THE EFFECT OF LIQUIDITY ON THE PROFITABILITY OF COMMERCIAL BANK IN NIGERIA
(A CASE STUDY OF UNITED BANK FOR AFRICA)

By

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HND/23/ACC/FT/0484

BEING A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF ACCOUNTANCY INSTITUTE OF FINANCE AND MANAGEMENT STUDIES (IFMS), KWARA STATE POLYTECHNIC, ILORIN

IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF HIGHER NATIONAL DIPLOMA (HND) IN ACCOUNTANCY

MAY 2025

CERTIFICATION

This is to certify that this study was carried out by **OLADIRAN WALIYAT TEMILOLA** with Matric Number **HND/23/ACC/FT/0484** titled "The Effect of Liquidity on the Profitability of Commercial Banks in Nigeria: A Case Study of United Bank For Africa" has been read and approved as meeting part of the requirements for the award of Higher National Diploma (HND) in Accountancy, Institute of Finance and Management Studies (IFMS), Kwara State Polytechnic, Ilorin

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DEDICATION

This project is dedicated to Almighty God, the hope of hopeless the keeper of covenant the merciful, the Omnipotent the unchangeable God who guide me with his protection on me and lead me through the right path for my academic pursuit in the institution and ageing me to complete this project successfully.

ACKNOWLEDGMENT

All thanks, praise and adorance is due to the uncreated creator of every creature, the first without a beginning the last without the end and also for his protection, guidance and abundance blessing bestowed on everyone for birth fill one present life time as well as giving me the great opportunity to accomplish the project successfully.

My profound gratitude also goes to my industrious project supervisor **MR MOHAMMED K.A.G**, who deposit his busy schedule in reading through each line and in pointing areas of mistakes and qualifiable advice govern to me toward the success of my project may Almight Allah in His infinite mercy continues to bless him.

My profound gratitude also to my parent (**MR AND MRS OLADIRAN**), they have stood by me the time when I am racing hurrience whole done cloud on me and shackle on my feet, may they never Labour in vain, may almighty Allah Bless their struggle (**Amin**).

My profound gratitude also goes to chairman of Ansar-ud-Deen Society of Nigeria lagos branch (**ALHAJI KAMORUDEEN AREMU SALAMI**) for his kind gestures towards me and to my academic he makes sure I did not lack anything may almighty Allah Bless him more than his expectations (**Amin**).

My special gratitude also goes to my brother and sister, Usman, Saosarat, Kareemot and others, also to that one special being **ABDULSALAM** for their financial and moral advice throughout my program (project may almighty Allah in his infinite mercy continues to protect and bless them and make the provision of the needs.

My profound gratitude also goes to my friends and my tutor (Hollandia), Derayo, Kaffy, Morayor, Idris, Mariam, saheed, thanks you all for the word of encouragement. May almighty Allah guide our step (**Amin).**

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CHAPTER ONE

1.0 INTRODUCTION

1.1 BACKGROUND TO THE STUDY

The history of banking business in Nigeria dated to the colonial Era with the Establishment of first commercial bank. Opened its first branch in 1892, Messis Dempster and co a shipping firm based in Liverpool actively involve in trading in Nigeria organized a trust and registered in Liverpool with monetary banking from the British colonial Government. The sole responsibility of African banking corporation was the distributors of bank of England's note for the British to treasury.

The Bank experienced some difficulties at initial and Eventually decide to transfer its interest to Elder Dempster in1893.

This led to the formation of a bank known as BRITISH BANK OF WEST AFRICAN (BBWA) in 1893 with $10,000 capital which was later Increase to $100,000 during the same year. The first Lagos branch was opened in the year 1891. While the second Nigeria branch was opened in old Calabar in 1900.

During this period the British Bank of West Africa (1894)now FIRST BANK OF NIGERIA PLC and Barclay DCO(Dominion colonial and overseas 1917) now UNION BANK OF NIGERIA PLC which enjoy a virtual monopoly of banking industry.

Before 1894, Nigeria have become used to cowries and manila as unit of monetary transaction. This means that the banking system did not come to Nigeria in 1894 as a fresh experience.

This is supported by the fact that they had their small trust groups and kept money in safe places. The ideal of cowries and manila was introduced by the merchant of the Royal Niger Company, the antecedent of the present U.A.C to standardize coinage system when the British Bank Of West Africa (BBWA) was established, people were very suspicious of its intention.

However, such men asking Jaja of Opobo, Taiwo Olowo, Da-Rocha and many others to named after where largely used in getting the message across to the people (Akinosho 1984 p.7).

The Bank Of West Africa (BBWA) later changed to BANK OF WEST AFRICA (BWA) in 1956 owing to ownership structure of the present Company (Standard Chartered Bank plc in UK) it again change its name to STANDARD BANK OF NIGERIA in 1979 the following Nigerian acquisition of majority shares, it become FIRST BANK OF NIGERIA (FBN) BARCLAY BANK (DCO) joined in 1916 and opened it branch in Lagos in 1917. Barclay Bank DCO was renamed UNION BANK OF NIGERIA (UBN) after 80% of Nigeria share, soon after nine (9) other branch's were opened.

The foreign banks came principally to render services in connection with international trade. So there relations at that time were chiefly with the expatriate trading companies and with the government. They largely ignored the development of local Africa entrepreneurship. Together these three (3) banks controlled closely to 90% aggregate bank deposits from 1894 to the early 1930. several abortive attempts were made to established locally owned and managed banks to break foreign monopoly.

In 1945, the private indigenous bank to be established was the AGBOMAGBE BANK founded by chief Okupe. The bank was taken by the western state government in 1969 and its name was changed to WEMA BANK PLC.

The merchant bank was opened for the business in 1952 and crashed in 1960. Another successful indigenous bank was the AFRICA CONTINENTAL PLC (ACB) founder by Dr Nnmadi Azikwe in 1947 (ACB plc is currently having mismanagement problem). Between 1947 and 1952, this was a free for all banking, a total of twenty two

(22) banks were registered in Nigeria. (CBN conducted study) professor Grein O. Nwankwo. (1980) reported that the country witnessed the registration of 185 banks.

In 1947 only, 145 banks were registered and in 1952. This period can be describe as the first phase which was characterized by the absence of any banking legislation to control the activities of this banks.

The rare of bank failure that time prompted the Government to set up the patrol commission of injury in1948 to investigate the banking condition in the country and tostipulate the condition for healthy banking industry operations. It was discovered that the liquidation of most of these bank was due to gross mismanagement.

The role of commercial banks as saving institution and as financial Intermediaries enable the commercial banks to perform an important Services to all sector of economy by providing facility for the mobilization of savings and making the form available for investment purposes by process of granting credit facility to other customer. According Reedetal (1984), the primary function of commercial banks convert shot term deposit into long term loan and revolve it to generate income for themselves.

They bring together people who have to save (which they will like

to lend out, but who also need the assurance or guarantee that they can have the money back wherever they wish) and those who need money (to borrow now and pay back later).

The act as intermediaries, collecting deposits and payment interest on them and making loans and changing the borrower interest at higher rate. However, there in legal limit to credit creation of banks. Credit creation and consequent profitability is restricted by central bank control.

At the micro⁻level the individual commercial bank is viewed as an economic unit whose goal is to maximize profit. Banks hold portfolio of asset and given the characteristic and distribution of their liabilities, they attempt to structure their portfolio of asset in such manner as to yield the greater return.

The asset are two groups of balance sheet items called loan and investments,

Profit are generated by earning assets (loan and investments) while is provided partly by earning assets like short_terinvestment and partly by non_earning assets e.g. cash balance held in the bank vault and also at the central bank, called money reserves. etc.

1.2 STATEMENT OF THE PROBLEM

The project will analyze the problem faced by the commercial banks in maintaining equilibrium between profitability and liquidity some of the belong faced by the commercial banks in maintaining equilibrium between profitability and liquidity arise from;

Like other comprises bank also incurred substantial cost and must be earn an income at least sufficient to meet there cost. They also accountable to their shareholders who have invested in them with the aim of good return interim of future dividends. From these point of view banks need assets which produce income substantially higher than that paid on deposits.

In practice, these two objectives (profitability and liquidity) tend to work in opposite directions. Cash itself produce no income and the relatively liquid assets like money, treasury bills and treasury certificate usually produce low income. The rivalry between liquidity and profitability remains a headache to the management of banks. But for the need to harmonically balance profit motive and maintenance adequate liquidity, most banks would certainly overemphasize the pursuit of the profitability at the determinant of remaining liquid can have disastrous consequence. The precisely way in which this harmonious balancing is aid rived in Nigeria will be examine in details in the chapter two of this project.

1.3 RESEARCH QUESTIONS

i. What is the relationship between liquidity management and profitability in United Bank for Africa (UBA)?

ii. How does the level of liquidity impact the operational efficiency of UBA?

iii. What are the challenges faced by UBA in balancing liquidity and profitability?

1.4 OBJECTIVES OF THE STUDY

i. To analyze the relationship between liquidity management and profitability in United Bank for Africa (UBA).

ii. To evaluate the impact of liquidity levels on the operational performance of UBA.

iii. To identify the challenges UBA faces in maintaining optimal liquidity while achieving profitability.

1.5 RESEARCH HYPOTHESIS

1. H_0: There is no significant relationship between liquidity management and profitability in United Bank for Africa.

H_1: There is a significant relationship between liquidity management and profitability in United Bank for Africa.

2. H_0: Liquidity levels have no significant impact on the operational efficiency of United Bank for Africa.

H_1: Liquidity levels have a significant impact on the operational efficiency of United Bank for Africa.

3. H_0: Challenges in liquidity management do not significantly affect the profitability of United Bank for Africa.

H_1: Challenges in liquidity management significantly affect the profitability of United Bank for Africa.

1.6 SCOPE OF THE STUDY

The Control weapon of the CBN liquidity ratio affects the profitability of all banks and other financial institution but this project will be limited only the affect of liquidity on profitability of commercial banks in Nigeria, because this weapon of central bank usually affect the commercial banks more than the other financial institutions. This study is a theoretical exposition which focuses attention on the central problems of bank management reconciling the conflicting banks goals of profit ability, liquidity and solvency which in all affect the operation of the banks.

1.7 SIGNIFICANCE OF THE STUDY

Working on the premise that the day of cheap profit
are gradually been eclipsed and that in future, banks would need to complete more fiercely for business only those bank can show innovative approaches to treasury and fund management will be capable of surviving the competition ahead. Although the Nigeria scare as remind up till now a seller's strong balance sheets huge profit and impressive dividedness, this trend in unlikely to continue much longer, hence, it has now become expedient for banks to appraised their asset mix policy, goals and procedures, so that they are not change by the time unless new and portfolio management strategies are brought into places bank might in future be left.

Apart from the foregoing considerations, the present treasury and management techniques used in Nigerian banks are often time based on haphazard and subjective factors which tends to increase the risk of goal achievement.

The generally accepted of techniques of quantitative and scientific techniques are very rarely used in publication by Adekanye Femi (1986) he noted that up fill now, there is no report of the techniques and management science/ operation research techniques in banking were as considerable integration of these technique for banking decision have been evolve in America, Europe and Japan.

The main focus of this project is therefore to develop a decision model in asset mix (Treasury and fund management) for the policy making and senior management in commercial banks using linear programming model. The model we hopefully assist banks in enhancing their profitability effectively from it present low point, this improve target planning and achievement.

1.8 LIMITATION OF STUDY

Finance is the main constraints facing this research work coupled with short available of time. The research is self-sponsored and so could not afford the cost of elaborate area of courage.

Another major limitation is the difficulties in obtaining material information as there are reluctances from sources.

1.9 DEFINITION OF TERMS

Liquidity: Bank liquidity is the ability of a bank to be in a position to meet the demand of depositors and borrowers virtually all economic unit needs liquidity.

Profitability: It can be considered as the main motive of banks as it maximization ensures the survival and growth of economic unit.

Solvency: It's often used as a synonym for liquidity. It is the ability of banks to meet its day of obligation or activities to the deposition and credit customers, solvency is the ability of a banks to meet its long term obligation.

Portfolio: There are the lists of security and investment (stocks, shares) owned by a bank.

Demand deposit: These are the money saved by customers of a bank subject to recollection on demand.

Monopoly: this is the existence of one or few economic unit in a particular industry there by enhancing the few economic units to have uncompetitive control over the industry.

Expatriate banks: These are foreign owned banking institutions.

Indigenous bank: These are locally owned banking institutions.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

The earlier support for the establishment of a central bank for the country date back to the period of bank failures of the early 1950s when the power control banking was vested in the financial secretary. Many natural leaders at the time had huge for the creation of the central bank to perform this (i.e. power to control banks) and traditional functions of a central ban. Then the financial secretary speaking for the government, considered the establishment of central bank "to regulate credit in absence of a highly organized money market" as premature.

2.2 CONCEPTUL FRAMEWORK

2.2.1 THE ESTABLISHEMENT AND GROWTH OF CENTRAL BANK OF NIGERIA

Despite the stance of the financial secretary on the issue, eminent Nigerians continue to assist on the need to established central bank for the country. As a result Mr. J. C. fisher, an adviser to desirability and practicability of establishing a central bank in Nigeria as an instrument of promoting the economic development of the country although he recognized the contribution the central bank might have toward improving the standard of performance of the indigenous banks he felt that it was more better to bound the financial structure from the base upward rather tiring to build from top downwards. He therefore recommended a move vigorous use of financial secretary power of examination to induce better performance by the indigenous banks.

A year later in 1953 an international bank for reconstruction and development (IBRD) mission visited Nigeria and accepted after consideration the same J. C. fisher's view with some modification that the establishment of central bank of Nigeria was premature.

The mission urged rapid return of its undesirable feature. In particular. It recommended the creation of state bank in Nigeria with limited function to replace the board. The bank was to issue the Nigeria currency to replace the British currency; they also recommended the transfer of banking regulation from financial secretary to state banks.

The third and final study of the local financial condition was made by another adviser to the bank of England, Mr. J. B. Loyness who was invited to advice on the problem relating to central bank in the light of international bank for reconstruction and development.

J. B. Loyness (1959) in his report came out of favor of the idea of establishing a central bank in Nigeria. In fact, his view and recommendation formed the basis of the draft legislation of the central bank of Nigeria which was presented to the house of representative in March 1958.

2.2.2 NIGERIA DEPOSIT INSURANCE CORPORATION

The Nigeria deposit insurance corporation in agent of the federal government of Nigeria was established by decree no. 22 of July 15, 1988 to insure the deposit liabilities of the banks and deposits taking financial institution operating in Nigeria. The authorized capital was #10million out of which #50millon as already been called and paid up by the federal government and central bank of Nigeria in ratio 2:3.

The decision by the federal government of Nigeria to establish the NDIC rested on three colonial considerations:

1. To perfect the deposit of the depositors, particularly the
   small savers who are unlikely to have access to sufficient information that will enable them to evaluate the solvency of those banks where they held savings.
2. To ensure fair among the competing banks and this to their innovativeness and efficiency.

3. To perfect the system against destruction runs. The larger saver can claim in excess of the first #50,000 unit to which every deposition of a failed bank is entitled only on a prorate basis form manager or receiver after the law have been applied.

The federal government has express it intention to divest itself from direct support of banks and such other deposit banking institution which are facing solvency problems.

COMMERCIAL BANKING SYSTEM

It has been realized that the basis function of commercial banks is to act as surveyors of credit from one surplus end to the deposit and through an intermediation process to which they lay traditional claim. The service offered by the commercial banks can be divided into two:

1. Primary Services
2. Secondary Services

1. PRIMARY SERVICES: This services can be divided into two:

a. Extension of credit facility to the customers: The commercial banks able to convert short term deposit to long term loans. They bring together people who have money (which they would like to lend out, but also need the money assurance or guaranteed that they can have their money back whenever they wishes and those who need money to borrow now and pay back over many years). The bank is act as intermediary collecting deposit and paying interest on them and making loans and charging the borrowers interest at higher rate.

As a result of primary functions of commercial banks, the needs for legislation control of banking in Nigeria becomes very apparent if only to protect position.

b. Mobilization of savings and other deposits: The role of commercial banks as saving institution and as financial intermediaries enable the to perform a very important services to all sector of economic by providing facilities for the mobilization of savings and making fund available for investment purpose by the process of grating credit facilities to their customers.

2.2.3 LIQUIDITY VERSUS PROFITABILITY

Bank liquidity is the ability of a bank to be in a position to meet the demand of deposition and borrowers ritually all economic unit needs liquidity and banks are not exemption.

Demand deposit, which reported the major, proportion of bank liabilities consistence nearly 80% of the nation’s money supply. The integrity of money supply therefore required solvency and customers acceptance of banking system. A commercial banks is an economic unit whose aim is to maximized profit for survival and growth of working capital provides the liquidity to avoid insolvency, but was a high opportunity cost. A balance must be reached between liquidity and profitability of a bank, but never the less the miss management of liquidity can eventually bring to a halt or its ultimate downfall what might otherwise be a successful and profitable bank.

2.2.4 SOLVENCY VERSUS LIQUIDITY

Solvency and liquidity are words that are often used as synonyms in everyday discussion of banking institution and banking system. They are subject that currently engaged the attention of the monetary authorities.

Solvency and liquidity are two important concepts in banking without one the ability of a bank to meet its long term obligation. The other defined the ability of a bank to meet its short term obligation to depositors and credit customers.

BANK ASSETS

The assets held by banks may be divided into two broad classes:

i. Earning assets

ii. Non earning assets (Havilesky and boor man 1980).

i. Earning assets these are two groups of balance sheet items called loan and investment. While,

ii Non-earning assets consist of fixed asset, the total reserved of the bank, vanity cash and non interest earning deposit with central bank of Nigeria both as working balance and cash services.

The banks are in judiciary position making use of thousand of different categories of savers, an addition to their own capital resources and funds. Therefore bank must be managed efficiency and made optimal mix of their assets because there is too much at state and if caution is not taking, any bank failure will have changing effect on the industry in particular and economic in general. Since bank purpose of growth or at least to survive and at the same time maintain a reasonable level of liquidity in order to meet customer's demand, who are the major fund provider or business operations. The bank must adequately care in order to avert conflict of interest to the two major role played in their operation.

2.2.5 LIQUIDITY: A MAJOR CONSTRAINT OF PROFIT MAXIMAZATION

While pursuing profit objections, the assets of a bank must be kept at the acceptable level of liquidity so as to meet possible demands from deposition and maintaining public confidence at all times. For this purpose the central bank prescribed minimum level of liquidity a bank must maintain both as regard cash and other liquid assets, which can be turn into cash. The status requirement in liquidity ratio from being loaned out for higher interest rate elsewhere, this serving notice on bank operation that profit objective must be pushed with some caution.

ADVANTAGES OF LIQUIDITY

These advantages of liquidity can never be emphasized

Because:

i. Adequate liquidity enable the bank to find new funds to honor the maturing obligation such as sudden up surge in borrowing under automatic or agreed line of credit or be able to undertake new lending when desirable.

ii. Adequate liquidity enable the banks to meet its contractual obligation.

iii. Adequate liquidity helps to generate and sustained public confidence about the solvency of the banks. The most important in the confidence of the deposit and holders of other paper who should be given no cause to doubt solvency and validity of the banks

iv. Adequate liquidity is also needed by commercial prudence and to avoid five sale of assets, that is force sale at unfavorable market conduction and at heavy losses.

v. Final adequate liquidity enable the banks to avoid on-volitional involuntary borrowing from the central bank.

Indeed liquidity risk is no respecter of size. It is an essential issue for large as well as small banks. Having adequate or sufficiency fund to meet all commitment at all time, at normal market rate and interest, which is what liquidity is all about is indispensable for both large and small banks. However, it must be realized that liquidity of a banks should not be vigorously pursued to the determent of other objectives. There should be balance between all objectives of banks.

2.3 THEORETICAL FRAMEWORK

THEORY OF BANK LIQUIDITY

In developed country, banks have for several years successful applied management science techniques to assets and liability management. They also relied on some tested ones, especially on liquidity management. Five of the ones identified and tested are:

1. Liquidity Asset Theory
2. Commercial Loan Theory
3. Shiftability Theory

4. Anticipated Theory

5. Liability Management Theory

4. Liquidity Assets Theory: Dating back to the time of merchant banking and metal coinage, it was arrange that large amount of liquid assets must be held as reserved against possible demand for payment the original intent being to keep sufficient gold in safe, to redeem any notes presented for payment, emphasizing the needs for holding short-term as sets as a prudent cushion in the face uncertainty. However, theory is defective at least two important aspects.

2. Commercial Loan Theory: The oldest of these theory is commercial theory otherwise known as this "Define of real bills" developed almost two countries ago.

To state briefly, it hold that banks should lend on short term self-liquidating paper (Lucket 1976). This means that commercial banks liquidity is assured as long as it assets are held in short term loans that would be liquidated in the normal cause of business. The proponent of theory maintain the banks should only finance the movement of goods through the successive stages of production of consumption such loan today would be described as working capital loan. It means that commercial banks would not make long term or even medium term loans for the purpose of financing and purchase of plant and equipment, real estate loans or agricultural loans as they are considered to be liquid.

3. Shiftability Theory: The shiftability theories take a broader view by increasing the assets that banks could invention.

The theory hold that "the liquidity of a banker depend on its ability to shift its assets to someone else at a predictable price"

Luckett (1976) According to read (1984), it is based on the preposition that a bank liquidity maintain if it holds assets that could be slightly or sold to the other lenders or investors for cash. It would be appropriate for bank to hold short term open market investment in its portfolio of assets should a large number of depositors withdraw their there money, a needs only to sell these investments, take the cash and pay off it depositors.

4. Anticipated Income Theory: The anticipated income theory was developed by prochaw (1949). The theory does not question or criticized the shiftability theory, but it is a rival to the commercial loan theory. According to Luckett (1976), it focuses on the types of loan appropriate for banks to make.

The theory moved from transferability of shiftability of bank assets the anticipated income theory emphasizing the carrying power and reputation of borrowers as the ultimate guarantee to liquidity obligation, while act now legging the validity of the previous theories, the anticipated income theory approach pointed to the movement toward self amortizing commitments by banks and systematic repayment schedule on many types of loan and serial maturity debts could provide automatic liquidity schedule out of the repayment capabilities borrower. The resulting cash flow thus become an important source of cash flow the lender.

5. Liquidity Management Theory: This focuses on the liabilities side of the balance sheet for supplementary liquidity development in 50 and early 60s and stimulated by micro_electric revolution, the liability management liquidity theory urged that since large bank can buy all the fund they needs, there is no need to store liquidity on the asset side of the balance sheet.

Focusing on liability side, it assigned that increase rate offered for fund will plunk increase supply and provide for liquidity needs. It rules out unavailability of fund at any prices. In this way the theory assumed stable normal situation and unshakable confidence of the market on the credit witness viability and integrity of the borrowing banks. The theory state that bank can meet liquidity requirement by biding in the money market for additional fund in (1984). Theory has it roots in the rejuvenation of the federal fund market in the 1950s and later development of negotiation time certificate of deposits as a major money market instrument in the United states.

2.4 EMPIRICAL REVIEW

Deposit made with central bank in respect of short falls on loans and cash holding for meeting cash reserve and deposit for local clearing do not count for the purpose of computing liquidity ratio. Reserve requirement which must be met on a monthly average banking may under or over the requirement level of one day. When a banks reserve exceeds legal requirement. Its may adjust it position by selling the surplus to another banks in other to earn interest on these funds.

Similarly, a bank that has not met reserves requirement must take step to cover the deficiency by increasing it deposit base. In the event of temporary shortage of liquid cash, call money can be purchase from other banks. These transaction was effected through the banking office of the central bank of debiting and crediting respective bank account ultimately, a bank with persistence liquidity problem must curtails its lending activities, as excessive lending in the major course of shortage of liquidity. If a bank is unable to attract sufficient deposits but continues to expand its lending activities, this will result in liquidity.

Banks like other business enterprises, incurred huge and other cost but earn income at least sufficient to meet this cost and make an adequate return on their assets. They are also accountable to their shareholder who has invested in them with aim of good return in form of future dividend and growths. From these point of view, bank need asset which procedure income substantially higher than expenditure a bank meets several important obligation their which may be summarized as follow:

The strength of a company is usually measure by the size of its capital base which source as a custom for unforeseen losses.

It constitute an absorber of shock of unexpected uses, especially losses arising from bad debt.

The case of banks with publicity quoted shares; a good record of profitability must be maintained. The ability to attract more capital and price and terms of any issues e.t.c. are influence by the past performance of the bank.

If a bank is to attract money market funds from the banks, financial institution and corporations, the profit record and capital position must be sounds. The public will not have confidence in a bank with a constraint record of many years of loses.

There are monetary policy instruments which may have
negative impacts on the level of banks profit.

2.4.1 RESEARCH GAP

Despite extensive research on the relationship between liquidity and profitability in the banking sector, there is a noticeable gap in literature specifically addressing this issue within the Nigerian banking context, particularly with respect to United Bank for Africa (UBA). Most studies have focused on general financial performance metrics without delving into the unique dynamics of liquidity management and its profitability implications in individual banks. Additionally, existing research often concentrates on developed economies, where regulatory frameworks and market conditions differ significantly from those in developing countries like Nigeria. As a result, the findings from such studies may not fully apply to the peculiarities of the Nigerian banking system, characterized by volatile exchange rates, regulatory challenges, and economic instability.

Furthermore, there is limited research that examines the operational challenges faced by Nigerian commercial banks in balancing liquidity and profitability. While some studies have addressed the theoretical underpinnings of liquidity management, they rarely explore the practical implications of maintaining liquidity in an environment prone to macroeconomic shocks. The case of UBA, a leading bank with operations across Africa, provides an opportunity to investigate how liquidity levels influence profitability in a real-world setting. By addressing these gaps, this study aims to provide valuable insights for policymakers, financial regulators, and bank management in Nigeria.

CHAPTER THREE

METHODOLOGY

3.1 INTRODUCTION

The effect of liquidity on the profitability of commercial banks in Nigeria is fast becoming more important with each passing day. This attribute to the increasing competition in the industry and changing the micro environment.

This chapter deals with the method to be used in collecting data for the project it is the section of study that has adequate taken care of the research produces as much as possible bearing in mind that research finding should be valid and reliable.

3.2 RESEARCH DESIGN

Research Design as the structuring of investigation aimed at identifying variables and their relationship to one another. This is used for the purpose of obtaining data to enable researcher test hypothesis or answer research question. Nnamdi Asika, 2006. For the purpose of this study the survey research design which is primary data (use of questionnaire survey technique in collecting data in order to test the hypotheses or answering research questions concerning the current status of the subject of the study (Gujarati, 2004). This is qualitative in nature is use to obtain information to evaluate the effect of liquidity on the profitability of commercial bank in Nigeria, United Bank for Africa as a case study.

3.3 POPULATION OF THE STUDY

The population of study is described as the total number of employees of United Bank for Africa, Plc, Ilorin who are directly involved in the management of various kind of segment.

The population size include following elements

1. The staff of the account department of United Bank for Africa, Plc (Ilorin).
2. The staff of the withdraw section of United Bank for Africa, Plc (Ilorin).

3. The staff of the deposit section of United Bank for Africa, Plc (Ilorin).

3.4 SAMPLE SIZE AND SAMPLING TECHNIQUES

This is a function of the study of the population and desired degree of precision, The sampling size to be used by the researcher in this study constitute (40) First Bank officers. The selected personnel were-randomly taken in order to avoid sampling error and business.

3.5 SOURCES AND METHOD OF DATA COLLECTION

Data collection is the process of a method of obtaining relevant information about major ideas of study for the purpose of demonstrating whether or not they are important.

3.6 INSTRUMENT OF DATA COLLECTION

The questionnaire was fashioned elicit correct unblased information from the respondent.

Both primary and secondary data are in this study, this primary data constituted personal interview and questionnaire while the secondary data include textbooks, journal, magazine financial reports and other sources from which data was received.

3.7 TECHNIQUES FOR METHODS OF DATA ANALYSIS

Several levels of analysis are to be carried out here. The starting point is to evaluate the performance of United Bank for Africa, Plc from 1999-2012 for where there are data.

The profit performance of the bank period 199-2012 will be a testimony of the fact that paper profit were being declared by banks.

The analysis of data received will include the use of percentage and tables where necessary.

3.8 MODEL SPECIFICATION

Functional Form of the Model

The general relationship between liquidity and profitability can be expressed as:

$$\text{Profitability} = f(\text{Liquidity}, \text{Control Variables})$$

Where:

Profitability is the dependent variable.

Liquidity is the key independent variable.

Control Variables are other factors that may affect profitability.

Econometric Model

A standard regression model can be specified as:

$$\text{ROA}_t = \beta_0 + \beta_1 \text{CR}_t + \beta_2 \text{QR}_t + \beta_3 \text{LDR}_t + \beta_4 \text{NPLR}_t + \beta_5 \text{SIZE}_t + \epsilon_t$$

Where:

Dependent Variable (Profitability):

ROA (Return on Assets): Measures the bank's profitability relative to its total assets.

CHAPTER FOUR

ANALYSIS AND DISCUSSION

4.0 INTRODUCTION

The objective of the study is to analyze the data collected from the respondent and then test the hypothesis put forwards in this research work. The retrieval of analysis and data and information collected in this section is to show the trend and important of regularity powers of central bank of Nigeria.

It should be noted that the various data gathered and collected in the course of this study forms the basis of this analysis.

4.1 RESPONDENTS CHARACTERISTIC AND CLASSIFICATION

Table 4.1

(a) Section one: The characteristics of the respondent based on personal data as regard position heading office, educational statues, sex and year of working experience are hereby analyzed below.

Question 1.

Distribution of respondent based on position held in office.

Position	Number	Total in percentage
Managers	3	13%
Head of department	6	26%
Officers	14	61%
Total	23	100%

SOURCE: Research Field Survey, 2025

The represents the position held by represents 1 show that out of 23 respondents, 14 are the officers which represent the highest figure. There are also three (3) Managers and six (6) Head Of Departments.

4.2 PRESENTATION ANALYSIS OF DATA ACCORDING TO RESEARCH QUESTIONS

Question 2

Distribution of respondent based on education status.

Qualification	Number	Total in percentage
Professionals	3	13%
Post graduates	2	9%
1st Degree / HND	12	52%
NCE / HSC / HND	5	22%
WEAC / GCE	1	4%
Total	23	100%

SOURCE: Research Field Survey, 2025

The Education and respond shows out of 23 respondents, 12 are 1st Degree / HND holder which is the highest figure. It can be seen that the majority of the respondents fall within a reasonable educated people. The implication at this is that these categories of respondent have second educational status, therefore information provided by them on banking operation and various regulatory controls of CBN on liquidity of commercial banks and be relied on.

Question 3.

For noncompliant of commercial banks with C.B.N liquidity control are they penalized according to the provision of banking Act ?

Alternative answer	Respondent	Percentage
Certainly	19	83%

Partially	4	17%
Not at all	–	–
Total	23	100%

SOURCE: Research Field Survey, 2025

The highest figure is respondent by 19 respondents which implied that commercial banks noncompliance with CBN liquidity controls penalized according to the banking Act provision.

Question 4.

Has there been any time when you think the control of CBN on commercial banks is excessive ?

Regular answer	Respondent	Percentage
Regularly	7	30%
Occasionally	15	66%
Not at all	1	4%
Total	23	100%

SOURCE: Research Field Survey, 2025

15 respondents represent the highest figure which shows that there are time the control of CBN on commercial banks are excessive.

Question 5.

Are there indication the economic which make CBN aware that there is need to increase liquidity requirement of commercial banks ?

Alternative Answer	Respondent	Percentage
Yes	23	100%

No	–	–
Total	23	100%

SOURCE: Research Field Survey, 2025

This shows that the agitated towards increasing or decreasing liquidity requirement of commercial banks by economy indications.

Question 6.

What are the instruments of liquidity control that the CBN used to regulate the activities of commercial banks to prevent bank failure ?

Liquidity Ratio.

(i) Loan Analysis.

(ii) Capital Adequacy.

(iii) Periodic Returns To CBN.

(iv) Minimum Reserve Requirement.

4.3 ANALYSIS OF OTHER DATA

Question 7. Are all instrument used at the same time ?

Alternative Answer	Respondent	Percentage
Regularly	5	22%
Occasionally	11	48%
No	7	30%
Total	23	100%

SOURCE: Research Field Survey, 2025

Question 8.

If this response is no, state the requirement which are commonly used at the same time to prevent bank failure.

(i) Minimum Reserve Requirement.

(ii) Capital Adequacy.

(iii) Periodic Return.

Question 9.

Did the CBN give adequate time to the banks to complied with the liquidity regulation ?

Alternative Answer	Respondent	Percentage
Certainly	14	61%
Partially	7	30%
Not at all	2	9%
Total	23	100%

SOURCE: Research Field Survey, 2025

This shows that the CBN gives adequate time to comply with the liquidity regulation.

Question 10.

Despite all these controls is there any bank failure since the inception of CBN ordinance of 1958 ?

Alternative Answer	Respondent	Percentage
Certainly	13	57%
Partially	10	43%
Not at all	–	–
Total	23	100%

SOURCE: Research Field Survey, 2025

This include that certainly there are bank failure since the inception of CBN ordinance of 1998, but only a little above average as some respondent ticks “partially”

Question 11.

If the answer is certainly do you think CBN liquidity controls are effective ?

Alternative Answer	Respondent	Percentage
Yes	19	82%
No	4	18%
Total	23	100%

SOURCE: Research Field Survey, 2025

Majority of the respondents (82%) accept that CBN liquidity controls are certainly effective

4.4 TEST OF HYPOTHESIS

The result were obtained from the research carried out and were explicitly interpreted to evaluate that viability of the hypothesis. Based on the result obtained useful suggestions were necessary.

Two hypothesis were explicitly covered.

i. Liquidity control prevents banks failure in Nigeria .

ii. The control weapon of CBN (reserve ratio) affect the efficiency of commercial banks in Nigeria.

The two hypothesis will be tested using information from the questionnaire and contingency table formed the observer frequencies.

The main statistical technique that is going to be the simple average comprise.

DECISION (HYPOTHESIS 1)

(i) HO: Liquidity control prevent banks failure in Nigeria.

H1: Liquidity control does not prevent banks failure in Nigeria using the simple average comprise 82.6% of the respondent are in affirmation (i.e. Yes) while only 17.4% degree (based on question 12) (i.e. No). This confirm the acceptance of null (Ho) hypothesis and rejection of the alternative hypothesis (Hi).

Some other supportive question shows that liquidity control, prevents banks failure in Nigeria are as follows:

Question 4. For non_compliance of commercial banks with the CBN liquidity control, are they penalized according to banking Acts "83%" of the respondent certainly accepted and remaining 17% partially accepteds.

Question 5. Has there been any time when you think control of CBN of commercial banks excessive. 66% of respondent accept that the CBN control are occasionally excessive. i.e. not frequent and this makes the highest representation.

Hence, it is conclude that liquidity control prevents banks failure.

HYPOTHESIS

Ho: The control weapon (reserve ratio) of CBN affect the efficiency of commercial banks.

Hi: The control weapon does not affect the efficiency of commercial banks. Using their simple average composition. 100% of the respondents are affirmation (i.e. yes) that the control of CBN affects the efficiency of commercial banks. Hence their probability. (based on question 6), the CBN fashion it control weapon with regard to indications in the economy especially in the banking industry). This confirms the acceptance of the null hypothesis (Ho) which the alternative hypothesis is rejected. Other supportive questions are questions 2, 3, and 10.

The acceptance of these two hypothesis signifies that the CBN control is inventible for the survival of commercial banks in Nigeria.

4.5 SUMMARY OF FINDINGS

It was discovered that not much significance difference existed between the respondents who were of the opinion that the information contents of the financial report was not enough to inform a good investment decision and the respondents who thought otherwise. Again it was observed in question N0 10 of the questionnaire, that 52 percent of the respondents were of the opinion that the minimum disclosure as stipulated in the statutes for companies was enough, the remaining 48 percent were of the opposite view.

The hypothesis number two of the research work was tested and it was discovered that the disclosure requirements of the statutes affects corporate performance of manufacturing Industry positively. This is because of the desire in every stakeholder to know about their manufacturing Industry.

In the light of the observation and discussions carried out on the impact of financial accounting reporting on the corporate performance of manufacturing Industry, the following conclusions were drawn.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY

Based on the analysis data of the work were following result were found; The bank huge cash balance are of effectively liquidity which consequently unit the profitability. The CBN controls are inheritable for the survival of commercial banks in Nigeria as banks strive to reconciled liquidity and profitability dilemma. There is a weak demand for loan by eligible banks customers which often lead to excess cash stock in the banks. Adequate but not excessive liquidity is important for the viability of commercial banks, so as not to inhibit project making.

5.2 CONCLUSION

In the light of revelations made by this study, the following conclusion can be drawn; The asset selection in the commercial banks was not captioned, That the actual gross earning recorded at the end of each financial year was not optional due to poor asset selection the need for senior management of bank in Nigeria to recognized the superiority of scientific approach making over judgment cannot be over emphasized. As banking business in Nigeria is becoming more competitive every passing day, this is the time for Nigeria banks to introduce scientific method to manage their scarce resource effectively.

5.3 RECOMMENDATIONS

From the result obtained from the hypothesis tested, it can be
conducted that liquidity and profitability are rivalry variable both of which are inevitable to management.

1. Having shown that both portfolio management and earning where sub-optional using the present method (i.e. D.O.F and A.A.A). I recommend that full implementation of programmed technique which has been discussed in chapter two of this study, I believe

this will result in higher retains a more diversified portfolio and better compliance with credit guideline.

2. The present position of bank cash balance is unacceptable.

It is relatively too high and requires immediate top management attention (inventory theoretic model of cash management should be used to find the optional level of cash holding annually based on demand for cash).

The huge surplus balance of bank could have been more profitability used for increasing investment in Treasury bill, Treasury certificate. e.t.c.

3. There is excess liquidity position for Nigeria banks. This is an indication that demands for loan able fund do not necessarily expand that lending in order to bring their recent or liquidity ratio to the stipulated minimum. This can be overcome by inventory excess assets in the prepared sector of the economy without contravening the laws. The yield on these assets are relatively high and CBN does not place restriction on the minimum amount but stipulate the minimum that must be invested. Investment debenture stock should also be increased to the obtainable on view of its high yield, relatively short maturity and safety.

5.4 FRONTIERS FOR FURTHER RESEARCH

The factor review in this research work are not curly covers
related to the effect of liquidity on profitability of commercial banks, it is expected to be a guideline for different people who may be interested in conducting research on effect of liquidity on commercial banks.

Moreover, suggestion for further study will be necessary along this line since the study of liquidity continues with un-diminishing enthusiasm more research work can be done by looking into the comparative study of how liquidity can be maintained within the level of transition from growth.

Also research can be made comparative analysis of viability of commercial banks in a depressed economy under democratic planning discipline and development.

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