheem, (2000).

This made Nigerian banks to universally embark on upgrading their control system and risk management because this coincidental activity is recognized as the industry physiological weakness to financial risk. The researcher, a New yolk-based, said that 40% of Nigerian banks that made up exchange rate value in west Africa, has reduced the operating lending as a result of bad debts which hit more than $10 billion in 2009 and this has led to a tied-up questioning asset that is holding almost half of Nigerian banks. The central bank of Nigeria fired eight chief executive officers and set aside $ 4.1 billion in order to bail out almost 10 of the country‟s lenders. The reform which was introduced by Central Bank of Nigeria (CBN) in 2010 has made Nigerian banks resume lending supporting assets management companies and set up the requirement which will allow Nigerian banks make full provision for bad debts that will boost the market.

The banks identify the existence of destructive debtors in the banking system whose method involved responding to their debt obligations in some banks and tried to have contract of new debts in other banks. Banks are trying to make the database of credit risk management system more open for them to be more functional and recognized as to enable banks to enquire or render statutory returns on borrowers. There are some banking practices which increase the risks in the bank and cannot be easily changed. This result still leads to the question: what are the possible ways that will help make Nigerian banks manage their credit risks?

Credit risk management helps credit expert to know when to accept a credit applicant as to avoid destroying the banks reputation and making decision in order to explore unavoidable credit risk which gives more profit. Controlling a risk results in encouraging rewards that give internal audit more technical support service and customized training in banks or financial institutions. This research is presented to outline, find, investigate and report different state of techniques in funds management practices of Union Bank of Nigeria PLC, Ilorin, to understand their role in ensuring financial stability and service efficiency. By investigating these practices, the research will contribute to broader discussions on improving banking operations in Nigeria.

1.2 Statement of Problems

The Nigerian banking sector faces significant challenges in the area of funds management, which have contributed to recurring issues of instability and inefficiency. These challenges include:

1. Inefficient Allocation of Funds**:** Many banks struggle to allocate resources effectively, resulting in unproductive investments and reduced profitability Adewumi, (2020).
2. Liquidity Crises**:** Poor liquidity management has led to periodic crises, undermining the confidence of customers and investors Onoh, (2022).
3. High Levels of Non-Performing Loans (NPLs)**:** Ineffective credit administration practices have resulted in rising levels of NPLs, further straining financial stability Eke, ((2021).
4. Impact of Economic Volatility**:** External factors such as exchange rate fluctuations and inflation adversely affect fund utilization and risk management in banks Ogunleye, (2019).
5. Regulatory and Compliance Issues**:** Banks often face difficulties in adhering to regulatory requirements concerning funds management, leading to penalties and reputational damage Adeniran & Yusuf, (2020).

These problems collectively hinder the ability of banks to maintain a sound financial system and meet the demands of their stakeholders. This study will investigate these issues with a focus on Union Bank of Nigeria PLC, Ilorin, to identify the underlying causes and propose actionable solutions for improvement.

1.3 Research Questions

This study aims to explore the effectiveness of funds management practices and their impact on the financial performance of Union Bank of Nigeria Plc, Ilorin. To achieve this, the following research questions are posed:

1. What funds management strategies are currently employed by Deposit Money Bank?
2. What internal and external challenges does Deposit Money Bank, face in managing its funds effectively?
3. Is there a significant relationship between effective funds management and the overall soundness of the banking system?

1.4 Objectives of the Study

The main objective of the research work is to evaluate the effectiveness of funds management practices in enhancing the financial performance and stability of Deposit Money Bank.

The specific objectives are:

1. To assess the current funds management strategies employed by Deposit Money Bank.
2. To identify the internal and external challenges faced by the bank in managing its funds effectively.
3. To examine the relationship between effective funds management and the overall soundness of the banking system.

1.5 Research Hypothesis

H_{01}: Funds management does not significantly affect the stability of Union Bank of Nigeria PLC.

H_{02}: Effective funds management does not significantly enhances the stability of Union Bank of Nigeria PLC.

H_{03}: There is significant relationship between effective funds management and the overall soundness of the banking system.

1.6 Significance of the Study

This study on the analysis of funds management in providing a sound banking system, with a focus on Union Bank of Nigeria PLC, Ilorin, holds significance in the following ways, the study provides insights into the effectiveness of funds management practices, helping banks optimize their operations and improve their financial stability. Findings from the study can assist policymakers, including the Central Bank of Nigeria (CBN), in designing and implementing regulations that enhance the soundness of the banking system.

By examining risk mitigation strategies related to funds management, the study aids financial institutions in better understanding and addressing risks associated with liquidity, credit, and market fluctuations. Bank managers and stakeholders can utilize the study’s findings to make informed decisions regarding resource allocation, investment strategies, and asset-liability management.

This research contributes to the existing body of knowledge on funds management and banking soundness, serving as a reference for future studies and academic discourse. A sound banking system is crucial for Nigeria's economic stability. This study identifies best practices in funds management that can strengthen the banking sector's role in economic development.

The study raises awareness among customers, investors, and other stakeholders about the importance of effective funds management in ensuring the security and reliability of banking services. The recommendations from this study can be implemented not only by Union Bank PLC but also by other financial institutions to enhance their funds management frameworks.

1.7 Scope and Limitations of the Study

1.7.1 Scope

This study focuses on examining the role of funds management in ensuring a sound banking system, with a specific case study of Union Bank of Nigeria PLC, Ilorin branch. The research is limited to the Union Bank PLC branch in Ilorin, which serves as a representative sample of the banking sector in Nigeria. The study explores key aspects of funds management, including liquidity management, asset-liability management, investment strategies, and risk management practices. The study reviews financial practices and management strategies employed by the bank over the past five years (e.g., 2018–2023). The research targets bank employees, financial analysts, and policymakers to provide insights into the effectiveness of funds management strategies.

1.7.2 Limitations

While this study aims to provide valuable insights into funds management and sound banking practices, it is constrained by the following limitations:

1. **Restricted Coverage**: The study is limited to a single branch (Ilorin) of Union Bank PLC and may not fully capture the practices of other branches or banks in Nigeria.
2. **Data Accessibility**: Some sensitive financial data and proprietary information may not be accessible due to confidentiality policies, limiting the depth of analysis.
3. **Time Constraints**: The timeframe for conducting the study is relatively short, which may restrict the scope of data collection and analysis.

1.8 Definitional of Terms

Funds Management: The strategic handling of financial resources to ensure liquidity, profitability, and sustainability within an organization, particularly in the banking sector.

Financial Intermediation: The process by which financial institutions, such as banks, facilitate the flow of funds between savers and borrowers.

Liquidity Crisis: A situation where a financial institution lacks sufficient cash flow to meet its short-term obligations.

Guarantor: A person or group of persons who stand for bank customers for credit facilities.

Non-Performing Loans (NPLs): Loans on which the borrower has defaulted or is significantly behind in scheduled payments.

Regulatory Framework: The set of laws, guidelines, and policies established by financial authorities to ensure the stability and integrity of the banking system.

Financial Statement: They are firm balance sheets, profit and loss account and classified statement which show the financial state of affairs of the firm.

Risk Management: The process of identifying, assessing, and mitigating financial risks to ensure stability and profitability.

Economic Downturn: A period of negative economic growth characterized by declining business activity and financial instability.

Capital Adequacy: The ability of a bank to absorb potential losses and meet its financial obligations using its capital base.

Monetary Policy: Economic strategies implemented by a central bank to control money supply, inflation, and interest rates.

Credit Risk: The risk of loss resulting from a borrower's inability to repay a loan or meet contractual obligations.

Operational Efficiency: The ability of a bank to deliver services effectively while minimizing costs and maximizing output.

Corporate Governance: The framework of rules, relationships, and practices by which a financial institution is directed and controlled.

1.9 Plan of the Study

The plan of this study outlines the structure and methodology employed to explore the analysis of funds management in providing a sound banking system, with a focus on Union Bank of Nigeria PLC, Ilorin. The study is divided into the following chapters:

Chapter One: This chapter introduces the study, outlining its background, problem statement, objectives, research questions, and hypotheses. It also highlights the study's significance, scope, and limitations, providing a foundation for the research.

Chapter Two: This chapter presents a comprehensive review of relevant literature on funds management and banking systems. It explores theoretical frameworks, previous studies, and key concepts such as liquidity management, risk management, and asset-liability management.

Chapter Three: This chapter outlines the methods and techniques used for data collection and analysis. It includes: Research Design, Population and Sample, Data Collection Methods and Data Analysis Techniques.

Chapter Four: Data Presentation and Analysis, **t**his chapter focuses on the presentation and analysis of collected data. It includes: Statistical and qualitative interpretation of data, Testing of hypotheses and Discussion of findings in relation to the research objectives.

Chapter Five: The final chapter summarizes the key findings, draws conclusions based on the research objectives, and offers recommendations for improving funds management practices in the banking sector.

CHAPTER TWO

2.0 Literature Review

The review reveals that funds management is integral to the stability and profitability of banks. However, Nigerian banks face unique challenges due to macroeconomic instability and regulatory dynamics. The findings underscore the need for innovative strategies and enhanced risk management practices to achieve a sound banking system.

2.1 Conceptual Review

2.1.1 Concept of Funds Management

Funds management refers to the strategic planning and control of a bank's financial resources to achieve liquidity, profitability, and stability. It involves balancing the inflow and outflow of funds, optimizing the allocation of resources, and ensuring compliance with regulatory requirements. In the context of Nigerian banking, effective funds management has become critical due to economic instability, inflationary pressures, and frequent policy changes (Adeyemi, 2021).

Funds management, often synonymous with asset management, refers to the strategic oversight and administration of a financial institution's cash flow. This process involves aligning the maturity schedules of deposits with loan demands to ensure liquidity and operational efficiency. Fund managers are responsible for analyzing both liabilities and assets to facilitate the institution's ability to extend credit and meet its financial obligations (Ogunleye, 2020).

2.1.2 Key Components of Funds Management

1. **Liquidity Management**: Banks must maintain sufficient liquidity to meet customer withdrawals and operational expenses. According to Oke and Oyinlola (2022), Nigerian banks often struggle with liquidity due to volatile economic conditions and regulatory pressures.
2. **Asset-Liability Management (ALM)**: ALM involves managing the bank's assets and liabilities to mitigate risks such as interest rate fluctuations and credit risks (Eze, 2019). Effective ALM is critical for maintaining financial stability and sound banking operations.
3. **Risk Management**: Effective risk management is essential for minimizing exposure to market, credit, and operational risks. Akinyemi and Olawale (2020)

argue that Nigerian banks' ability to manage risks significantly influences their profitability and sustainability.

2.1.3 Importance of Funds Management in Banking

Effective funds management is crucial for the stability and profitability of banking institutions. Its significance can be highlighted in several key areas:

1. **Liquidity Maintenance**: Ensuring that the bank has sufficient liquid assets to meet short-term obligations and unexpected withdrawals is paramount. Proper funds management helps in estimating liquidity requirements and meeting those needs cost-effectively.
2. **Risk Mitigation**: By carefully managing the balance between assets and liabilities, banks can minimize exposure to risks such as interest rate fluctuations and credit defaults. This proactive approach safeguards the institution's financial health.
3. **Profit Optimization**: Strategic allocation of funds allows banks to invest in profitable ventures while maintaining necessary reserves. This balance enhances the institution's return on assets and equity.
4. **Regulatory Compliance**: Adhering to regulatory requirements regarding capital reserves and liquidity ratios is essential. Effective funds management ensures that banks meet these standards, thereby avoiding penalties and maintaining their operating licenses.
5. **Customer Confidence**: A well-managed bank instills confidence in its customers, attracting more deposits and fostering long-term relationships. Trust in the institution's financial stability is a cornerstone of sustained growth.

2.1.4 Challenges of Funds Management in Nigeria

Studies have identified several challenges faced by Nigerian banks in managing funds, including:

i. **Economic Volatility**: Frequent changes in exchange rates and inflation disrupt funds management strategies (Olufemi, 2021).
ii. **Regulatory Constraints**: Strict policies from the Central Bank of Nigeria (CBN) can limit flexibility in funds allocation (Ibrahim & Ahmed, 2020).

iii. **Technological Gaps**: Limited adoption of advanced financial technologies hinders efficient funds management (Omotayo, 2022).

2.1.5 Banking Soundness

Banking soundness refers to the stability and resilience of a banking institution, indicating its capacity to withstand economic fluctuations and adverse financial events. A sound banking system is characterized by strong financial health, effective risk management practices, and compliance with regulatory standards.

The assessment of a bank's soundness involves evaluating its risk management procedures, internal controls, and adherence to both internal policies and external regulations. Regulatory bodies conduct examinations to ensure that banks lend responsibly, manage their loan portfolios effectively, and maintain adequate capital reserves.

2.1.6 Interrelationship between Funds Management and Banking Soundness

Effective funds management is integral to maintaining banking soundness. By strategically overseeing cash flows and ensuring liquidity, banks can meet their financial obligations, support customer needs, and pursue profitable lending opportunities. Conversely, inadequate funds management can lead to liquidity crises, increased credit risk, and potential insolvency, thereby undermining the stability of the banking institution.

In summary, a comprehensive understanding of funds management and banking soundness is crucial for analyzing how financial institutions, such as Union Bank of Nigeria Plc, Ilorin, can enhance their operational stability and contribute to the overall health of the financial system.

2.1.7 Cash Planning

According to Oyebanki (2005), cash flow is an inseparable parts of business operation to all banks, the bank need cash to invest in loans, overdraft and make payment for operating expenses. A firm cash flow are perfectly matched by its cash outflows, thus the need for cash forecasts weight be less. However, most firms find that such sash inflows and outflows cannot be confidence. Union Bank Plc Ilorin does not dial in product manufacture but rather provide services to customers who are engaged in various business inflow and outflow of cash in bank. The flow of fund follows certain trends weekly, monthly and yearly.

In a work, cash withdraw from the bank mostly on Monday and Friday, customer withdraw money to be spent over the weekend on Friday and come to withdraw again to replenish spent. During the month, the bank need more cash to satisfy its customer at month end. However, more money is needed at the end of the year particularly December. Cash planning is a technique of planning and controlling the use of cash. Cash planning protects the financial position of the bank developing a projected cash statement from a forecast of expected cash of inflows and outflows for given period. The forecast are based on the present operations and something on anticipated future operations.

2.1.8 Cash Budget

Oyebanji (2005), the cash budget is most significance device, the bank uses to plan and control the cash receives and payment. It is a summary statement of the firms expected cash inflows and outflows over a projected period of time. It helps the manager and the accountant to knowledge that can be applied to future projection of cash flow that will be need to attain the objective that been laid down. Regarding in intermittent period of recession and continues inflation, increased corporate debt and decision making relating to the business environment, the financial manager has a challenging task ahead. The financial executive will need to review his position in a fundamentally new way. He can no longer avoid to view himself only as a controller of treasure. These are two most popular forms of bank lending in the present day banking services in Nigeria namely, loan and overdraft other forms including discounter trade bills or investing in stock. Impended in his book was the view that "the basic goals of credit management is to maximize the value of the firm by achieving a tradeoff between liquidity and profitability". He said "the firm should manage its credit in such a way that sales are expanded to an extent to which remain without acceptable limits".

However, to achieve these objectives of maximizing the value of the firm, they should manage its advances so as to:

1. Obtain optimum (not maximum) cash.
2. Control the cost of credit to keep it as a minimum and
3. Maintain investment in receivable (debtors and optimum level).

It is this evident that cash management is highly important in the management of a company and this should be pursued with every to vigor to avoid not just lack of growth but also the embarrassing problem of insolvency.

2.1.9 Cast Balance to Current Assets Ratio

The cash balance and current assets are all refers to a particular balance sheets date. The figure of currents assets balance the cash balance figure. In Union bank Plc Ilorin, if the cash balance of the sheet date is N620,000, the ratio would be 10%. It helps the financial manager to provide a rough guide to the minimum cash balance the firm should holds. This type of ratio is certainly very important in banking.

2.1.10 Limitation of Credit Creation

Like any other deposit money bank the ability of union bank Plc, Ilorin to create credit depends on some of the following factors:

1. **The Liquidity Ratio:** Banks are expected to keep a percentage of their assets in cash to meet public demand. If the ratio at which assets are to be kept in high cash dictated by experience or legal consideration, the money creating of power of the bank will be limited.
2. **The Possibility of Cash Brain of Other Bank:** An individual bank ability to grant credit to customer depends largely on the willingness of their bank to do the same. If other banks are not prepared to grant loans than an individual banks lending ability will be limited since money lent will find its way into banks thereby draining such as individual banks reserve.
3. **The Collateral Security Available:** Before loan can be granted banks usually ask for some assets to serve as collateral security so that in case defaults, such assets could be sold and the amount realized is used to cover the loans. At anytime, the amount of security available may limit bank lending since lending is not possible in the absence of collateral security.
4. **The Monetary Authorities Action:** The central bank has a number of measure that include, adjusting the bank ratio, capital market operation direct control, special deposit e.t.c
5. **Government Legislation:** The withdrawal of government accounts restricts deposit money banks' ability to create credit.

This is so because government keeps deposit with deposit money banks and the deposit constitute parts of the loans and advances given to their customer with the government directive to withdrawal its account from deposit money banks in the central bank, most banks, t is speculated that most bank will not be able to give sufficient credit to customer nor can they meet their operating cost.

2.2 Theoretical Review

The study is anchored on two key theories

2.2.1 Liquidity Preference Theory

The Liquidity Preference Theory, developed by John Maynard Keynes in his 1936 book *The General Theory of Employment, Interest, and Money*, explains how interest rates are determined by the interaction of money supply and demand. Keynes argued that individuals prefer to hold liquid assets, such as cash, rather than investing in bonds or other non-liquid assets unless they receive adequate compensation in the form of higher interest rates. He identified three primary motives for holding money: the transaction motive, where individuals and businesses keep cash for daily expenditures; the precautionary motive**,** which accounts for money held to cover unexpected expenses; and the speculative motive**,** where investors retain cash to take advantage of future investment opportunities, particularly when they anticipate bond prices to decline and interest rates to rise (Keynes, 1936).

The theory has significant implications for interest rate determination, monetary policy, and investment decisions. Interest rates are influenced by the balance between money supply (regulated by central banks) and the liquidity preferences of individuals and businesses. Central banks, such as the Federal Reserve or the Central Bank of Nigeria, adjust the money supply to control interest rates and economic stability. When interest rates are high, individuals and businesses prefer saving over investing in non-liquid assets, whereas lower interest rates encourage investment and economic growth (Mishkin, 2019).

In fund management, the Liquidity Preference Theory plays a crucial role in shaping investment strategies and financial planning. Fund managers must carefully assess liquidity risks and allocate assets based on market conditions and expected interest rate movements. High liquidity preference in uncertain economic times can lead to increased demand for cash and short-term assets, while low liquidity preference in stable economic conditions encourages long-term investments in stocks, bonds, and other assets. Understanding liquidity preference helps fund managers optimize portfolios, balance risk and return, and make informed decisions on asset allocation to maximize returns while ensuring sufficient liquidity for financial obligations (Dornbusch et al., 2018).

2.2.2 Agency Theory

Agency Theory explains the relationship between principals (owners or shareholders) and agents (managers or employees) in a business setting. Developed by economists Jensen and Meckling (1976) in their work *Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure,* the theory highlights potential conflicts that arise when agents, entrusted with decision-making authority, act in their own interests rather than prioritizing the best interests of the principals. Due to information asymmetry and differing objectives, managers may engage in actions such as excessive risk-taking, pursuing personal financial benefits, or making decisions that maximize short-term gains rather than long-term value for shareholders. These conflicts create agency problems, leading to agency costs-expenses incurred in monitoring, controlling, and incentivizing agents to align their behavior with the goals of the principals.

To address these issues, organizations implement governance mechanisms such as board oversight, executive compensation structures, and performance-based incentives to ensure managers act in the best interest of shareholders. Companies also rely on contracts, audits, and transparent reporting systems to reduce information asymmetry and strengthen accountability in financial management. In investment decision-making, agency problems can lead managers to prioritize projects that enhance their job security rather than those that maximize shareholder value. Similarly, firms establish monitoring frameworks, regulatory compliance, and shareholder activism to minimize agency costs and encourage ethical decision-making (Fama & Jensen, 1983).

In fund management, Agency Theory plays a crucial role in ensuring that fund managers (agents) prioritize the interests of investors (principals). Investors entrust fund managers with capital, expecting them to make decisions that maximize returns.

However, fund managers may engage in self-serving behaviors such as excessive trading to generate higher management fees, taking unnecessary risks, or prioritizing job security over optimal investment strategies. To mitigate these risks, investment firms implement performance-based fee structures, strict regulatory oversight, and transparency in financial disclosures. These mechanisms help align incentives, reduce conflicts of interest, and ensure that fund managers act in the best interest of investors, fostering efficiency and trust in financial markets (Shleifer & Vishny, 1997).

2.3 Empirical Review

Empirical studies on funds management and its role in ensuring a sound banking system have provided significant insights into the financial stability of banks in Nigeria. Several researchers have examined how effective fund management practices contribute to liquidity control, risk mitigation, profitability, and overall banking performance.

A study **by** Adegbite and Olayemi (2020) analyzed the impact of fund management on the financial stability of Nigerian banks, using Union Bank of Nigeria Plc as a case study. Their findings revealed that effective fund allocation, investment diversification, and risk management strategies positively influence a bank's liquidity and solvency. The study emphasized the importance of asset-liability management (ALM) in maintaining a balanced financial structure to mitigate risks associated with liquidity shortages and capital inadequacy.

Similarly**,** Ogunleye (2019) investigated the relationship between liquidity management and bank performance in Nigeria. The study, which utilized data from commercial banks including Union Bank Plc, found that poor liquidity management often leads to financial distress and bank failures. The research highlighted the significance **of** prudential guidelines, regulatory compliance, and proactive financial planning in sustaining a healthy banking system. The study recommended that banks should strengthen their internal control mechanisms and adhere strictly to Basel Accord principles to enhance financial soundness.

Furthermore, Afolabi and Ajayi (2018) conducted an empirical study on the role of fund management in credit risk mitigation among Nigerian commercial banks. Their research indicated that banks with strong risk assessment frameworks and sound financial monitoring systems tend to have lower non-performing loan (NPL) ratios. The study underscored the importance **of** credit appraisal techniques, loan diversification, and periodic financial audits in ensuring long-term stability in the banking sector.

In a related study, Uchenna (2021) assessed the impact of monetary policy on fund management in Nigerian banks. The study found that fluctuations **in** interest rates, cash reserve ratios, and monetary policy rates significantly affect banks' ability to manage funds effectively. The findings suggested that banks should adopt flexible financial strategies to adapt to regulatory changes and economic shocks.

The empirical evidence suggests that fund management plays a critical role in ensuring the stability, profitability, and resilience of Nigerian banks. For Union Bank of Nigeria Plc, adopting a robust fund management framework that incorporates effective liquidity management, risk assessment, and regulatory compliance can enhance its financial strength and operational efficiency. These findings reinforce the necessity for banks to align their financial strategies with global best practices to maintain a sound and sustainable banking system in Nigeria.

CHAPTER THREE

1.0 Research Methodology

3.1 Introduction

This chapter presents the research methodology adopted for the study on funds management and its role in providing a sound banking system in Nigeria, using Union Bank of Nigeria Plc, Ilorin as a case study. The chapter describes the research design, the population of the study, and the sampling techniques employed. It also outlines the methods of data collection and analysis, ensuring that the research is conducted systematically to achieve reliable and valid results.

3.2 Research Design

The study adopts a descriptive survey research design, which is appropriate for analyzing the role of fund management in banking stability. This design enables the researcher to gather both quantitative and qualitative data to understand the financial management practices within Union Bank. The survey approach allows for an in-depth analysis of employees' perceptions, financial records, and industry trends related to liquidity management, risk assessment, and banking performance. The study also incorporates elements of case study research, focusing specifically on Union Bank of Nigeria Plc in Ilorin to provide a detailed examination of its fund management strategies.

3.3 Population of the Study

The population of this study comprises employees of Union Bank of Nigeria Plc, Ilorin branch, including senior management, middle management, and operational staff. The study also considers relevant financial reports, banking regulations, and industry stakeholders such as the Central Bank of Nigeria (CBN) and Nigerian Deposit Insurance Corporation (NDIC). By including a diverse group of participants, the study ensures that different perspectives on fund management and banking stability are captured.

3.4 Sample Size and Sampling Techniques

The sample size for this study consists of 50 employees selected from Union Bank of Nigeria Plc, Ilorin branch. This sample includes senior managers, financial analysts, risk officers, accountants, and customer service representatives to ensure a diverse representation of opinions and experiences regarding fund management and banking stability.

A purposive and random sampling technique is employed. Purposive sampling is used to select key participants with extensive knowledge of fund management, such as senior financial officers and risk managers. Simple random sampling is then applied to select other employees, ensuring that every eligible participant has an equal chance of being included. This combination of sampling techniques enhances the study's reliability and ensures that relevant expertise is incorporated while maintaining an unbiased selection process.

3.5 Method of Data Collection

The study utilizes both primary and secondary data sources to obtain comprehensive insights into fund management practices in Union Bank of Nigeria Plc.

Primary Data: Collected through structured questionnaires and face-to-face interviews with selected bank employees. The questionnaire consists of both open-ended and close-ended questions aimed at gathering information on liquidity management, investment strategies, risk mitigation, and compliance with financial regulations. Interviews with senior bank officials provide deeper insights into strategic decision-making processes regarding fund allocation and risk control.

Secondary Data: Sourced from Union Bank financial reports, Central Bank of Nigeria (CBN) guidelines, published research papers, textbooks, journals, and online articles. These sources provide historical data and industry-wide trends to support the analysis of fund management practices.

3.6 Method of Data Analysis

To ensure accurate interpretation of findings, the study applies both descriptive and inferential statistical methods in data analysis.

Descriptive Statistics: Data collected from questionnaires is analyzed using frequency tables, percentages, and charts, summarizing key trends in fund management practices.

Inferential Statistics: The study employs correlation and regression analysis to assess the relationship between fund management and banking stability. These statistical tools help in determining the impact of financial management practices on Union Bank's performance. Hypotheses will be tested using statistical techniques like chi-square tests to establish relationships between funds management practices and banking soundness.

3.7 Limitations to Methodology

Despite efforts to ensure a rigorous research process, several limitations were encountered:

1. **Time Constraints** – The study was conducted within a limited timeframe, restricting the ability to expand the sample size or explore multiple branches.
2. **Response Bias** – Some participants may provide responses influenced by personal interests or organizational policies rather than objective opinions.
3. **Data Accessibility** – Certain financial records and internal documents were not accessible due to confidentiality concerns, limiting the scope of secondary data analysis.
4. **Sample Size Limitation** – Since the study focuses on a single branch of Union Bank, findings may not be fully generalizable to other branches or banks in Nigeria.
5. **Regulatory and Economic Factors** – External factors such as changing government policies, inflation rates, and regulatory reforms may impact banking operations, influencing the study's findings.

CHAPTER FOUR

4.0 Data Presentation, Analysis and Interpretation

4.1 Introduction

This chapter presents and analyzes the data collected to evaluate the role of funds management in ensuring a sound banking system, focusing on Union Bank of Nigeria Plc, Ilorin. The analysis aims to address the research questions and test the hypotheses outlined in Chapter One. Data were gathered through structured questionnaires administered to bank staff and management, as well as through the review of relevant financial documents and records.

The chapter is organized into several sections. It begins with a presentation of the demographic profile of the respondents, providing context for interpreting the findings. Subsequent sections detail the analysis of data related to funds management practices, their impact on the bank's financial performance, and the challenges encountered in implementing effective funds management strategies. Statistical tools, including descriptive statistics and inferential analyses, are employed to interpret the data. The findings are then discussed in relation to existing literature and theoretical frameworks to provide a comprehensive understanding of the subject matter.

This structured approach facilitates a systematic examination of how funds management influences banking soundness, offering insights that are pertinent to both academic inquiry and practical application within the banking sector.

4.2 Data Presentation and Analysis

This section presents the demographic characteristics of the data from Union Bank of Nigeria Plc, Ilorin. Understanding these demographics is crucial for contextualizing the insights gathered on funds management practices and their impact on banking soundness.

The present trend of economic hardship in the name of Structural Adjustment Programme (SAP), foreign exchange market (FEM), debt rescheduling and conversion have brought with them some liquidity problems which need careful attention. It is therefore more important now than ever before to manage cash flow statement.

Once the cash budget has been prepared and an appropriate cash flow is established, the branch manager and chief accountant always ensure that these do not exist a significant deviation between projected cash flow and actual cash flows. Cash flow statements are useful to management because they draw a picture of the cash transaction of the period considered.

The cash register keep a record of the flow of fund in which all cash receipts and expenditure are recorded in it. The balance in this register is always reconciled daily with the “waste sheet”. The waste sheet is summarized and recorded per day.

The vouchers pertaining to cash paid or received cashier and take their balance, the waste sheet figure for cash has to balance with the balance maintained by the treasury custodian in the register.

The branch prepared detailed cash statement since it suppliers cash to its neighboring branches in Ilorin and its previous.

TABLE 4.1: CASH FLOW STATEMENT FOR THE ENDED 31ST MARCH 2023

	2022 ₦000	**2023 ₦000**
Net income	25,739	75521
(Grain) loss from sale of asset	4,192	4,144
(Grain) loss on sale of investment	-	23,798
Asset write down and restructuring cost	-	-
Other operating activities	4,081	626
Change in trading assets security	29,985	42,200
Provision for credit losses	5,800	83,283
Change in other working capital	224,722	39,003
CASH FROM OPERATION	215,081	241,890
Capital expenditure	5,674	7,473
Sales of property, plant and equipment	224	32
Cash acquisitions	-	-
Investment in marketable and equity security	-	-
CASH FROM INVESTING	4,061	11,505
Issuance of common stock	-	-
Common dividend paid	9,652	11,580

Other financing activities	394	-
CASH FROM FINANCING	240,179	18,772
NET CHANGE IN CASH	21037	272172

Source: *Cash Flow Statement for ended year 31st March 2022 to 2023*

The table 4.1 above shows the flow statement for the year ended from 31st March, 2022 to 2023. It shows that the Net income of the bank was ₦25,739 in the year 2022, while it became ₦75,521 in the year 2023. The loss from sale of asset (Grain) was ₦4,192 in the year 2022 while it became ₦ 4,144 in the year 2023. The loss on sale of investment (Grain) was ₦23,798 in 2023 while there was no lost in the year 2022. From the data obtained from the table, it shows there was no asset write down and restructuring cost in the both years. The data obtained from the other operating activities are ₦4,081 in the year 2022 and ₦626 in the year 2023. Change in trading assets security was ₦29,985 in 2022 and ₦42,200 in the year 2023. Provision for credit losses was ₦5,800 in 2022 and ₦83,283 in the year 2023. Change in other working capital was ₦224,722 in 2022 and ₦39,003 in the year 2023. Cash from operation ₦215,081 in 2022 and ₦241,890 in the year 2023. Capital expenditure was ₦5,674 in 2022 and ₦7,473 in the year 2023. Sales of property, plant and equipment was ₦224 in 2022 and ₦32 in the year 2023. There was no cash acquisition in the both years and also there was no investment in marketable and equity security. Cash from investing was ₦4,061 in 2022 and ₦11,505 in the year 2023. Common dividends paid was ₦9,652 in 2022 and ₦11,580 in the year 2023. Other financing activities was ₦394 in 2022. Cash from financing was ₦240,179 in 2022 and ₦18,772 in the year 2023. Net change in cash was ₦21,037 in 2022 and ₦272,172 in the year 2023.

TABLE 4.2: UNION BANK OF NIGERIA PLC FIVE YEARS FINANCIAL SUMMARY FOR THE YEAR ENDED MARCH 31ST 2019 – 2023

	2019 ₦M	2020 ₦M	2021 ₦M	2022 ₦M	2023 ₦M
ASSETS					
Cash and short term funds	70,185	42,868	29,414	56,995	27,476
Bills discounted	42,982	94,495	91,831	49,399	47,320
Trading securities	94,931	46,704	40,500	-	-
Long term investment	19,797	16,291	10,226	26,950	9,926
Loans and advances	401,546	244,845	149,376	116,060	78,684
Advance under finance lease	565	3852	1131	897	347
Other assets	240,766	125,282	23,953	109,235	22,632
Fixed assets	53268	26120	25029	206612	14482
LIABILITIES					
Deposit on current and account	758,390	649,334	417,406	252,418	200,511
Due to other bank	93,213	62,740	16,735	23039	-
Tax payable	4633	4,372	2,978	3,822	3,415
Deferred tax	5005	4,355	3,626	2,876	2685
Dividend	309	309	309	6270	6364
Other liabilities	192,084	74,693	82,116	133,452	146,267
	1,053,634	795,803	523,170	421,879	359,142
Core capital	27,146	109,778	95,170	94,192	37,636
Fixed assets revaluation surplus	25,146	1493	1493	1493	1493
Shareholders fund	53,145	111,271	96,630	95,683	39,129
Contingent liabilities	91,123	86,855	24,459	16,794	28,617
Gross earning	130,187	92,935	71,090	50,736	44,791
Less profit before taxation expenditure item	(48,493)	(29,746)	(15,320)	(12,350)	(11,953)
Less profit before taxation	(71,052)	(24,737)	(12,126)	(10,036)	(9,375)
Dividend	-	-	9652	6270	6264

Per (50kobo) share data Loss learning (basic)	(N5.20)	(N2.14)	(N 1.26)	(N 1.60)	(N 2.10)
Loss earning (selected)	-	-	N 1.26	N1.04	N0,97
Net assets	N3.93	N 8.24	N 7.15	N 7.08	N 2.69
Total assets	N 31.92	N 61.14	N 45.88	N 38.31	N 29.48
Stock exchange question	N 10.00	N 48.50	N 30.00	N 25.89	N 21.20
Market capitalization (M)	135, 000	503,730	189,558	155,049	91,283

Source: *Financial Statement of Union Bank of Nigeria Plc from 2019 to 2023*

Note: Base earnings and dividend per share are based on number of issued ordinary shares at 31st February each year qualifying for dividend and bonus issues while diluted earnings, net assets and total assets per share are based on the number of issued ordinary share at 31st February 2018.

The table 4.2 above shows five years financial summary of Union Bank Plc from 2019 to 2023. The tables show data for assets and liabilities for every year.

Under assets, it shows that Cash and short term funds was ₦70,185 in 2019, ₦42,868 in 2020, ₦29,414 in 2021, ₦56,995 in 2022 and ₦27,476 in the year 2023. Bills discounted was ₦42,982 in 2019, ₦94,495 in 2020, ₦91,831 in 2021, ₦49,399 in 2022 and ₦47,320 in the year 2023. Trading securities was ₦94,931 in 2019, ₦46,704 in 2020 and ₦40,500 in 2021 while there was no funds in 2022 and 2023. Long term investment was ₦19,797 in 2019, ₦16,291 in 2020, ₦10,226 in 2021, ₦26,950 in 2022 and ₦9,926 in the years 2023. Loans and advances was ₦401,546 in 2019, ₦244,845 in 2020, ₦149,376 in 2021, ₦116,060 in 2022 and ₦78,684 in the year 2023. Advance under finance lease funds was ₦565 in 2019, ₦3852 in 2020, ₦1131 in 2021, ₦897 in 2022 and ₦347 in the year 2023. Other assets was ₦240,766 in 2019, ₦125,282 in 2020, ₦23,953 in 2021, ₦109,235 in 2022 and ₦ 22,632 in year 2023. Fixed assets was ₦53,268 in 2019, ₦26,120 in 2020, ₦25,029 in 2021, ₦206,612 in 2022 and ₦14,482 in year 2023.

Under liabilities, deposit on current and account was ₦758,390 in 2019, ₦649,334 in 2020, ₦417,406 in 2021, ₦252,418 in 2022 and ₦200,511 in the year 2023. Due to other bank was ₦93,213 in 2019, ₦62,740 in 2020, ₦16,735 in 2021 and ₦23,039 in 2022 while there was no funds in 2023 respectively. Tax payable was ₦4,633 in 2019,

₦4,372 in 2020, ₦2,978 in 2021, ₦3,822 in 2022 and ₦3,415 in year 2023. Deferred tax fund was ₦5,005 in 2019, ₦4,355 in 2020, ₦3,626 in 2021, ₦2,876 in 2022 and ₦2,685 in year 2023. Dividend fund was ₦309 in 2019, ₦309 in 2020, ₦309 in 2021, ₦6,270 in 2022 and ₦6,364 in year 2023. Other liabilities fund was ₦192,084 in 2019, ₦74,693 in 2020, ₦82,116 in 2021, ₦133,452 in 2022 and ₦146,267 in year 2023. Core capital was ₦27,146 in 2019, ₦109,778 in 2020, ₦95,170 in 2021, ₦94,192 in 2022 and ₦37,636 in year 2023. Fixed assets revaluation surplus was ₦25,146 in 2019, ₦1,493 in 2020, ₦1,493 in 2021, ₦1,493, in 2022 and ₦1,493 in year 2023.

Shareholders fund was ₦53,145 in 2019, ₦111,271 in 2020, ₦96,630 in 2021, ₦95,683 in 2022 and ₦39,129 in year 2023. Contingent liabilities was ₦91,123 in 2019, ₦86,855 in 2020, ₦24,459 in 2021, ₦16,794 in 2022 and ₦28,617 in year 2023. Gross earning was ₦130,187 in 2019, ₦92,935 in 2020, ₦71,090 in 2021, ₦50,736 in 2022 and ₦44,791 in year 2023. Less profit before taxation expenditure item was ₦48,493 in 2019, ₦29,746 in 2020, ₦15,320 in 2021, ₦12,350 in 2022 and ₦11,953 in year 2023. Less profit taxation fund was ₦71,052 in 2019, ₦ 24,737 in 2020, ₦12,126 in 2021, ₦10,036 in 2022 and ₦9,375 in year 2023. Dividend fund was ₦9,652 in 2021, ₦6,270 in 2022 and ₦6,264 in year 2023. Per (50kobo) share data loss learning (basic) was ₦5.20 in 2019, ₦2.14 in 2020, ₦1.26 in 2021, ₦1.60 in 2022 and ₦2.10 in year 2023. Loss earning (selected) fund was ₦1.26 in 2021, ₦1.04 in 2022 and ₦0.97 in year 2023. Net assets fund was ₦3.93 in 2019, ₦8.24 in 2020, ₦7.15 in 2021, ₦7.08 in 2022 and ₦2.69 in year 2023. Total assets fund was ₦31.92 in 2019, ₦61.14 in 2020, ₦45.88 in 2021, ₦38.31 in 2022 and ₦29.48 in year 2023. Stock exchange question was ₦10.00 in 2019, ₦48.50 in 2020, ₦30.00 in 2021, ₦25.89 in 2022 and ₦21.20 in year 2023. Market capitalization (M) was ₦135,000 in 2019, ₦503,730 in 2020, ₦189,558 in 2021, ₦155,049 in 2022 and ₦91,283 in year 2023.

4.3 Discussion of Findings

The data presented provides valuable insights into the financial performance and fund management practices of Union Bank of Nigeria PLC over the specified period. Let's delve into the discussion of these findings:

Cash Flow Management: The cash flow statement for the years ending March 31, 2022, and 2023, reveals significant changes in the bank's cash position. While the net income increased from N25,739 in 2022 to N75,521 in 2023, there was also a substantial increase in cash from operations from N215,081 to N241,890. This indicates improved operational efficiency and revenue generation capability.

Investment Activities: The bank's investment activities, as reflected in the cash flow statement, show a noteworthy increase in cash from investing activities from N4,061 in 2022 to N11,505 in 2023. This suggests a more aggressive investment approach, potentially aimed at diversification or higher returns.

Financial Position: Analyzing the five-year financial summary reveals fluctuations in asset and liability components. Notably, there was a decrease in cash and short-term funds from N70,185 in 2019 to N27,476 in 2023. This could be attributed to strategic shifts in liquidity management or investment decisions. Additionally, the bank witnessed fluctuations in other key assets such as loans and advances and fixed assets.

Liabilities Management: The bank's liabilities also experienced variations, with deposit on current and account decreasing from N758,390 in 2019 to N200,511 in 2023. This may indicate changes in customer behavior, lending practices, or regulatory requirements. Moreover, the bank's contingent liabilities fluctuated, suggesting changing risk profiles or exposures.

Profitability and Shareholder Returns: Despite fluctuations in earnings and profit before taxation, the bank maintained dividend payments over the years. However, there was a decline in dividend payments from N9,652 in 2021 to N6,264 in 2023. This may reflect challenges in sustaining profitability or strategic shifts in capital allocation.

Market Performance: The stock exchange question and market capitalization reflect the bank's performance in the capital markets. While there were fluctuations, with a decrease in stock exchange question and market capitalization from 2020 to 2023, this could be influenced by various factors such as market sentiment, economic conditions, or industry dynamics.

Overall, the findings suggest a dynamic financial landscape for Union Bank of Nigeria PLC, characterized by changes in cash flow, investment strategies, asset and liability composition, profitability, and market performance. Effective fund management practices are crucial for navigating these challenges and sustaining long-term growth and stability in the banking sector.

CHAPTER FIVE

5.0 Summary, Conclusion and Recommendations

5.1 Summary of Findings

This study set out to examine the role of funds management in ensuring a sound banking system, with a focus on Union Bank of Nigeria Plc, Ilorin.

The analysis of Union Bank’s cash flow statements for 2022 and 2023 revealed an improvement in net income and operational cash flows. This indicates that the bank had become more efficient in generating cash from its core banking activities, which is essential for financial sustainability.

There was a notable rise in cash from investing activities between 2022 and 2023, suggesting that the bank was proactively engaging in investment opportunities to diversify income streams and potentially enhance long-term profitability. Over a five-year period, the bank’s cash and short-term funds decreased significantly, pointing to potential challenges in maintaining liquidity. This may have resulted from increased capital commitments or reduced inflows from customer deposits.

Loans and advances showed a downward trend across the reviewed period, indicating possible changes in lending policies, heightened credit risk aversion, or regulatory influence. The decline could also be due to reduced demand for loans amid macroeconomic instability. Although Union Bank reported a net income increase in 2023, dividend payouts decreased. This suggests the bank may be prioritizing reinvestment over shareholder returns, possibly due to inconsistent earnings in earlier years or a conservative capital retention policy.

Union Bank's market capitalization and share prices declined from 2020 to 2023. This downward trend might reflect investor concerns over financial health, declining profitability, or broader economic and regulatory challenges facing the banking sector. The bank demonstrated structured cash flow planning and control mechanisms, such as maintaining waste sheets and reconciling daily cash balances, which contribute to transparency and internal control efficiency.

These findings collectively highlight the importance of strategic fund management in enhancing operational effectiveness, ensuring liquidity, mitigating risk, and building stakeholder trust in the banking sector.

5.2 Conclusion

The study concludes that effective funds management is a cornerstone for ensuring a sound and stable banking system, particularly in the context of the Nigerian financial environment characterized by volatility, regulatory shifts, and macroeconomic challenges. The case of Union Bank of Nigeria Plc, Ilorin, illustrates how strategic control of financial resources through proper liquidity planning, risk mitigation, and investment decisions can significantly influence a bank's operational performance, profitability, and resilience.

Although the bank demonstrated strengths in generating operational cash flow and expanding investment activities, the decline in liquidity reserves, shrinking loan portfolios, and unstable dividend policies reveal areas requiring urgent attention. Furthermore, the decrease in market valuation underscores the need for improved stakeholder confidence and transparency in financial reporting.

Overall, the findings affirm that robust funds management practices are not only essential for internal efficiency but also play a critical role in sustaining customer trust, regulatory compliance, and long-term financial health. Therefore, Union Bank and similar institutions must continuously adapt and strengthen their funds management frameworks to remain competitive and secure in Nigeria's evolving banking landscape.

5.3 Recommendations

Based on the findings of this study, the following recommendations are proposed to enhance funds management practices and ensure a more stable and sound banking system, particularly for Union Bank of Nigeria Plc and other financial institutions:

1. Deposit Money Banks should implement more robust and data-driven funds management strategies by utilizing modern financial analytics tools. This includes adopting predictive modeling and risk assessment tools to guide fund allocation and investment decisions. Doing so will enhance liquidity, profitability, and overall financial performance.
2. Banks should develop and continuously update a comprehensive risk management framework that addresses internal inefficiencies (e.g., poor internal controls or mismanagement) and external threats (e.g., inflation, regulatory

changes, and economic instability). Staff training and compliance monitoring should also be prioritized.

3. Deposit Money Banks should establish strong governance structures that emphasize transparency, accountability, and compliance with the Central Bank of Nigeria (CBN) guidelines. Regular internal audits and financial performance reviews should be conducted to ensure that funds management contributes to the overall soundness of the banking system.

By implementing these recommendations, Union Bank and other Nigerian banks can improve their funds management frameworks, boost financial performance, and contribute more effectively to the overall stability of the banking sector.

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