NATIONAL OPEN UNIVERSITY OF NIGERIA

91, Cadastral Zone, University Village Jabi, Abuja

FACULTY OF MANAGEMENT SCIENCES

COURSE CODE: BFN104

COURSE TITLE: ELEMENTS OF BANKING

CREDIT UNIT: 3 CREDIT UNITS

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Dept of Financial Studies.

COURSE GUIDE

1.0 INTRODUCTION

This course, BFN104 Elements of Banking in Banking and Finance has been designed to give you self-instruction on the basics of Banking. It teaches you development in Banking in Nigeria.

2.0 COURSE AIMS

The aim of this course is to introduce you to the basics of banking processes and the component in Nigeria. It also aims at encouraging you to acquaint yourself with the nature and principles of Banking.

3.0 COURSE OBJECTIVES

By the end of this course, you should be able to:
1) Explain the business of Banking
2) Explain Banking System in Nigeria;
3) Identify non-Bank Financial Institutions
4) Highlight the establishment of Micro-Finance Bank in Nigeria

4.0 WORKING THROUGH THIS COURSE

This course, BFN104, expects you to do a lot of reading in order to cover the materials in the course material. It implies that you should devote much time to this course by reading through this material and getting more information from numerous texts and journals. These abound in every library and from the internet. The course material has been made easy to read and user-friendly. However, you will need to attend the tutorial sessions where your Facilitator would direct and provide you with more information. You will need to work in groups with other students in order to discuss, compare notes and thoughts as well as to exchange and share ideas. Below are the lists of all the components of the course:

5.0 COURSE MATERIALS

The National Open University of Nigeria will provide you with the following items:

- Course Guide
- Study Units
- TMA Assignment File for continuous assignment.

In addition, at the end of every unit, is a list of texts for your references and for further reading. It is not compulsory for you to read all of them. They are only essential supplements to this course material.

6.0 STUDY UNITS

The study units in this course are as follows:

MODULE 1
Unit 1 Business of Banking
Unit 2 Development of Money
Unit 3 Historical Development of Banking
Unit 4 Central Bank of Nigeria
Unit 5 Nigeria Banking Structure
Unit 6 E-Banking System

MODULE 2
Unit 1 Commercial Banking System
Unit 2 Merchant Banking System
Unit 3 Development Banking System
Unit 4 E-Banking system
Unit 5 Non-Bank Financial Institutions
Unit 6 Micro-finance Banking Institutions

MODULE 3
Unit 1: Bank Lending
Unit 2: Interpreting the Accounts of Customers
Unit 3: Negotiable Instruments-Bills of Exchange
Unit 4: Negotiable Instruments-Cheques and Promissory Notes
Unit 5: Manpower Development in Banking and Finance

7.0 ASSIGNMENT FILES

You will find the assignment questions for each tutor marked assignment (TMA) in the folder labeled “Assignment File.” You will find the details of the work.

8.0 ASSESSMENT

There are two aspects to the assessment of the course: first is the tutor-marked assignment; and secondly, the examination. Within each unit are self-assessment exercises, which are aimed at helping you to check your assimilation as you proceed. Try to attempt each of the exercises before finding out the expected answers from lecture. In tackling the assignments, you are advised to be sincere in attempting the exercises; you are expected to apply information, knowledge and techniques gathered during the course.

9.0 TUTOR-MARKED ASSIGNMENT (TMAS)

This is your continuous assessment and accounts for 30% of your total score. You are expected to answer at least four TMA’s, three of which must be answered and submitted. However, it is

desirable in all degree level education to demonstrate that you have read and researched more widely than the required minimum. Using other references will give you a broader viewpoint and may provide a deeper understanding of the subject.

10.0 FINAL EXAMINATION AND GRADING

With this examination written successfully, you have completed your course in Basic research and one believes you would apply your knowledge (new or up-graded) in your project. The 'end of course examinations' would earn you 70% which would be added to your TMA score (30%). The time for this examination would be communicated to you.

11.0 HOW TO GET THE BEST FROM THIS COURSE

In distance learning, the study units are specially developed and designed to replace the conventional lectures. Hence, you can work through these materials at your own pace, and at a time and place that suits you best. Visualize it as reading the lecture.
This is one of the great advantages of distance learning. You can read and work through specially designed study materials at your own pace, and at a time and place that suits you best. Think of it as reading the lecture that a lecturer might set you some readings to do, the study unit will tell you when to read other materials. Just as a lecturer might give you an in-class exercise, your study units provide exercises for you to do at appropriate points.

Each of the study units follows a common format. The first item is an introduction to the subject matter of the unit, and how a particular unit is integrated with the other units and the course as a whole. Next is a set of learning objectives. These objectives allow you to know what you should be able to do by the time you have completed the unit. You should use these objectives to guide your study. When you have finished the unit, you must go back and check whether you have achieved the objectives. If you make a habit of doing this, you will significantly improve your chances of passing the course.

The main body of the unit guides you through the required reading from other sources. This will usually be either from a ***Reading Section*** of some other sources.
Self-tests are interspersed throughout the end of units. Working through these tests will help you to achieve the objectives of the unit and prepare you for the assignments and the examination. You should do each self-test as you come to it in the study unit. There will also be numerous examples given in the study units, work through these when you come to them too.
The following is a practical strategy for working through the course. If you run into any trouble, telephone your tutor. Remember that your tutor's job is to help you. When you need help, don't hesitate to call and ask your tutor to provide it.

(1) Read this course guide thoroughly.

(2) Organize a study schedule. Refer to the course overview for more details. Note the time you are expected to spend on each unit and how the assignments relate to the units. Important information e.g. details of your tutorials, and the date of the first day of the semester will be made available. You need to gather all this information in one place, such as your diary or a wall

calendar. Whatever method you choose to use, you should decide on and write in your own dates for working on each unit.

(3) Once you have created your own study schedule, do everything you can to stick to it. The major reason that students fail is that they get behind with their coursework. If you get into difficulties with your schedule, please let your tutor know before it is too late for help.

(4) Turn to unit 1 and read the introduction and the objectives for the unit.

(5) Assemble the study materials. Information about what you need for a unit is given in the 'Overview' at the beginning of each unit. You will always need both the study unit you are working on and one of your references, on your desk at the same time.

(6) Work through the unit. The content of the unit itself has been arranged to provide a sequence for you to follow. As you work through the units, you will be instructed to read sections from your set books or other articles. Use the unit to guide your reading.

(7) Review of the objectives for each study unit and confirm that you have achieved them. When you are confident that you have achieved a unit's objectives, you can then start on the next unit. Proceed unit by unit through the course and try to face your study so that you keep yourself on schedule.

(8) After completing the last unit, review the course and prepare yourself for the final examination. Check that you have achieved the unit objectives (listed at the beginning of each unit) and the course objectives (listed in the Course Guide).

12.0 SUMMARY

This course BFN104 is designed to give you some knowledge which would help you to understand Element of Banking as applied to the Banking and Finance sector in Nigeria. After going through this course successfully, you would be in a good position to pass your examination at the end of the semester and use the knowledge

gained to apply in the principles of banking and finance as a banker, financial expert and manager. You will be able to contribute to the development of scholarly thoughts in banking and finance as it affects economic development.
We wish you success in this interesting course and hope you will use what you have learnt in this course to apply to knowledge.
We also hope you would appreciate the unique role and opportunity you have to make a difference in using the knowledge derived from this course in solving problems. We, therefore, sincerely wish you the best as you enjoy the course. GOOD LUCK.

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Elements of Banking

Preface

Elements of Banking as the name implies is an elementary understanding of the sphere of money banking and financial markets, which is one of the exciting aspects of economics. In a wider perspective it includes a well-diversified areas of accounting, mathematics, and statistics. The choice to write this book in an honest contributions to filling a notice gap of the lack of current localized books in this area of the specialized field that is particularly tailored to meet the needs of our undergraduate ; with respect to the tethering period of their programme.

Elements of Banking provides student with a conceptual understanding of the subject matter, through a precise, concise and in depth analysis as framed by the Nigerian universities commission (NUC); especially as it relates to the Nigerian Money Market and her working. Same goes for professionals, policy makers and investors who we are sure will find this material an inherent companion all the time.

The book is structured into modules to allow for easy read and understanding within the shortest possible time.

Course Materials

In addition to this book, other relevant materials include the ones referenced at the end of each chapter/module, Assignment file, relevant journals and newspapers and bulletins.

Study Units

There are 19 units (of 6 modules) in this course. They are arranged thus:

CONTENTS

Module1: BAKING AND NIGERIAN BANKING STRUCTURE.

Unit 1 Meaning and Concept of Banking.

Unit 2 Central Bank of Nigeria.

Unit 3 Commercial Bank and Merchant Bank.

Unit 4 Other Banks (Specialized).

MODULE 2 THE DEVELOPMENT OF MONEY.

Unit 1 The Concept of Money

Unit 2 The Evolution of Money

Unit 3 The Nigerian Money Market

MODULE 3 SAVINGS AND INVESTMENT

Unit 1 Savings and Investment

Unit 2 Negotiable Instruments

Unit 3 Clearing Banks

MODULE 4 BANK PAYMENT SYSTEM

Unit 1 Cash and Cheques

Unit 2 ETF and Internet banking

Unit 3 Banking Lending

MODULE 5 BANK CUSTOMERS AND ACCOUNTS

Unit 1 Bank Customers and Accounts

Unit 2 Bank Account services for Exporters

Unit 3 Banking Institute

MODULE 6 FINANCIAL STATEMENTS

Unit 1 Income Statement

Unit 2 Statement of Financial Position

Unit 3 Other Useful Bank Financial Statement

Textbooks and References

There are lists of recommended texts for this course, additionally, students may wish to purchase or read from the referenced texts/ materials.

Module1: BAKING AND NIGERIAN BANKING STRUCTURE

Unit 1 Meaning and Concept of Banking.

Unit 2 Central Bank of Nigeria.

Unit 3 Commercial Bank and Merchant Bank.

Unit 4 Other Banks (Specialized).

Unit 1 Meaning and Concept of Banking

Bank: Bank is an outfit legally registered to accept funds and other valuables for safe keeping. It is often times known as acceptance house. As an Organisation it is a legally chartered outfit, with stakeholders broken into shareholders, bond holders,(investors), directors, officers, other employees including the super structures. A bank could be privately or publicly owned.

Banking: This is the process of legally organizing an outfit to create, safe-keep, manage and transfer money from one person to another, from business to business or in a nut shell between surplus and deficit spending economic agents/ units. The bottom line of the banking business is an efficient payment and intermediary system. The payment system deals with how wealth moves about, shifting from one owner to another in consideration of cash movement. Wealth is actually transferred any moment some legal rights or property in a good is handed over to another person. However, the focus of this unit is the payment system that considers the idea of a promise to pay or payments that are made by one party to another with respect to certain amount of money.

Without any equivocation the earliest form of payment method outside barter was the straightforward payment by cash and with respect to overall transaction in our system, payment by cash still rank highest in volume, irrespective of the cash-less/ light policy of the government; although in terms of aggregate value of money that moves from one end to the other in a given day it is actually not the most significant.

The issue of the transfer of large amount of funds however seems not to be an attractive option due to the risk of theft or loss in the process of sending same to others in far-off locations. The mechanism of moving cash over great distances using modern means of electronic transfers have now become the order of the day and will be dealt with module.........

Banking Laws

The idea of banking and banking business is very complex and involves fiducial and trust issues in high magnitude. Little wonder it is heavily regulated, even globally. In Nigeria, 1952 was seen as the era of free banking, in that the only requirement for banking operations was the registration of same via the Companies (Banking) Ordinance and This led to a banking boom (with the establishment of well over (170 banks), because to be registered as a bank was a function of the proposed bank's ability to raise #25,000 (indigenous banks) and #200,000 (Expatriates bank); with 20% of reserve financing coming from annual profits **(Igweike,2005:6; Akpan, 1999:16)**.. However, majority of the banks failed as a result of the lack of proper regulation and control at the time, which therefore led to the promulgation of the 1958 Banking Ordinance (Cap 19).

This ordinance increased the minimum paid up capital of expatriate banks to #400,000 and the financing rate of reserve fund for all categories of banks to **25%. (Nwankwo, 1980:51)** and laid the foundation for the establishment of banks and other financial Institutions in the country. This also led to the establishment of the Central Bank of Nigeria, as well as the foundation for the money and capital in the same year. In 1962, government control over the activities of banks was improved by the promulgation of the Banking (Amendment) **Act of 1962 (Cap 19).** This Act removed the loopholes of the previous banking statutes and increased the instruments o f monetary control of CBN. The enactment of the Companies Decree No 51 of 1968 made it obligatory on all companies, including banks operating in Nigeria to be incorporated in Nigeria. Again in 1969 all of the previous enactments were now codified with the most encompassing banking law-the **1969 Banking Decree No.1.** After more than two decades of Banking legislation, a comprehensive framework for banking operations was put in place as the Bank and Other Financial Institutions Decree **(BOFID) No. 25 of 1991.** The Decree clearly specified that,;

Any person desiring to undertake banking business in Nigeria shall apply in writing to the Governor for the grant OFA license and shall accompany the application with the following:

(a) A feasibility report of the proposed bank;

(b) A draft copy of the memo and articles of association of the proposed bank;

(c) A list of shareholders, directors and principal officers of the proposed bank and their particulars;

(d) the prescribed application fee; and

(e) such other information the Bank may, from time to time specify.

Section 24 of BOFID, requires the banks to maintain proper books of account with regards to all transactions. Section 25 specifies that every bank must make returns of recorded transactions to CBN " 28 days after the last day of each month or such other interval as the Bank may direct. Section 27 requests banks to publish annual financial statements so as to give members of the public opportunity to evaluate their performance.

However, the above are those having general appeal to most if not all Banking institutions.

UNIT 2 CENTRAL BANK OF NIGERIA (CBN)

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1.0 Introduction

2.0 Objective

3.0 Main content

- 3.1 Definition of Central Bank
- 3.2 Historical Development of Central Bank
- 3.3 Organisational Structure of CBN
- 3.4 Functions of CBN

4.0 Summary

5.0 Conclusion

6.0 Tutor-marked Assignment

7.0 References/ further Reading

1.0 Introduction

At the epicenter of a nation's financial system is its Central Bank, it is the apex of a country's banking system, empowered by law to regulate and supervise commercial bank and other forms of Banking institutions within the country, it is also the sole issuer of the country's legal tender. it oversee a nation's financial system in order to bring about a sound and conducive environment for the achievement of the macro-economic goals and objectives.

2.0 Objectives

This module is aimed at familiarizing the student with the Nigerian Banking system, its participants and their functions

At the end of unit the Student should be able to:

- Explain the concept a Central Bank
- List and Explain the Functions of Central Bank
- Trace the Historical development of the Central Bank of Nigeria

3.0 Main Content

3.1 What Central Bank?

According to De Kock a Central is a bank which constitutes the apex monetary and the banking system of its country and which performs as best as it can in the national economic interest, the following functions

i. The regulation of the currency in accordance with the requirements of business and the general public for which purpose it is granted either the sole right of note issue or at least a partial monopoly thereof
ii. The performance of general banking and agency for the state
iii. The custody of the cash reserves of commercial banks
iv. The custody and management of the nation's reserves of international currency
v. The granting of accommodation in the form re discounts and collateral advances to commercial banks, bill brokers and dealers or other financial institutions and the general acceptance of responsibility of lender of last resort.
vi. The settlement of clearing balances between the banks.
vii. The control of credit in accordance with the needs of business and with a view to carrying out the broad monetary policy adopted by the state

According to Samuelson a central bank is a bank of bankers. Its duty is to control the monetary base and through control of this high powered money to control the communities supply of money.

3.2 Historical Development of Central Bank of Nigeria

Prior to the establishment of the Central bank of Nigeria in 1959there was a West African currency Board (WACB) which was established in 1912, the board whose functions included:

- To issue a West African currency
- To ensure a speedy convertibility of the currency with the old silver currency.
- To provide means whereby the colonial government will share from the proceeds of currency issue.

Although the West African currency Board performed these functions religiously, it had a number significant limitations. These include:

- The WACB could not engage in monetary policy management as a full-fledged central bank
- It failed to develop the Nigeria money and capital market because it sent its reserves to London.
- The Board failed to trained Nigerian
- The board failed to invest its reserves and proceeds in Nigeria, instead it invested it in London
- It operations were rigid because of the fixed parity between it currency issue and the pounds

The central bank of Nigeria was established in1959 by the central bank Act of 1958, the journey towards the establishment of CBN began in April 1952 when a motion for the establishment of a central bank of Nigeria, as was applicable in several other countries was proposed by a private member of the federal house of representatives, this motion gave rise to the setting up commissions to examine and report to the house the possibility and desirability of a of establishing a Central bank in Nigeria. The first of such commissions was the Fishers commission of 1952, which was headed by Mr. J.L Fisher from the bank of England, the IBRD commission of enquiry 1953 also examined the issue of establishing a central bank of Nigeria. The report of both commission concluded that it was premature to establish a central bank of Nigeria due to the absence of a highly organized financial system in Nigeria. The reports of the two commissions were r ejected by the nationalist, necessitating the setting up of another commission headed by Mr. J. B. Loynes, the Loyne's commission favoured the idea of

establishing a central bank of Nigeria. The recommendations of the commission's report formed the basis of a draft legislation for the establishment of the Central Bank of Nigeria whose functions as specified by the CBN Act 1956s and amendment of 1991 and 1998 includes:

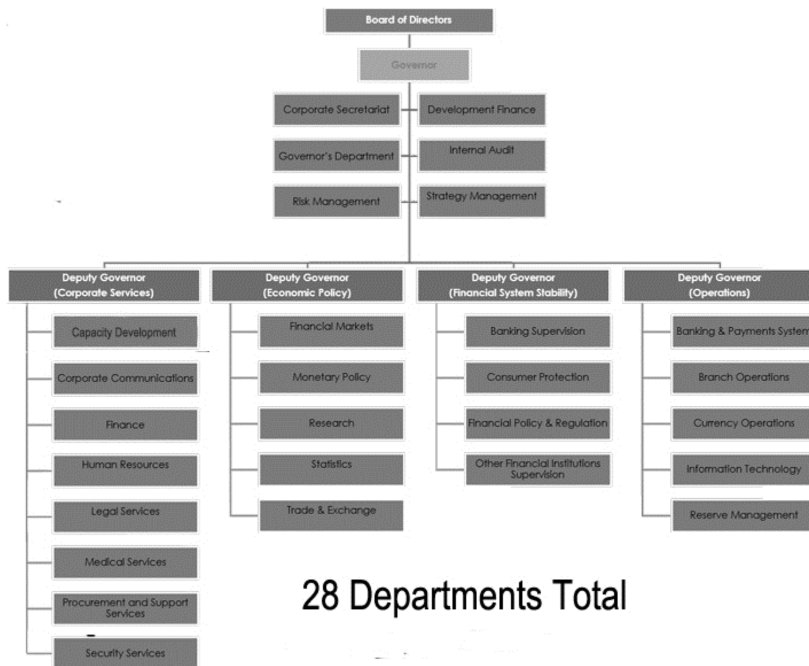
- To maintain external reserves and safeguard the international value of the legal tender
- To promote monetary stability and a sound and efficient financial system in Nigeria
- Acting as a lender of last resort
- To act as a banker and financial adviser to the federal government.

Consequently, the bank is charged with the responsibility of administering the Banks and Other Financial Institutions Act (BOFIA) 1991with sole aim of ensuring high standards of banking practice and financial stability through surveillance activities, as well as the promotion of an efficient payment system. In addition to its core functions, CBN functions, CBN has over the years performed some major development functions, focused on all the key sectors of the Nigerian economy.

It is important to note that the responsibility for supervising banks was shared between the Central bank of Nigeria and the Federal ministry of finance between 1960 and 1965. In 1966, the overall functions of bank supervision was moved to the CBN. In fact the, the FMF was saddled with both monetary and fiscal policy measures and control, because in 1991, the FMF approved the issue of bank licenses on the recommendations of CBN. But in 1997 when BOFID was promulgated the responsibility of bank licensing was returned to CBN. Prior to1986, the authorisation of foreign exchange disbursement was shared between CBN and FMF, the FMF was in charge of the first-tier market for public sector application and allocation, while the CBN allocated foreign exchange in respect of private applications. In a nutshell, the FMF originates fiscal policies which influence monetary policy through government actions in the market

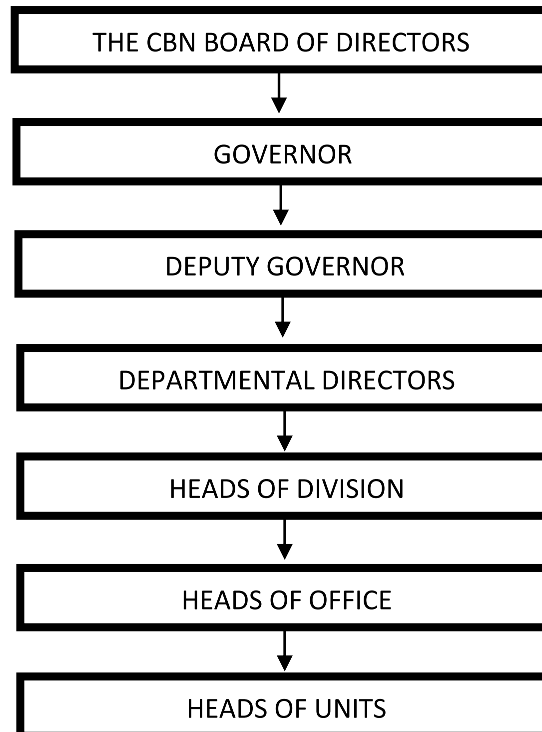
3.3 Organisational Structure of CBN

Organisational Chart of the CBN



SOURCE: CBN website (2017)

FLOW OF AUTHORITY IN THE CBN



SOURCE: 5O years of CBN decree (2009) Federal Ministry of Finance

The CBN performs its functions through its various Departments. In March 2010, the central bank of Nigeria launched its restructuring program with a view to repositioning and reinventing CBN for sustainable improvements of the overall Accountability, communications, efficiency and effectiveness of the organisation.

There are 28 Departments in the central Bank of Nigeria grouped into 5 directorates in order of related performances and Job Description to facilitate the smooth running and operations of the Departments.

Each directorate is headed by the deputy Governor in order to reduce the pressure on the central bank Governor.

The Directorates in the Central bank of Nigeria are:

i. Corporate services Directorate
ii. Economic policy Directorate
iii. Financial System stability Directorate
iv. Governor's Directorate
v. Operations Directorate

3.4 Functions of Central Bank of Nigeria

Issuance of legal tender currency notes and coins:

The central bank of Nigeria has the sole legal right to issue and distribute of Nigerian currency within the economy. This is in a bid to ensure uniformity, order, effective control and public confidence in the currency issued. The central bank of Nigeria's first currency issue was in 1959 (the year it commenced operation) when it issued the Nigerian pounds to replace the West African currency Board (WACB) pounds, which was then in circulation. In1973 the Central Bank of Nigeria moved to the metric system, when it introduced decimal currency denominations (Naira and kobo) to replace the Nigerian Pound this was in a bid to simplify transactions, and in 1976 it went further to introduce the 20 naira bill.

In bid to checkmate the counterfeiting and to discourage currency hoarding, a currency exchange exercise was undertaken in in 1984 where the colours of the existing currencies were swapped.

Furthermore in 1991 a currency reform was carried out which brought about the phasing out of 2 kobo and 5 kobo coins, while the 1 kobo, 10 kobo and 25 kobo notes were redesigned in addition the 50 kobo and the 1 naira notes were coined. While the 50 naira notes was put in circulation.

Subsequently the 100 naira notes were issued in December 1999 followed by the issue of 200 hundred naira in November 2000. While the 500 naira notes issued in 2001

Foreign Exchange Management: the central bank of Nigeria is responsible for the control and monitoring of how the nations scarce foreign exchange are utilized within the economy. This is to ensure that Foreign exchange is disbursed and utilized in accordance with the nation's economic priorities and within the annual foreign exchange budget in order to safe guard stability of the naira and the country's balance of payment position.

Banker and Financial Adviser to the Government:

The CBN functions as a banker to the Federal, State and local government, hence it renders the following service to them:

i. The CBN may also act as a banker to institutions, funds and corporations set up by them.
ii. They finance the government in events of temporary budget shortfall.
iii. They advise the government on the nature, size and timing of issuing debt instruments.
iv. CBN acts on behalf of government as issuing house for its Treasury Bills, treasury certificate and other debt instruments.

Banker and Lender of Last Resort to Banks: As a lender and banker of last resort the CBN performs the following functions in order to assist financial institutions in resolving their liquidity problems

i. The CBN maintains current account for deposit money banks.
ii. It also provides clearing house facilities through which instruments from the banks are processed and settled.
iii. As a lender of last resort, it provides short term loans to banks
iv. The CBN discounts eligible bill held by banks, where they have exhausted all possible means of acquiring supplementary funds

Promotion and Maintenance of Monetary Stability and a Sound and Efficient Financial System: this entails the routine control of the level of liquidity in the economy in order to ensure monetary stability. The CBN determines target growth rates of money supply, which are compatible with its overall policy goals. It also seeks to align the country's banking activities with the overall target.

This involves the utilization of monetary management tools such as; Open Market Operations (OMO), reserve requirements and discount window operations etc.

4.0 SUMMARY

The Central Bank of Nigeria was established as a result of the clamour from the Nationalist, It was established to act as central monetary authority who responsible not just for the issue but the proper management of the country's currency for the overall of good of the nation's populace and a number of other related function such as acting as an adviser to the federal government, in order to perform this responsibility CBN utilizes a number of tools such as Open market Operation, use of regulatory guidelines etc.

5.0 CONCLUSION

Since its establishment in 1956 the central bank has grown not just in terms of size but also in terms of its powers, capacity, functions and responsibility. It has moved from being under the control of the federal ministry of finance to being an independent agency of its own with greater capacity for monetary policy implementation and formulation. However the Nigerian financial system has being be plagued by instability and lack of consistency in policy thrust of the CBN, hence there is still for a further strengthening of the Central Bank of Nigeria.

6.0 TUTOR-MARKED ASSIGNMENT

1. What do you understand by the term central bank and why is it different from other banks

2. Briefly discuss the functions o the Central Bank of Nigeria

3. Trace the historical development of CBN

7.0 References:

Akpan, I. (1999). Fundamentals of Finance. Uyo: Modern Business Press.

Akpan, E. S. (2001). Nigerian Financial Institutions; in Mbat, D. O. (ED). **Topical Issues in Finance.**Uyo: Domes Associates Publishers.

Igweike, K. I. (2005). Law of Banking and Negotiable Instruments. Onitsha: AFRICANA-FIRST Publishers.

Jumbo, C. O. (2003). Elements of Banking. Owerri: Barlow Publishers.

UNIT 3 COMMERCIAL & MERCHANT BANKS

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    3.2.3 Functions Of Merchant Bank
4.0 Summary
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1.0 INTRODUCTION

Commercial and Merchant banks are one of the foremost financial institutions in Nigeria, they render a number vital banking services to both individuals and corporate entities alike. They

have over the years grown to become an indispensible part of our everyday business activities, facilitating businesses activities, economic growth and better living standards

2.0 OBJECTIVES

At the end of the this unit the student should amongst other things be able to:

- Define the term commercial banks and state their functions
- Define the term merchant banks and state their functions
- Differentiate between commercial banks and merchant banks

3.1 COMMERCIAL BANKS.

3.1.1 What is are Commercial Banks

Commercial banks are privately owned financial institutions that provide various financial services such as accepting deposits, advancing loans, credit creation and agency functions and other financial services for the purpose of making profit.

3.1.2 Functions of Commercial Banks

The functions of commercial banks can be subdivided into two main categories namely

i. Primary functions; and
ii. Secondary functions

PRIMARY FUNCTIONS

The primary functions of a commercial bank includes:

a) **Accepting Deposits**

In order to bridge the gap between the deficit and surplus sectors, banks accept deposits from the public as a means of mobilizing temporarily idle funds from the surplus sectors of the economy. As incentives for depositing their monies with the banks customers receive interest on the amount deposited and guaranteed safety of their deposit. Accounts through which banks mobilize temporarily idle funds can be categorized into 3 types.

Savings Accounts: this type of account is used by individuals (such as petty traders) who want to save small amount of money at regular intervals. Depositors are legally required to notify the

bank ahead of any withdrawal, although in practice they can withdraw their money from the account upon the presentation of their passbook without the bank insisting on any prior notice. It should be noted that savings account holders do not use cheques for withdrawal

As incentives to encourage savings, savings account attracts interest on the amount deposited.

Current Account: Current accounts are usually operated by companies and businessmen, current accounts requires no prior notice before withdrawals can be made, as customers can made withdrawals using cheques. Interest are not usually paid on the deposits. Instead current account holders are charged commissions to cover the banks operating expenses.

Fixed Deposit Account (Time Deposit): this type of account is usually utilized by individuals and business organisations with excess liquidity. Fixed deposit account usually require depositors to keep their money with the bank for a specific period of time (e.g. 360 days) withdrawal are made from the fixed deposit account only at maturity (i.e. when the specified time period elapses). Fixed deposits usually attract higher interest rates usually on the based on the length of the maturity period.

B) Grant of Loans and Advances

After mobilizing funds from the surplus sectors of the economy banks channel these funds to the deficit sector of the economy in forms of loans and advances. Such loans and advances are given to members of the public and to the business community at a higher rate of interest than allowed by banks on various deposit accounts. The rate of interest charged on loans and advances varies according to the purpose and period of loan and also the mode of repayment.

DISTINCTION BETWEEN LOANS AND ADVANCES

The major difference between a loans and an advances arises from the fact that loans may be granted for longer period, but advances are normally granted for a short period of time. Furthermore the purpose of granting advances is to meet the day-to-day requirements of business. The rate of interest charged on advances varies from bank to bank.

Interest is charged only on the amount withdrawn and not on the sanctioned amount.

SECONDARY FUNCTIONS

In addition to the primary functions of accepting deposits and lending money, banks perform various other functions depending on their types, these functions includes:

i. Providing customers with facilities of foreign exchange dealings.
ii. Issuing letters of credit, travellers cheque, etc.
iii. Undertaking safe custody of valuables, important document and securities by providing safe deposit vaults or lockers.
iv. Money transfer services.
v. Standing guarantee on behalf of its customers, for making payment for purchase of goods, machinery, vehicles etc.
vi. Providing reports on the credit worthiness of customers.
vii. Collection and discounting of bills

3.2 MERCHANT BANKS:

3.2.1 What are merchant Banks?

Merchant banks are usually defined in terms of their functions, they wholesale banks established to provide medium and large scale and specialized banking services to their clients at a profit. Merchant banks caters primarily for the needs of large enterprises and high net worth individuals, they engage in underwriting, international trade financing, hire purchase, acceptance of bills of exchange and provision of business loans amongst other specialized services.

According to the Nigerian banking amendment decree No. 88 of 1979 merchant bank means any person who engages in wholesale banking, medium and long-term financing, equipment leasing, debt factoring, investment management, issue and acceptance of bills and the management of unit trusts. The deal with corporate customers and are some times called acceptance houses.

3.2.2 Development of Merchant Banking in Nigeria

The concept of merchant banking in Nigeria dates back to the 18th century. The merchant banking institution varies from country to country, and even within the same country there is till some remarkable differences in their sizes and functions.

In Nigeria however, it can be rightly said to have started with the registration of Nigeria Acceptance Limited (NAL) a subsidiary of John Holt Group on 25th November,1960 and Philip Hill(Nigeria) limited on 14th September 1960.

The history of modern merchant banking in Nigeria, however started in 1969 because up till 1969, it was only the two above-mentioned institutions that were licensed to operate. In 1969 they both merged to form the Nigeria Acceptance limited. Now called NAL merchant Bank Limited. It had the objective of carrying on full merchant banking activities unlike when NAL was engaged only in acceptances and Phillip Hill was engaged in discounting business alone.

NAL merchant bank limited remained the only merchant bank in Nigeria, until 1973 when union Dominion trust bank was licensed to carryout merchant banking functions. This was as a result of the indigenization decree of 1972 which required 60-40 percent indigenous-expatriate equity ownership in the banking industry, alongside the oil boom of the 70s, as well as the third national development plan.

In April 1974, the union Dominion trust bank (Nigeria) limited, changed its name to UDT (Nig.) Ltd, and today it goes by the name Nigeria Merchant Bank (NMB). In the same year three more merchant banks were licensed namely:

- First national bank of Chicago (Nigeria) Limited
- First National City Bank New York (Nigeria) Limited and
- Chase Merchant Bank Limited

In 1975, the first National City bank of New York (Nigeria) Limited closed-up and gave up its license in protest following the federal government's decision to participate in in all foreign owned banks operating in the country. In the same year Investment Company of Nigeria (ICON) securities Limited, joined the league of merchant banks as it was licensed to do so. The Nigerian American merchant Banks Limited (NAMBL) came to the scene in the same year. It was not until 1932 that three new merchant came on stream, these were:

In 1894 came Grindlays Merchant Bank (Nig.) limited, by 1989, there were 34 merchant banks operating in Nigeria, with chase Merchant Bank changing its name to continental Merchant Banks.

In 1991, the number rose to 54 with well over 100 branches, and by December 1995, the number fell to 51 with a total of 149 branches.

Several merchant banks that sprang up in Nigeria were induced by the Structural Adjustment Program. A reversal some of the policy thrust of SAP that was meant for the growth and the development of the entire banking system had an adverse effect on the merchant banks sub-sector which inevitably led to distress and eventual collapse of some of the merchant banks.

However government has been making frantic and continuous effort to streamline between commercial and merchant banks. In 1991, government remove the ceiling it has place leasing. Merchant bank were to keep a 5 percent of their demand deposit as cash reserve ratio and later on redefine it to be 3 percent of the total deposit liabilities: and a 30 percent liquidity ratio for both banks. In fact the capitalization rate had been increase to N500 million in 1997 and commercial banks were also allowed to establish merchant banks.

In 1999 merchant bank were allowed to turn commercial if they so desired, since they both had the same capitalization base, which would lead to more branch banking for the system and also pave the way for universal banking proper.

3.2.3 FUNCTIONS OF MERCHANT BANKS

i. ***Raising finance for Clients:*** merchant banks helps their clients to raise finance from both domestic and international markets, through the issue of shares debentures and banking loans.

ii. ***Corporate Restructuring:*** merchant banks assists their clients in matters relating mergers and acquisition, sales of existing business unit or disinvestment.

iii. ***Discounting of Bills of Exchange:*** Merchant banks engage in the acceptance and discounting of bills of exchange.

iv. ***Deposits:*** Merchant banks accept large deposits from corporate clients and wealthy individual this is usually in the form of fixed term deposits. They also issue certificates of deposits (CDs)which are usually purchased by commercial bank.

v. Provision of long term loans

vi. ***Loan Syndication:*** loan syndication is the process of involving different lenders in providing various portions of a loan, merchant banks engage in loan syndication by organising a consortium of institutions to finance a business venture

vii. ***Underwriting issues of new shares:*** merchant banks engage in underwriting services were they guarantee to take shares which are not subscribed to by the public in the event that the shares issued by their clients are no fully subscribed to.

viii. ***Leasing Services:*** a lease is a contract between the lessor and the lessee, were the lessor (the owner of the asset) allows the lessee (the renter of the asset) to use a specific asset for a specified period of time charging a fee called rentals

ix. ***Banker Acceptances:*** Merchant banks facilitate international trade through use of "bankers acceptance". This entails the merchant bank endorsing a bill drawn by its client (an importer) guaranteeing the payment of the bill to the exporter at maturity.

x. Merchant banks provide Advisory services to clients.

4.0 SUMMARY

Commercial and merchant banks perform a number of vital banking services to different categories of customers, commercial banks are basically involved in retail banking services while merchant banks are concerned with the rendering of wholesale banking services. For example Commercial banks accepts deposits of various categories that can be withdrawn on demand but merchant banks do not. Over the years there have being a conscious effort by regulators to collapse commercial banks and merchant banks into one

5.0 CONCLUSION

The relevance of commercial and merchant banks to business, industry and commerce can not be overstressed, however as a result of recent banking collapses and abuses experienced in the recent past, being an increased need for bank supervision and a more robust policy framework to regulate and control the activities of merchant and commercial banks.

6.0 TUTOR-MARKED ASSIGNMENT

- Discuss the concept of commercial banks in terms of their functions
- Trace the historical development of merchant banks in Nigeria
- What are merchant banks?
- Briefly discuss the differences between commercial banks and merchant banks.

7.0 References:

Akpan, I. (1999). Fundamentals of Finance. Uyo: Modern Business Press.

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UNIT 4 OTHER BANKS (SPECIALIZED)

CONTENT

1.0 Introduction
2.0 Objectives
3.0 Main Content
  3.1 Mortgage Bank
  3.2 Community Banks
  3.3 Development Bank
  3.4 Micro-finance Bank
  3.5 Peoples Bank
4.0 Conclusion
5.0 Summary
6.0 Tutor Marked Assignment
7.0 Reference/Further Reading

1.0 Introduction

Apart from commercial banks and merchant banks a number of other banking institutions exist, usually to render more specialized services that may not have being adequately covered by commercial and merchant banks. The functions of these specialized banking institutions vary according to their types, for example development banks are focused on providing finance to certain vital sectors of the economy such as agriculture, industry etc. Micro-finance banks are focused on Small and medium scale enterprises.

2.0 Objectives

The student may be very much familiar with commercial banks and their functions. However a number of other specialized banking institutions exist such as Development banks, mortgage

Banks etc. this units aims at exposing the student to these specialized banking institutions and their functions, more specifically the reader should at the end of this unit be able to

- Define and list the functions of Development banks
- Explain the concept of community banks
- Explain the functions of microfinance banks
- Define and list the functions of a mortgage bank
- Discuss the functions of peoples banks

3.0 Main Content

3.1 Mortgage Bank: Mortgage banks are licensed financial institutions that specialize in granting loans to individuals and corporate bodies for the purpose of purchasing real estate especially in relations to private residence.

Functions of Mortgage Banks

i. Mortgage banks provide long term loans to individual and estate developers for the purpose of building houses
ii. Mortgage banks accept deposits from customers in order to encourage savings towards owning a house.
iii. Mortgage banks engage in building of houses, which they offer for sale to customers
iv. They render advise to customers in relation to housing issues.

3.2 Community Bank

A community bank is a self-sustaining and independent financial institution that is owned by and operates exclusively in a community or group of communities, that is also responsible for its management and funding, established for the purpose of pooling deposits, providing credit and other financial services to largely on the basis of their self-recognition and credit worthiness.

Community banks are bank whose business is to assist communities to promote rural development through credit finance delivery to its members. BOFID 1991 section 61 defines community bank as a bank whose business is confined to certain areas in the country. It is a self-sustaining financial institution owned and managed by a community or group of local communities for the provision of financial services to members of the communities. This is a specialized form of unit banking as it complements people's bank activities, as well as rural

branch banking activities. It provides credits, accepts deposits invest its funds in various money market instruments and provides ancillary banking services.

Objectives of Community Banks

1. To promote rural development by providing financial and banking services and other ancillary facilities to communities inadequately supplied with such facilities
2. To enhance rapidly the development of productive activities in both rural and urban areas, and hence the improvement of the economic status of small producers in the informal sectors of the national economy.
3. To promote the emergence of an effective and integrated national financial system the responds to need of the whole economy especially at the grass root community levels.
4. To inculcate disciplined banking habits among the low income workers in the country, especially those in the rural areas and
5. To foster the spirit of community ownership and use of economic asset and the maintenance of such facilities and organisation ona sustainable basis.

Functions of Community Banks

i. Accepts various types of deposits from members of the public
ii. Provides ancillary banking services to customers
iii. Receives money or collects proceed of banking instruments on behalf of customers.
iv. Issues redeemable debentures of interested parties to raise funds from members of the public
v. Receives refinancing or other funds from NBCB and other sources, private or public on terms mutually acceptable to both the providers of the funds and the recipient community bank
vi. Performs non-banking functions that promote grass root development as well as extension advice to clients
vii. Performs all banking activities that are prevalent to the masses at the grass root for it development

Community Banks Ownership Structure

The ownership structure of the community banks is shared in the following manner

i. Community Development Association or town Union: a recognized group such as community development councils "CDC" or Town Unions or registered community association can come together for the purpose of owning a bank by submitting a draft copy of Articles and Memorandum of association for that purpose. The CDCs are required to own at least 30 percent of the shares of the community banks.
ii. Trade Associations such as farmers groups, social clubs, occupational unions, age grade, cooperative societies etc. operating within the community and
iii. Indigenes of the community as well as persons residing within the community with a minimum of 50 persons and no single individual should have more than 5 percent of the share of bank.. A community bank can also be jointly owned by more than one community, where one community cannot promote same.

However as at 1998 the number of community banks in existence in Nigeria were about 1,015 a fall from1,132 in 1995 due to various pressing problems, such as inadequate earnings, incompetent board and management, poor record keeping, insufficient assets to meet obligations etc consequently about N500 million of community bank funds were trapped in distressed banks as they were not empowered to go to clearing house on their own. They had to use correspondent banks for their clearing house activities.

3.4 Development Banks

Development banks are created to meet the development needs of certain vital sectors of the nations economy. They are most times non-profit oriented banks set up by government with the aim of enhancing of certain sectors of the economy which are neglected by conventional bank because of the high level of risk exposure in such sectors. Development banks exist predominantly in developing countries like Nigeria and usually provide loans with very low interest rates. Examples of development banks in Nigeria includes Bank of Industry (BOI) and the Bank of Agriculture (BOA)

Functions of Development Banks

i. They provide long term and medium term financing for industry and projects. This may take the form of venture capital financing, advances and loans.
ii. Preparation of feasibility studies on a consultancy basis
iii. Provision of technical assistance

3.4 Microfinance Banks

This was a fall out effect to cash on any failure arising from the inability of commercial banks to meet the 31 December 2005 deadline for banking consolidation programme compliance.

In this vein the central bank of Nigeria launched the microfinance policy regulatory and supervisory framework with the objectives of making financial services to be more accessible to a large segment of potentially productive Nigerians, with little or no access to financial services, promote synergy and mainstreaming of the informal sub-sector into the national financial system, enhance service delivery to micro small and medium entrepreneurs; contribute to rural transformation and promote linkage programmes between universal / development banks specialized financial institutions and organic growth of the Microfinance Banks.

The CBN however provided for the establishment of two categories of microfinance banks

i. Unit micro finance banks with capital base of N20 million and
ii. State wide microfinance banks with capital base of N1.5 million

The national micro finance consultative committee was put in place to provide strategic direction, for the implementation of the policy. As at December 31, 2008 there were 820 licensed microfinance banks of which 9 were state-wide banks.

3.5 Peoples Bank

The peoples bank was established with an initial take-off grant of N30 million and specifically designed to meet the credit needs of small borrowers who cannot satisfy the tough collateral requirements of conventional banks, and the provision of feasibility reports of businesses. This is a non-conventional bank, created to provide credit or extend banking services to the very low income earners or the very poor of the society.

The people's Bank of Nigeria, according to Babalola (1991), in Nzotta (1999), is fashioned in line with the Germean bank of Bagladesh and Badam Kredit Kecamatan of Indonesia. The aim was to organize the rural poor through a credit programme that emphasized groupings of likeminded persons with similar economic and social status. In essence, peoples Bank of Nigeria lending activity is grouped-based, with the group members joint stock constituting the needed security in the event of default. Peoples Bank of Nigeria has 279 branches scattered in Nigeria and a total of N1.7 billion has so far been disbursed as loans since inception. The banks depends on government subvention for its operations, which it uses to facilitate access to credit at the grass root level.

4.0 SUMMARY

Type	**Basic Function**
Development banks	To meet the development needs of certain vital sectors of the nations economy.
Community Banks	promote rural development through credit finance delivery to its members
Peoples Bank	Provision of credit or rendering of banking services to the very low income earners or the very poor of the society.
Micro-Finance Banks	Provision of credit facilities to micro small and medium enterprises
Mortgage Banks	Provision of loans for the purchasing real estate especially in relations to private residence.

5.0 CONCLUSION

Specialized Banks are banks established in order to meet the specific needs of certain sectors of the economy, some are aimed at providing funds for MSME's and others may be aimed at providing funding for industry (like the bank of industry BOI). Whatever their variants are essential to the development and growth of the economy.

6.0 TUTOR-MARKED ASSIGNMENT

- Distinguish between mainframe banks and specialized banks
- Explain the basic similarity/dissimilarity between community and micro finance banks
- Mention and explain the objectives of Mortgage banks

7.0 References:

Akpan, I. (1999). Fundamentals of Finance. Uyo: Modern Business Press.

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MODULE 2 THE DEVELOPMENT OF MONEY

Unit 1 The Concept of Money

Unit 2 The Evolution of Money

Unit 3 The Nigerian Money Market

UNIT 1 THE CONCEPT OF MONEY

CONTENT

1.0 Introduction

2.0 Objectives

3.0 Main Content

3.1 Definition of Money

3.2 Functions of Money
3.3 Characteristics of Money
3.4 Demand for Money
4.0 Conclusion
5.0 Summary
6.0 Tutor Marked Assignment
7.0 Reference/Further Reading

1.0 Introduction

The term money is commonly used in the course of our daily activities, from our marketplaces to our schools and even our homes; the concept of money resonates as a recurring decimal. It has become the most popular yardstick with which we measure value and transact our business activities.

To the lay man money may simply mean the physical cash with which he carries out his daily transactions, but to professionals engaged in the management of money, it may refer to a number of financial instruments which is acceptable as a medium of exchange and settlement of debts.

2.0 Objectives

This unit furnishes the reader with a panoramic overview of the concept of money, the reader should after studying this unit be able to

- State and explain the functions of money
- Discuss the distinguishing features of money
- Explain the reasons for demanding money

3.0 MAIN CONTENT

3.1 What is Money?

Money is anything that is generally acceptable for the purchase of goods and services. Economist have defined money as anything generally acceptable in payment for goods and services or in

settlement of debts. David Humes, Adam Smith, Ricardo etc. considered money in terms of influence in international trade relationship.

However, the definitions of money can be categorized into namely

- ❖ Institutional definition (Pre-Keynesian)
- ❖ Function definitions

Institutional Definition of money

From this Economic stand point, for money to be generally acceptable, it must backed up by the institutional force of law. The property of money if to most important factor. Owing to this argument the definition of money should be based on;

i. Its meaning in the sense of wealth
ii. Its meaning in the sense of property
iii. It's meaning in the sense of education.

An example of institutional definition is that of Irving who defined money as "any properly right which is generally acceptable in exchange".

Functional Definition of money

This economic stand point defined money in terms of function, it performs: These functions include

- ❖ Medium of exchange
- ❖ Store of value
- ❖ Units of Accounts
- ❖ Standard of deferred payment

An example of functional definition of money is;

Money is that which is universally acceptable in an economy by sellers of goods and services as payment for goods and services and by creditors as payment for debts.

Function of Money

The function of money can be classified into

- ✓ Primary functions
- ✓ Secondary functions

Primary Function

Medium of Exchange: This means that money is generally acceptable by buyers and sellers in exchange of goods and services (i.e. as a medium of payment). This function of money is dependent on its acceptability (i.e. infact that the individual trust that when try want to send it, it will be acceptable in exchange for goods and services).

As a medium of exchange individual can sell their output to money and use that money to make purchases.
It is however important to note that money as a medium of exchange eliminate the inconveniences and difficulties of trade by border especially the mid for a double coincidence of want

Money as a measure of value (units of accounts): This refers to as money's side in determining to value or price of product. Just as height is measured with a tape in terms of meters, kilometer so the value of goods and services can be measured in monetary terms. Money provides a comfortable unit for comparing value regardless of size or kind, hence, money is the yard stick with which people keep their account, determine, income, profits, losses, prepared budget etc.

It is however important to note that sine money is the yardstick by which economic choices are measured, it is necessary that this yardstick is as fixed and stable as possible, as successive in fluctuations in the purchasing power of money can negatively affect forecast and planning. For example the monetary unit used in measuring value in Nigeria is the Naira, in USA it's the Dollar, and this units enable individuals to compare the relative value of goods and services.

Secondary Function of money

- **Store of value:** This means that is a store of purchasing power over periods of time. For example it is easier for a fisher man to stop the wealth accrued from the sales of his fishes that to stop the fish itself. The recover or holder of money can choose between sending his purchasing power (intermediate payment) or saving it (deferred enjoyment).

Saving money assumes various forms but the most prevalent involves holding either money itself (i.e. currency or demand deposit) or money substitutes (savings deposit, treasury bills etc).

Although there are two assets such as stock, land , jewelry and properties of which have a good number of advantages over money as a store of value such as asset suffer the problem of illiquidity that is the ease with they are converted into a medium of exchange. Money is the most liquid asset because it does not meet to be converted to anything else inorder to make exchange/purchase.

- **Standard of Deferred Payment:** Money plays an important role in debt settlement**.** The existence of money has simplified both the landing and the repayment process. Debts are ordinarily expressed. In monetary terms a scenario in the barter system where an individual takes a lot in fishes, it would be difficult to set the term of repayment in commodities other than fishes. Money base eased the process with which people can take and making loan be its short, medium or long term.

3.3 Characteristics of Money

For money to perform its functions, it must possess certain availabilities/attributes these attributes include;

- **General acceptability:** No item/commodity can satisfactory serve as money. If it is not widely acceptable as a means of exchange amongst the individuals in a community, country or region. Gold evolved to become a prevalent medium of exchange because it was highly demanded and universally accepted in order to ensure acceptability. Money must be a legal tender, accepted by government for tax purpose.

- **Scarcity:** This entails money supply is limited relation to demand and the productive capacity such that money losses its value, it also ensures that people could have to sacrifice something (i.e. opportunity cost) in order to own money.
- **Stability:** It is important that the value of money remains relatively stable, this is very important because money is supposed to be a store of value and a standard of deferred. When the value of money falls i.e. the purchasing power of money is weaken both savers and lenders loose as a Naira worth today might not be a naira's worth tomorrow. However the effect of inflation has makes it difficult for money to be absolutely stable. Yet the fluctuations in the value of money should not be successive
- **Divisibility:** In order to facilitate transactions (especially small transaction a good currency should be divisible into smaller units for example N1000 can be divided into 20 units of 5 naira notes, 10 units of 10 naira notes etc.
- **Portability:** Money should easy to more around for the purpose of business transaction. Thus reducing the stress and cost of moving it around
- **Cognisability:** For anything to serve as money it must be easily recognized, they should look alike such that individuals are able to identity counterfeits in circulation.
- **Homogeneity:** Closely linked to cognisability is homogeneity, this means that each unit of a commodity must look alike as much as possible, exactness enhances people's confidence in a currency.
- **Durability:** This is essential because money is supposed to be a store of value of the item.

3.4 Demand for Money

This refers to the motives why economic units (i.e. household films, government) hold cash and other monetary aggregates. The demand for money is said to be derived because economic units do not demand money for its own sale but for the goods and services money providing.

According to John Maynard there are three (3) motives for demanding money namely;

- Transaction motive
- Precaution motive
- Speculative motive

Transaction motive: This refers to a desire to hold money for the purpose of exchange for currently needed goods and services that is for the purpose current expenditure and day to day transactions.

Precaution motive: This refers to the desire hold cash in order to meet expenditure arising from unforeseen circumstances or emergencies. Thus include all expenditure arising from event not previously planned for such as unexpected illness, drastic fall in sales price etc.

Speculative motive: This refers to a desire to hold cash in order to take advantage of emerging future opportunities e.g. investment opportunities in the stock exchange.

4.0 Summary

We have seen that money is anything which facilitates business transactions by acting as a means of exchange, we now know that for an object to be called money it must possess certain properties such as acceptability, homogeneity etc. finally we have also learnt about functions of money and about the reasons why people demand money.

5.0 Conclusion:

Money as we have learnt, is anything generally accepted as a means of exchange and in settlement of debts, the concept of money stretches beyond a nation's currency but negotiable instruments. However currency notes are un arguably the most acceptable for business transaction, hence its popularity.

5.0 Tutor- marked Assignment

- What is money? Intrinsic value and real value?
- Why do people demand for money?
- What are the basic attributes money should posses?
- Briefly discuss the functions of money?

7.0 References:

Akpan, I. (1999). Fundamentals of Finance. Uyo: Modern Business Press.

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UNIT 2 EVOLUTION OF MONEY

CONTENT

1.0 Introduction
2.0 Objectives
3.0 Main Content
  3.1 The Barter System
  3.2 Evolution of Money (From Commodity Money to Electronic Money)
  3.3 Money Aggregates
4.0 Conclusion
5.0 Summary
6.0 Tutor Marked Assignment
7.0 Reference/Further Reading

1.0 Introduction

Money as we know it today has gone through several phases in a long evolutionary process, this is in a bid to enhance the ease and convenience with which we carryout business transactions and settle debts. This unit traces the evolutionary trail of payment systems from the barter system to the present day paper and electronic money.

2.0 Objectives

The student at the end of this unit, be able to:

- Discuss the barter system and its shortcomings
- Trace the evolutionary trail of payments systems
- Explain the concept of monetary aggregates

The Barter System

Prior to the emergency of money people engaged in a border system. In order to exchange goods and services, this system involves exchanging merchandise (goods and services) for merchandise (goods and services). Fishermen had to exchange some of their fishes with farmer for some of their farm produces like beans, wheat, etc. this system provided at the beginning of civilization, goods where in their natural state.

However the border system was limited by a number of factor which include;

i. **The problem of double coincidence of want:** The fisherman in need of wheat has to find someone in possession of wheat in need of fishes. In other words, in other to trade an individual had to find someone who has what he need and needs what he has.
ii. **There was no accurate measure of value:** There was no predetermined / agreed standard measure with which buyers and sellers could exchange commodities according to their relative values. Earn if the two person wan each other goods meet by coincidence the freedom arises as to the proportion in which the two goods should be exchanged.

Furthermore, hunter system required the value of each goods to be stated in as many quantities as there are types and qualities of other goods and services.

iii. **Indivisibility of certain good:** The border system is limited by serious challenge that is the indivisibility of certain goods into smaller marketable units.
iv. Difficulty in making deferred payment

As a result of the numerous challenges associated with the border system various other forms of exchange had to evolve, thus the evolution of money (or payment system). The evolution of money can be divided into various stages.

3.2 Evolution Of Money (From Commodity Money To Electronic Money)

Commodity money

Owing to the high demand for certain commodities such commodities come to be accepted as a means of exchange amongst individuals in a particular community or region, given that they could readily be exchanged for any deserved commodity, these commodities not only became a medium of exchange but also a measure of value. Commodities such as salt, fur, cattle etc. where widely used as commodity money.

The choice of what item that evolved to become commodity money was largely dependent on factors like the location of the commodity, climate, cultural belief etc.

For example people living by the seashore adopted and dried fish as money people living in very cold region adopted fur as commodity money. In a bid to further obviate the challenges of border system commodities begun to develop more durable commodities to serve as medium of exchange. For instance, item like coral beads, cowries, manilas and even tools and implements where used as means of exchange.

Metallic money

With the discover of metals man began to fashion versatile, tools and weapons that was previously made of stone with metals, metal was treasured because of its cause of transportation, beauty divisibility etc. As a result of the popular demand for money, it became a major standard of value. It was exchange in various forms and sizes and required assessment and saying of its purity of cash transaction.

Overtime metal money began to gain definite forms and weight, recovering marks indicating their value and source, of its issue. The use of gold as proto-money has been traced bank to the fourth millennium BCE when the Egyptians used gold bars as a medium of exchange, as had also been done early Mesopotamia with silver bars.

In the century BC the first coin bearing resemblance with modern day coins was issued in the lonra a city in Ephesus, the metal used was electron a natural allay of gold and silver found locally. The coins were shaped and were struck on one side with a distinguishing mark such as the image of lion.

Gold and silver coins were minded in Greece and small ingots were in Lydia, while Chinese had about the same time period started minting bronze coins. For many centuries, counties minded coins mostly from gold, silver for high valued coins using copper for lesser valued coins. This system remained in practice up to the end of the last country when cupronickel, and later other metallic clay alloys, became used and coins came to be circulated for the fair value (extrinsic value).

Paper money

In the middle ages, people trusted the goldsmiths who had security value to with the safe keep of their gold and valuables most especially merchants trading in with gold and silver, in return the smith issued receipts to deposition of such gold as evidence of deposit, which will be returned on demand by the depositor with time these receipts which were a form of IOU showing that the gold Smith owed the bearer of the note abstracted sum.

Come to be end to make payments, circulating from hand to hand giving rise to the origin of paper money. The acceptance of these receipts was based on the confidence that whenever. It was returned to the gold smith who originally issued it, it would be exchange for gold hence the gold smith were the first bankers to issue bank notes backed by gold.

In Brazil 1810 the Banco de Brazil issued the first bank notes that had its value within by hand as we do today with cheques. Bank note are usually rectangular instance, and of various sizes usually devoting the culture of the issuing county, nowadays bank notes possess several security features in order to prevent counterfeiting.

Credit money

Credit money emerged almost the same time with paper money. People kept part of their cash as deposits with banks which they could withdraw. At the convenience through cheques, although the cheque is not money deposit of performs the same function as money. Demand deposits is the one the most important form of money in advanced economies. Although they are not legal tenders what gives them acceptability. Is the convenience and confidence that will be cashed in the bank.

Electronic money: Is broadly deposit as an electronic store of monetary value on a technical device that may be widely used for making payments to other entities, e-money could be hardware, based or software based, depending on the technology used to store the monetary value. Electronic / Digital money is different from physical money although they are similar in some respects, but electronic money allows for instantaneous and borderless transactions.

3.3 Money Aggregates

This refers to the various of a country's money supply in order to measure the money supply in an economy. Central Banks use monetary aggregates. The question of what constitutes money stock has being a controversial one leading to several definition of money, the narrowest focus on exchange medium function the broadest definition includes store of value function.

Types of money aggregates

m_0 = the total of physical cash and coins in circulation

m_1 = current naira value of physical cash and coins in circulation outside the banks

+ Travellers cheque currently outs to the banks

+ Demand deposits

+ Other chequeable deposits

$m_2 = m_1+$

+ Small denomination time deposit

+ Saving deposit

+ Money market deposit account

+ Overnight repurchase agreement

+ Overnight Eurodollars

+ Consolidated adjustments (adjustments to avoid double country by subtracting short term

$m_3 = m_2+$

+ Large denomination time deposit

+ Money marketing mutual funds shares

+ Long term repurchase agreement

+ Term Eurodollars

+ Consolidated adjustment

L = m3

+ Short term treasury securities

+ Commercial paper

+ Savings bonds

+ Bankers acceptances

In some cases, can also have m4 and m5

$m_4 = m_2$

+ Large negotiable Cb's excluded from m_2

M5 = m3

+ Large negotiable Cb's excluded from m4

Cb is merely a time deposit with certificate and a time deposit certain
and explicit maturity usually from 30 days upward.

4.0 Summary :

Over the years money has evolved from the use of cowries and other traditional valuable resources to the use of paper and coins approved by governments for general acceptability, particularly in settlement of debts. It's pertinent to note that in general economic terms the term money

Can generally be aggregated, hence narrow money(M1) and Broad Money(M2) and very Broad Money(L or M5). However, the importance is to make transactions and debt settlement activities to be effective and efficient for all parties concern at any given point in time.

5.0 Conclusion

Having known that money is anything money can buy, it becomes imperative that for it to be generally acceptable, it must have the backing of law and the features of convenience and durability in its transferability circumstance. Therefore for proper global system interaction and transactions, the need for the evolution of money can not be down played; thus leading to the wide use of both paper and electronic money(smart cards, chips and coins) and other Internet means. There is also the belief that in the nearest future elements as big as cards might not be used rather tokens or chips without cards, fingerprints and may be voice sound might just become money for the use of making payments and debt settlement effective and efficient.

6.0 Tutor- marked Assignment

- What is monetary aggregates?
- Trace the evolutionary trend of money in your economy
- What is money supply? Demand?
- Is there any expectation for another type of money in the future? If yes, what type and why?

7.0 References:

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UNIT 3 THE NIGERIAN MONEY MARKET

CONTENT

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2.0 Objectives

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3.1.3 Commercial paper

3.1.4 Call money

3.1.5 Certificates of deposit

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3.1.9 Negotiable Certificate Of Deposit

3.2 Money Market Institutions

3.2.1 Central Bank of Nigeria

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3.2.5 Bureau De Change

4.0 Conclusion

5.0 Summary

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7.0 Reference/Further Reading

1.0 Introduction

The money market is a market were short term funds are bought and sold, funds provided in the money market are usually for a period of 30 to 90 days and in some exceptional case 1 year to 2 years.

2.0 Objectives

The student at the end of this unit, will be able to:

- Ascertain and explain money market instruments
- List and explain money market Institutions

Explain the concept of monetary aggregates

3.1 MONEY MARKET INSTRUMENTS

The need for short term funds is prevalent in public sector, commerce and industry. Business firms require working capital, merchants require short term financing for activities like inventory procurement. Therefore in order to mobilize temporarily idle short term funds from the surplus economic units to fund production activities, a number of money market instruments can be utilized, they include:

- Treasury bills
- Treasury certificates
- Commercial paper
- Call money
- Certificates of deposit
- Bankers Unit Fund
- Eligible Development Stock
- Interbank Market
- Negotiable Certificate Of Deposit

3.1.1 Treasury Bills:Theseare short term debt instrument (usually a 30 to 91 days maturity period) issued by the Central Bank of Nigeria on behalf of the federal government, with which the federal government borrows money from the public in order to meet its short term financial obligations.Treasury are usually issued to raise money to finance government operations and during open market operations to either to mop up excess liquidity orinject liquidity into the economy, treasury bills pay a specified amount and have no periodic interest payments, they operate by selling initially at a discount.

The treasury bill ordinance of 1954 provides for the issuance of treasury bills in Nigeria by CBN, the ordinance empowered the federal; minister to direct the central bank of Nigeria to issue bills on behalf of the federal government of Nigeria.

Treasury Certificates: Although treasury certificates are very similar to treasury bills, they differ in terms of their maturity period. Whereas treasury bills maturity period ranges between 30 to 91 days that of certificate of deposit ranges between 1 to 2 years.

The first treasury certificate was issued in December 1968 at a rate of 4.5% for the 1 year certificates and 4.625% for 2 years certificates.

Commercial Paper: is a short term unsecured promissory note issued by large and reputable companies of unquestionable credit strength (i.e. mostly blue chip companies). Commercial papers usually have fixed interest rates which are predetermined by the issuers. Commercial papers are often marketed by financial institutions such as banks, who earn commissions for the sales of commercial papers.

At maturity, the holder of a commercial paper presents it to the financial institution from which it was purchased, on confirmation of its authenticity the he is paid the face value plus interest yield.

It should be noted that commercial papers are not usually guaranteed by banks or other financial intermediaries but where a commercial paper is guaranteed by a bank it is regarded as a banker's acceptance. it is noteworthy to state that the commercial paper issue took place in the year 1960.

Call Money Scheme: call money was administrated CBN it allowed participating institution to invest/lend surplus funds on an overnight, 7days or 30days basics. To qualify for the scheme, participating banks had to fulfil requirement of maintaining a statutory minimum balance with CBN, any amount in excess of the minimum balances loaned out to the call money scheme. Initially only commercial banks were allowed to engage in the scheme but the scheme was later extended to other financial institutions, two types of call money were approved namely: the call money fund and the money market

The call money fund was managed by the CBN while the call money market by the commercial banks, this was done through interbank overnight borrowing & lending.

Although the call money scheme became very prevalent, the increase got revenue from crude oil sales, and shortage of short term got debt instrument in which the CBN could invest the surplus fund from the call money scheme lead to the abolition of the scheme in 1974.

Bankers Unit Fund: the banker's unit fund is quite similar to the call money, but unlike the call money fund the bankers unit Fund does not require a statutory minimum cash deposit.

The bankers Unit fund is CBN's own money market instrument introduced in 1975, through which banks and other financial institutions can invest part of their surplus with the CBN, these funds are later reinvested into government stocks of varying maturities, bankers unit fund have a fixed rate of interest and are usually issued in multiples of N10, 000. Like the call money scheme the banker's unit fund was not quite successful as the issue of Bankers Unit fund came to a halt in 1989.

Eligible Development Stock: Eligible Development Stock of maturity less than 3 years are usually traded in the money market, although Eligible Development Stocks are long term debt instruments with fixed interest rate issued by CBN on behalf of the Federal government of Nigeria

Interbank Market: The interbank market is an arrangement that enables to balance their liquidity position, banks with surplus liquidity can offer their surplus cash to the bank with liquidity problems(deficit liquidity) as loans, it can be traced back to the introduction of call money scheme in 1962 which allowed banks to borrow and lend to themselves on an overnight basis, but although the call money scheme was abolished in 1974 the interbank market still exist

At the interbank makes the buyer state the amount required by the bank and then negotiate the rates, tenor and maturity of the loan with any other bank willing to deal.

Negotiable Certificate Of Deposit: This are short term instrument sold by banks to depositors, it is a receipt/certificate issued by a merchant or commercial bank with regard to an annual interest bearing fixed/time deposit debt with them.

Negotiable certificate of deposits can be sold to someone else, negotiable CDs in large denomination can resold in a secondary markets.

MONEY MARKET INSTITUTIONS

CENTRAL BANK OF NIGERIA (CBN):This is unique apex body or organisation that is saddled with the responsibility of creating money, regulating and controlling its supply. In fact it

oversees the entire financial system in order to bring out a sound and conducive environment for the achievement of macro-economic goals and objective of a nation. It is the bank at the centre of the banking system. That is why some call it the banker's bank.

The central bank of Nigeria is the financial institution owned by the government but run by the board of directors, chaired by a governor appointed by the government. It is vested with extra ordinary powers which Uzoaga (1981) calls special powers that are designed to enable it to control the volume and availability of currency and demand deposits in the bests interest of the economic life of the nation. He went further to proclaim that the group of special powers comprise: the powers to issue legal tender notes and coins (currency), to control the value of reserves available to the commercial banks, and to act as the principal financial adviser to the national government.

The central Bank of Nigeria was established in 1958, by the central bank of Nigeria Act of 1958, although it effectively commenced operation on 1st July 1959. Before the establishment of the central bank of Nigeria the country banked for 66 years without a central bank. Uzoaga(1981). Moreover before the CBN came into being, the country used to transact business with the west African currency board (WACB) which was established in November 1912 following the recommendation of EMOTT committee appointed by the British colonial authority to study ways and means of dealing with two basic necessities. One was financing the need of export trade of the expatriate firms in West Africa, and the other was the eradication of the confused inconvenient and unsatisfactory currency position in British West Africa. Nwankwo (1979)

COMMERCIAL BANKS:

Commercial banks licensed financial institutions owned by private individuals, whose function includes the rendering various financial services such as accepting deposits, advancing loans, credit creation and agency functions and other financial services for the purpose of making profit.

MERCHANT BANKS:

Merchant banks are wholesale banks established to provide medium and large scale and specialized banking services to their clients at a profit.The Nigerian banking amendment decree No. 88 of 1979 defines merchant bank means "any person who engages in wholesale banking,

medium and long-term financing, equipment leasing, debt factoring, investment management, issue and acceptance of bills and the management of unit trusts."

PEOPLES BANK:

This is a non-conventional bank, created to provide credit or extend banking services to the very low income earners or the very poor of the society. The aim was to organize the rural poor through a credit programme that emphasized groupings of likeminded persons with similar economic and social status.

BUREAU DE CHANGE:

Bureau de change is a financial intermediaries licensed by the government to buy and sell foreign currencies on a small scale. They purchase currencies from small sellers of foreign exchange who do not have quick access to central banks autonomies foreign exchange market.

The federal ministry of finance was initially vested with the responsibility of licensing and supervising bureau de changes since the advent of bureau de changes in 1989 until 1997 when the supervision of bureau se changes was transferred to the central bank of Nigeria.

In order to be licensed to operate as a bureau de change the institution must be registered with the corporate affairs commission as a limited liability company and must have an office. Between the period of 1989 to 1996, 240 bureau de change have been licensed.

Objectives of Bureaux de Change

1. To broaden the foreign exchange market and reduce the activities of parallel market operators in the purchase of foreign exchange.
2. To facilitate quick and easy access of foreign exchange buyers
3. To aide macro-economic planning and foreign exchange policy, through foreign exchange statistic captured by bureaux de change
4. To accord legal recognition to small dealers of foreign exchange market operational guidelines for bureau de change.

Financial requirements, which may vary at the discretion of the CBN, are asfollows:

a. Minimum paid-up share capital - N35 million

b. Non-refundable application fee - N100,000
c. Non-refundable licensing fee - N1 million
d. Mandatorycaution Deposit - N35 million
e. Non-refundable annual licensing renewal fee [payable not later than30 days after the end of each calendar year] - N 250,000
f. Non-refundable change of name fee - N100,000

The licence shall be renewable annually subject to full compliance with these guidelines and payment of annual renewal fee as stipulated above. Every Licensed BDC shall maintain the mandatory deposit with the Central Bank of Nigeria as "caution deposit" for thepurpose of paying bona-fide claimants in the event of default or liquidation of the BDC. Such fund shall bear interest at the industry savings account rateor asmay be determined by the CBN from time to time.

OPERATIONS OF BUREAUX DE CHANGE

1. Every BDC in Nigeria shall deal in bank notes and coins, plastic cards and suchother businesses as the CBN may approve from time to time.
2. The foreign currencies dealt in by a BDC shall be derived from private sources and such other sourceswhich may includethe CBN window as determined by the
3. CBN from time to time for the purpose of funding Business Travel Allowance
4. [BTA] and Personal Travel Allowance [PTA].
5. Any person/individual wishing to sell foreign currency above $10,000 or itsequivalent to a BDC shall be required to disclose the source.
6. Transactions shall be on spot basis (immediate settlement). For the avoidance of doubt, forward transactions by BDCs are not allowed.
7. The maximum amount per transaction for a BDC shall be determined from time to time by the CBN with respect to business and personal travel allowances.
8. The maximum amount currently for PTA and BTA per quarter is $4000 and$5000, respectively.
9. Every Licensed BDC shall conspicuously display its buying and selling rates subject to a maximum spread of 3.5% or as the CBN may determine from time to time.

10. Every Bureau De Change shall keep proper registers and other records of all its transactions for transparency and compliance with Anti Money Laundering
11. Provisions, CBN Guidelines, Circulars or directives. Furthermore, a machine list or receipts showing how the amount sold to or bought from a customer was arrived at, should be issued by the Bureau De Change.
12. All sales or purchases of foreign exchange shall be properly documented and recorded as may be required by the CBN. Such documents should be arranged sequentially and be made available to CBN and other regulatory authorities on demand.
13. Purchases of foreign currencies by intending travellers shall be supported by their Bank Verification Number (BVN), validly issued and genuine travelling documents (ticket, passport, visa) and the sales receipt duly signed by the customer. The amount and date shall be endorsed on the passport. In such cases, a photocopy of the documents, forex endorsement page and sales receipt shall be filed in a sequential order by the BDC. The stamp to be adopted by BDCs should contain the following details:
    - FX sold ……………………
    - Purpose……………………
    - Value……………………….
    - Date………………………..
    - Signature…………………
14. Every BDC shall transact business at its registered office approved by the CBN.
15. Any BDC that operates outside its registered office shall be sanctioned.
16. Similarly, it shall be a ground for the revocation of Licence should any street trader in foreign currencies be found to have any business relationship with a licensed BDC.
17. Every BDC shall fix its hours of business which shall be **clearly** displayed in its office.
18. Every BDC shall be required to open both domiciliary and Naira accounts with
19. Authorized dealers in Nigeria and inform the CBN accordingly. The accounts shall be used solely for day to day operations.

SUPERVISION AND MONITORING OF BUREAUX DE CHANGE

i. BDCs are required to comply with all extant rules and regulations prescribed by the Bank, while the CBN will closely supervise and monitor their operations.

ii. The CBN shall continue to publish the list of all the Licensed BDCs and their registered places of business periodically, for the information and benefit of members of the public.
iii. In compliance with the provisions of BOFIA as amended, every BDC shall render returns to the CBN in prescribed format and within the deadline stipulated by the CBN.
iv. The records of the BDCs shall be made readily available to the CBN examiners as and when requested. Where a BDC fails to provide the required records, appropriate sanctions shall be imposed.
v. Every Director of BDC shall sign and execute the Code of Conduct and ensure strict adherence to the code.
vi. Every BDC shall conspicuously display a copy of its Licence, exchange rates and Anti-Money Laundering caution notice at its place of business.

4.0 Summary :

The Nigerian money market is one arm of the financial market that provides arrangement for the selling and buying of short term securities. The securities traded in this market varies and has wide ranging features and most often allows for high level of negotiations. The securities could be that of government or corporate bodies, especially that of blue chips ones and the institutions that participate on the market are also very many but with one interest - to negotiate and transact short, with respect to time frame(maturity).

5.0 Conclusion

The markets, institutions and the instruments together form the financial system and of a truth there can never be a market without market players or participants and in this case the traditional players are the banks and the trading activities over around financial securities (instruments) and most often connotes debt interest and the modalities of payments which must not exceed one year. The instruments are continuously evolving and sometimes just to suit local circumstance.

6.0. Tutor- marked Assignment

- Mention and explain the money market institutions that you know
- What are the instruments that are traded in the money market

- Do. non- Bank financial Institution take part in the money market? How? Why?
- Distinguish Bureau de Change from commercial banks, especially as regards operations.

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MODULE 3 SAVINGS AND INVESTMENT

Unit 1 Savings and Investment

Unit 2 Negotiable Instruments

Unit 3 Clearing Banks

UNIT 1 SAVINGS AND INVESTMENT

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1.0 INTRODUCTION

The economy is a complex web if activities, but by and large it hovers around the productive and monetary sectors. The monetary sector is anchored by the banking sector which in turn drives the

entire economic process. However, in the long run, it is asserted that at equilibrium savings must equal investment .

2.0 OBJECTIVES

At the end of this unit, the student will determine the following:

- Meaning and types of Investments
- Theories and determinants of Investments

3.1 THE CONCEPT OF SAVINGS

Savings is defined as the difference between disposable income and consumption. In terms of economic units use of savings, refers to that portion of disposable income which is not finally consumed but somewhat reserved for future use. National Income is actually the totally of what is rewarded to the economic units for effort put in place to generate wealth. It is depicted thus: $Y = C + S + I + G + (x\text{-}m)$

Hence: $Yd = Y - T$

$$Yd = C + S$$

$$S = Yd - C$$

$$Y = C + S + I + G + (x\text{-}m)$$

Where: Y = National income

C = Consumption

S = Savings

T = Tax

Yd. = Disposable Income

The level of savings depends on the level of income, all things being equall. As income increases the potential for savings also increases, but by less than proportionately. The relationship between income and saving is therefore referred to as the propensity to save or savings function which can be represented as : $S = F(Y)$

The above stated equation shows that saving is a function of income (Y), while S is the dependent variable, Y is the independent variable.

The relationship is hung on the "ceteris paribus" (i.e. all things being equal) assumption which indicates that every other factor that could affect saving are held constant.

This relationship can be further explained using this table:

Income (y)	**Consumption (c)**	**Savings (s)**	**Aps ($^s/_y$)**	**Mps ($^{\Delta s}/_{\Delta y}$)**
0	20	-20	-	-
30	40	-10	-0.33	-
60	60	0	0	0.33
90	80	10	0.11	0.33
120	100	20	0.17	0.33

The above table shows that when income is zero people do not save but still spend on consumption and when income equals consumption savings become zero (0), but as income rises consumption also tend to rise and so does saving.

The relationship that exists between savings and income i.e. propensity to save is of 2 types:

1. Average Propensity to Save (APS)

This is an important relationship between income and savings, it is the proportion of disposable income that is saved.

It is mathematically represented as;

$$APS = \frac{\text{Savings}}{\text{Disposable Income}} = \frac{S}{Y}$$

APS relates total savings to income

2. Marginal Propensity to Save (MPS)

This measures how much of the additional disposable income is saved i.e not consumed.

It is a ratio of the change in savings to the Δ in income.

$$MPS = \frac{\Delta S}{\Delta Y}$$

It relates changes in savings to changes in income

Meaning of Investment

In ordinary parlance, is the sacrifice of certain economic resources for future uncertain benefits in terms of resources as well. It also means to buy stock, shares, bonds and securities which are already existing in the stock market.

But that is not real investment because it is simply a transfer of existing asset and as such does not determine income and employment.

Investment in this context refers to addition to the stock of physical capital. It refers to expenditure spent on the acquisition of capital goods. Basically, investment in this text refers to the purchase of real tangible assets such as machines, factories or stock of inventory which are used in the production of goods and services for future use as opposed to present consumption.

3.2.2 Types of Investment

1. Fixed Investment: This is the purchase of new fixed capital such as machines, tools etc.
2. Inventory Investment: This is investment in building stocks of goods and raw materials.
3. Replacement Investment: These are investments made to replace worn-out capital goods resulting from their use in the production process.

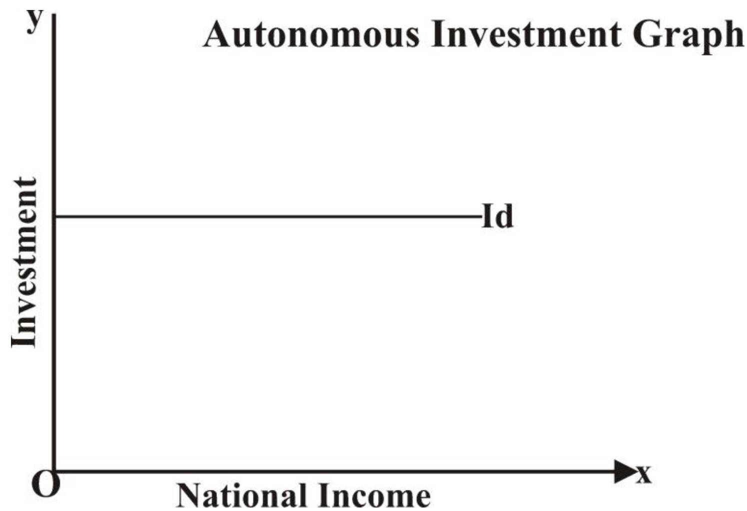
3.2.3 Forms of Investment

Two forms of investment has been identified by Keynes;

1. Autonomous Investment
2. Induced Investment

Autonomous Investment: is a form of investment that does not change with the changes in the income level and as such is independent of income.Autonomous investment is mostly undertaken by government and it includes projects such as power, transport and communication.

Autonomous investment is affected more by population growth and technical progress than income level.It is income inelastic.



constant irrespective of change in

Induced investment: as the name implies is induced, influenced or affected by changes in income level. If income level increases, consumption demand would also increase and to meet up, investment must increase.

Factors such as wages, work force and interest change affect people and induced investment.

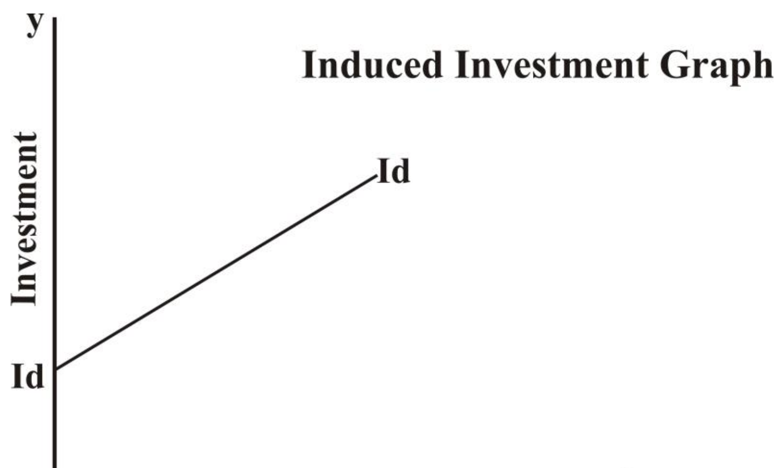
This induced investment can further be broken into:

1. Average propensity to Invest: the rate of investment to income

It can be mathematically represented as: $\frac{I}{Y}$

2. Marginal Propensity to Invest: this is the ratio of changes in investment to changes in income.

It can be mathematically represented as: $\frac{\Delta I}{\Delta Y}$



It is obvious in the above graph that changes in the level of national income causes a change in investment level.

3.2.4 Theories of Investment

The Acceleration Theory of Investment;

According to this theory, "when income or consumption increases, investment will increase by a multiple amount". When income and therefore consumption of the people increases, the greater amount of the commodities will have to be produced. Since in this case, investment is induced by changes in income or consumption, this is known as induced investment. The acceleration is the numerical value of the relation between the increases in investment resulting from an increase in income. The net induced investment will be positive if national income increases and induced investment may fall to zero if the national income or output remains constant.

To produce a given amount of output, it requires a certain amount of capital. If Yt output is required to be produced and V is capital-output ratio, the required amount of capital to produce Yt output will be given by the following equation:

$$KE = V*Yt$$

Where K = Stock of Capital

Yt = Level of Output or Income

V = Capital output Ratio (magnitude of acceleration)

The capital-output ratio V is equal to $^{K}/_{Y}$ and in the theory of acceleration this capital-output ration is assumed to be constant. Therefore, under the assumption of constant capital-output ratio, changes in output are made possible by changes in the stock of capital. Thus, when income is Yt then required stock of capital KE = v*Yt, when output or income is equal to Yt-1, then required stock of capital will be $KE_{-1} = vYt_{-1}$.

It is clear from the above that when income from Y_{t-1} in period t-1 to Y_t in period, t, then the stock of capital will increase from K_{t-1} to K_t. As seen above, K_{t-1} is equal to vY_{t-1} and K_t is equal to vY_t. Hence, the increase in stock of capital in period t is given by the following equation:

$$K_t - K_{t-1} = vY_t - vY_{t-1}$$

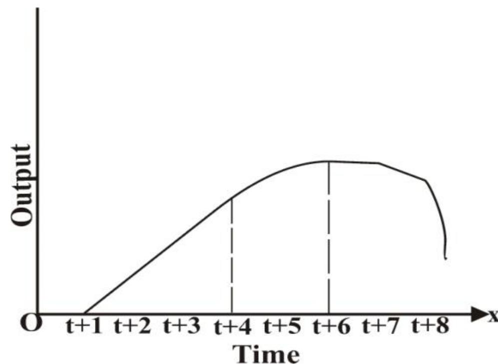
Since the increase in the stock of capital in a year ($K_t - K_{t-1}$) represents investment in that year, the above equation can be written as:

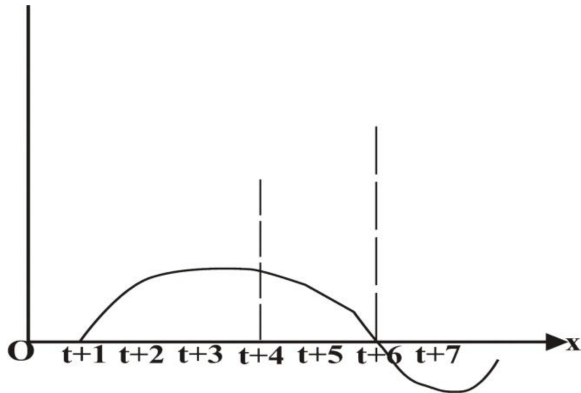
$$I_{t1} = v(Y_t - Y_{t-1})$$

The above equation reveals that as a result of increase in income in any year t from a previous year t_{-1}, increase in investment will be v times more than the increase in income. Hence, it is v i.e capital output ratio which represents the magnitude of the acceleration.

If the capital – output ratio is equal to 3, then as a result of a certain increase in income, investment will measure three times more i.e. acceleration will be equal to 3.

It thus follows that investment is a function of change in income. If income or output increases over time, that is when Y_t is greater than Y_{t-1} then investment will be positive. If income declines, that is, Y_t is less Y_{t-1} then disinvestment will take place. And if the income remains constant, that is, $Y_t = Y_{t-1}$ the investment will be equal to zero.





3.2.5 Determinants of Investment

Investment generally are undertaken because of the expected future return i.e whether the returns expected would or would not exceed the amount invested today.

For an investment to be made there are various factors that must considered;

1. Cost of capital asset
2. Expected rate of return
3. Market rate of interest

Keynes summed up these factors in his concept of Marginal Efficiency of Capital (MEC).

Marginal Efficiency of Capital

This refers to the highest rate of return expected from an additional unit of a capital asset over its cost. It is the rate of profit expected from an extra unit of a capital asset.

In the words of Kurihara, "it is the ratio between the prospective yields of additional capital goods and their supply prices". Assume that the supply price of a capital asset is ₦50,000 and its annual yield is ₦5000 the marginal efficiency of the asset is; $\frac{5000}{50,000} * \frac{100}{1} = 10\%$

As such the MEC is the percentage of profit expected from a given investment [on a capital assets.

Keynes defined the marginal efficiency of capital in the following word: "I define the marginal efficiency of capital as being equal to the rate of discount which would make the present value of the series of annuities given by the return expected from the capital asset during its life just equal to its supply price".

The MEC can be obtained using

$$C = \frac{R_1}{1+r} + \frac{R_2}{(1+r)^2} + \frac{R_3}{(1+r)^3} + \ldots\ldots + \frac{R_n}{(1+r)^n}$$

Where; C = supply price or replacement cost

R_1, R_2, R_n = annual prospective yield from capital asset

r = expected rate of profit

Marginal Efficiency of Investment (MEI)

The marginal efficiency of investment is the rate of return expected from a given investment on a capital asset after covering all its costs, except the rate of interest. Like the MEC, it is the rate which equates the supply price of a capital asset to its prospective yield. The investment on an asset will be made depending upon the interest rate involve in getting funds from the market. If the rate of interest is high, investment is at a low level. A low rate of interest leads to an increase in investment. Thus, the MEI relates investments to the rate of interest. The MEI schedule shows the amount of investment demanded at various rates of interest. That is why it is also called the investment demand schedule or curve which has a negative slope.

The Present Value Criterion of Investment

The PV criterion is considered to be the best method for evaluating capital investment proposals. The method is used to evaluate the profitability of an investment project.

The Net Present Value is the different between total present value of cash outflows and total present value of cash inflows occurring in periods over the entire life of the project. When the NPV is positive, the investment proposal is profitable and worth selecting. But if it is negative, the investment proposal is non profitable.

To calculate profitability index of different investment proposals the following method can be used.

$$PI = \frac{\text{Total Present Value of all Cash Flows or Net present value}}{\text{Initial Investment.}}$$

NPV method considers time value of money, it compares the value of cash flows.

$$NPV = \frac{A_1}{(1+r)^1} + \frac{A_2}{(1+r)^2} + \frac{A_3}{(1+r)^3} + \ldots\ldots + \frac{A_n}{(1+r)^n} - C$$

Where: A_1, A_2, A_n = cash inflows

n = expected life of investment

r = rate of discount

C = present value of cost

Decision criterion for NPV

a. If NPV > O project is profitable

NPV < O project will not be profitable

NPV = O project may or may not be started.

If decision is to be taken between two (2) investments, the one with a higher positive NPV would be selected.

3.3 The Relationship between Savings and Investment

The relationship between savings and investment has caused series of controversies over the year. While some argue that savings and investment are equal whether at equilibrium or disequilibrium other argue that savings and invest are equal only at equilibrium.

Pre-Keynesian economists argue that saving and investment are not equal for certain reasons which include:

1. Saving and investment are made by two different classes of people, i.e. while investment is undertaken by entrepreneurs savings is done by the general public.
2. Savings and investment depend upon different factors and are made for different purposes and motives.
3. They also pointed out that the excess of investment over saving has led banks to create new credit.

In spite of the above stated conditions, Keynes in his book, "General Theory of Employment, Interest and Money" showed that investment and savings are always equal.

Keynes proved or expressed his assertion about the equality of savings and investment with the following equation:

National Income = Consumption + Investment

i.e $Y = C + I$

The above equation represents the production or income side of the national income, and the equation below represents the expenditure side;

National Income = Consumption + Savings

i.e $Y = C + S$

From the above equators it is clear that national income is equal to the sum of consumption and investment and also equal to the sum of consumption and savings;

Hence;

$C + S = C + I$

Which in turn is equal to

$S = I$

Savings = Investment

3.4 The Paradox of Thrift

This concept was first introduced by Bernard Mandeville in the fable of Bees in 1214.Thriftiness is often seen as a virtue, this is because an increase in thrift on the part of an individual leads to greater savings and wealth. The same thrift an also be seen as a public virtue because if people consume less thereby increasing their savings, then more resources can be devoted to producing capital goods which leads to increase in income, output and employment.

According to Keynes, thrift is a public virtue if the increase in the propensity to save is responded by an equally high propensity to invest, otherwise it becomes a public vice.

The paradox of thrift is basically pointing out that if people decide to save more, they may end up saving less, unless if the increase in propensity to save is accompanied by a higher propensity to invest.

So, saving is a virtue for a person or family because it leads to increase in savings and wealth. But it is a vice for the entire society because it leads to reduction in outputs income and employment.

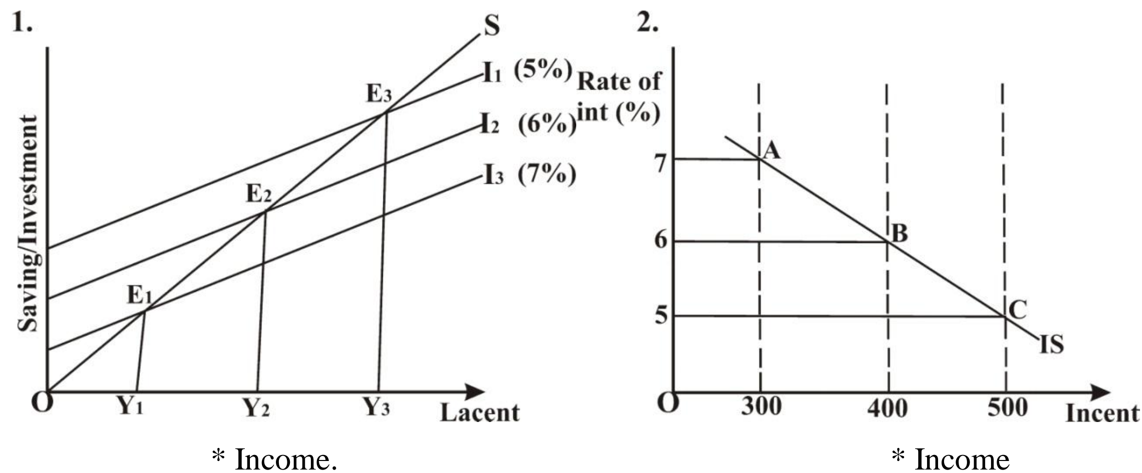
Thus, the paradox of thrift leads to the conclusion that saving is a private virtue and a public vice.

3.5 The ISLM Framework

The ISLM framework which is shorthand for the equality of investment and savings (IS) which represents the product market equilibrium and the LM which represents the equality of money demand and money supply (money market equilibrium).

Therefore, it is possible to say that the ISML framework is a model that shows the relationship between investment and saving i.e product market equilibrium as it relates to the money market equilibrium.

Deriving the IS Curve



* Income. * Income

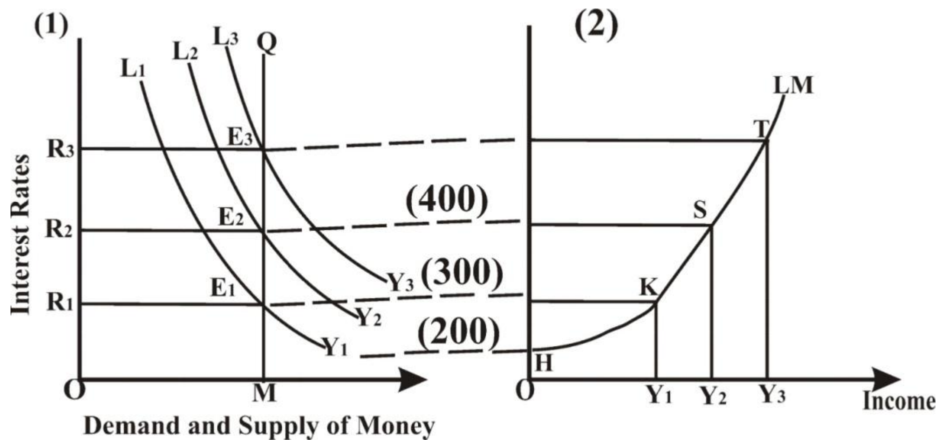
The ISLM model explain how interest rates and total output produced in the economy (aggregate output or, equivalently, aggregate Income ıre determined given a fixed price level.The saving curve shows that savings increases as income increases, and investment is dependent on the rate of interest and income level.

The level of investment rises with the level of income. At a 6% interest rate, investment curve is 12; if the rate is reduced to 5%, investment curve will shift to 1_3.

At the point 1_3 investments is more at every level of income, each point on the 1s curve represents a level of income at which saving equals investment at various interest rates.

If the interest rate is 7%, the S curve intersects I .curve at E_1 in graph (1) and that determines Y_1. Now Y_1 is on curve level ₦300 and is matched for intersect the 7% rate at point A in graph (2). When the interest ratio is 6%, the S curve intersects I curve at E_2 in graph (1) and that determines Y_2, since Y_2 (income level) is ₦400 and is matched to intersect 6% ratio at point B on graph (2). At point C the 5% interest ratio is match to Y3 (income level) of ₦500.

When point A,B and C on graph (2) are linked the IS curve is created, and it slopes downward from left to right because as interest rates fall, investment increase and so does income and saving.



The LM curve shows all combinations of interest rates and levels of income at which the demand for and supply of money are equal.

The LM curve is derived from the Keynesian formulation of liquidity preferences schedules of supply of money.

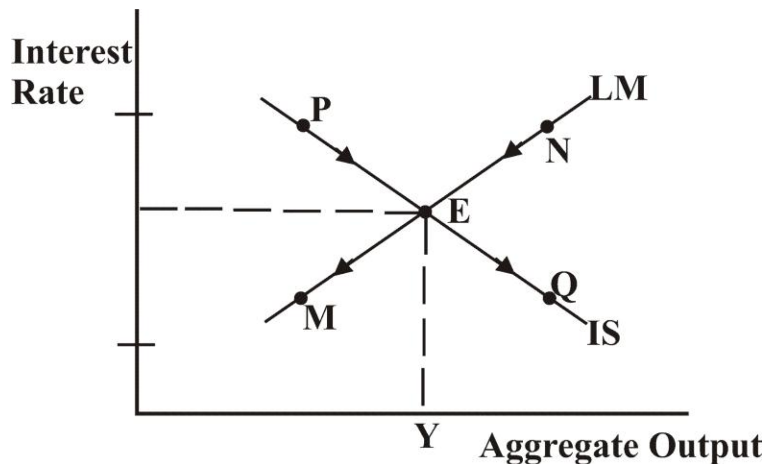
A family of liquidity preference curve L_1Y_1, L_2Y_2 and L_3Y_3 is drawn at income levels of ₦200, ₦300, ₦400 respectively in graph (1) above. Those curves together with the perfectly inelastic money supply curve gives us the LM curve.

The LM relates different income levels to various interest rate.

The ISLM Curve

This is a combination of the IS and LM curve in one chart.

For the product and money market to be at equilibrium IS and LM curves will intersect and the point of intersection is the equilibrium point where the ISML curve is formed.



Assume that an economy is at point P, i.e. on the IS curve, though at point P the product market is at equilibrium so that aggregate input equals demand, the rate of interest is above the equilibrium level, and as such the demand for money is less than the supply.

If the economy is on the LM curve at point N, it will also head toward equilibrium (E). At point N, although money demanded is at equilibrium with money supply, output is higher than equilibrium and exceeds aggregate demand.

This makes it difficult for firms to sell their output, leading them to cut production and lower output. The reduction in output means that money demanded will fall and interest rates will as well fall, this slides the economy down along the LM curve unit it reaches equilibrium (E).

4.0 Summary :

The economy makes impact when the finance sector drives the real sector. Thus income being a function of production concerns consumption, investment, savings, government expenditure and export minus import. In a nutshell, disposable income is what is left for consumption and or savings. However at the beginning there is always autonomous consumption income or not. In the long run what is saved becomes what is transformed to investment and at equilibrium investment must equal savings and which is concern with the product market equalizing at the money market-LM.

6.0. Tutor- marked Assignment

- Is savings equal to invest? Why?
- What do you understand by the paradox of thrift?
- what is your understanding of Average propensity to save? Marginal propensity to save?
- Differentiate autonomous investment from induced investment.

7.0 References:

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UNIT 2 NEGOTIABLE INSTRUMENT

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1.0 Introduction

2.0 Objectives

3.0 Main Content

3.1 Bill of Exchange

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1.0 Introduction

The banking system is there as a network to facilitate efficiency and effectivity of the payment mechanism anchored on the strength of negotiability and transferability of financial securities. Negotiable instruments are often times near cash instruments that are acceptable means of payments in transactions, as well as for debt settlement. Some are marketable instruments and they are also of different types and for different purposes and parties. They have evolve over the years have taken their pride of place among transactions system mechanism

2.0 OBJECTIVES

At the end of the this unit the student should amongst other things be able to:

- List and explain the different type of negotiable instruments known
- Define Bill of Exchange and determine parties to a bill
- State the characteristics of a cheque
- Ascertain who is a holder of a bill, Holder in due course and Endorsee.

3.1 BILL OF EXCHANGE

3.1.1 WHAT IS A BILL OF EXCHANGE? According to the bill of exchange act of 1990, a bill of exchange is *an unconditional order in writing addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed determinable future date, a sum certain in money to or to the order of a specified person or bearer.*

3.1.2 Parties in a bill of exchange transaction

Drawer: this is the maker of the bill (i.e. the person who writes or draws the bill), he is usually a seller or creditor who is entitled to receive money from the debtor. The drawer after writing the bill of exchange has to sign it to make it legal document.

Drawee: this is the person on whom the bill is drawn, the drawee is usually a purchaser or debtor (i.e. the person directed to pay the stated sum on presentment of the bill). He is to accept the bill by signing on it, this makes it a legal document. He is not liable if he does not accept the bill

Acceptor: this is the party who accepts the bill of exchange by signing on it, it is common for the drawee to also be the acceptor but there are rare cases where a third party may accept on behalf of the drawee.

Payee: this is the person to whom the amount stated on the bill is payable. The payee may also be the drawer (i.e. if he holds the bill till maturity) or any other to whom the bill was endorsed (i.e. the holder in due course). Where the bill has being endorsed to a third party and the drawee defaults in the payment of the bill, the payee has a right of recourse to drawer until the bill is paid by the drawee.

Endorser: this is a person who endorses a bill to another person by signing on its back, he may be the payee or to whom the bill has being previously endorsed.

3.1.3 Classification/ Types of Bills

On the basis of period/time

- Demand bill
- Term Bill

Demand Bills: these are bills that become payable upon presentment to the drawee (i.e. bills payable on demand. The demand bill has no maturity date or time for payment. They are also called sight Bills.

Term Bill: these are bills payable after the expiration of a specified time period, the maturity period (i.e. the tenor of the bill) is usually stated on the bill

On the basis of documentary backing

Documentary bill

Clean bill

Documentary Bill: A documentary bill is one that is backed by trade documents such as a bill of lading, marine insurance policy, invoice and other documents in order to confirm the authenticity of trade transactions that took place between the buyer and seller.

Documentary Bills are further subdivided into

- *D/A (Document against acceptance) Bill*
- *D/P (Document against Payment) bill*

Clean Bill: A clean is a bill of exchange that is not accompanied by any trade document as evidence for authenticity of transaction. The interest rate is usually higher than documentary Bills.

On the Basis Of purpose

- Trade Bill
- Accommodation Bill

Trade Bill: Trade Bills are drawn for the purpose genuine trade transactions. (i.e. a bill drawn and accepted against the sale or purchase of goods on credit)

Accommodation Bill: A bill drawn, accepted or endorsed without any considerations, such bills do not involve any sale or purchase of goods. They are meant for raising funds for one or both parties by discounting in the money market.

ON THE BASIS OF PLACE

- Inland bill
- Foreign bill

Inland bill: an Inland Bills is one whosethe parties are resident in the same country (i.e. the drawer, drawee, acceptor, payee, and endorsers are all resident in the same country)

Foreign Bill: A foreign bill of exchange is one that is drawn in one coutry and accepted in another country, they are subdivided into Export Bills and Import Bills. Export bills are drawn by an exporter on a party outside Nigeria, while Import Bills are bills drawn on importers in Nigeria by exporters in another country.

On the Basis of the Payee

- Order bill
- Bearer bill

Order bill: An order bill is a bill payable to the individual whose name is written on it or to a third party by endorsement and delivery.

Bearer Bill: this is a bill payable to any person who is legally in the possession of the bill as the maturity as at the maturity date of the bill.

3.1.4 ENDORSEMENT OF A BILL OF EXCHANGE

This is the process of transferring a bill of exchange from one person to another such that the benefits written on the bill the becomes payable to the new holder, the process requires the current holder or his authorized agent to append his signature on the back of the bill, this is followed by the delivery of the instrument (i.e the transfer of the document)

Types of Endorsement

Blank Endorsement

This type does not specify the name of the individual to whom it is endorsed, thereby making it a bearers bill, the endorser simply signs his name on the back of the bill. This kind of bill can be negotiated by delivery (i.e. the constructive or actual transfer of possession of the bill of exchange)

Special endorsement: this type of endorsement carries the name(s) of the individual(s) to whom it is endorsed, it can be further negotiated to another person by endorsement and delivery

Restrictive Endorsement: this type of endorsement carries the name(s) of the individual(s) to whom it is endorsed, it restricts the further negotiation of the with a third party. It limits the right of the endorsee to transfer ownership of the bill.

Conditional Endorsement: this type of endorsement is dependent on the occurrence of certain event. However according to section 33 of the bill of exchange act " where a bill purports to be endorsed conditionally, the condition may be disregarded by the payer and the payment to the endorsee is valid whether the condition has being fulfilled or not.

3.1.5 DISCHARGE OF BILL OF EXCHANGE

A bill is discharged when all the orders it contains have been carried out. The discharge of bill releases the parties to a bill from liability. The following are ways through which a bill can be discharged:

i. Where there is a payment in due course in due course by drawee or acceptor.
ii. Where the drawee or acceptor becomes the holder of the bill at or after maturity, this is referred to as the principle of "negotiation back".

iii. Where through merger the acceptor becomes the holder of the bill at or after maturity.
iv. Where the holder or his authorized agent with the intention of discharging the bill cancels the name of the drawee.
v. Where there are material alteration on the bill such as change of date, or amount payable without the consent of the liable party.
vi. Where there is an express waiver or renunciation by the holder of the bill.

3.1.6 HOLDERS OF A BILL OF EXCHANGE

Section 2 of the bill of exchange act 1990 defined the holder as *"the payee or endorsee of a bill or note who is possession of it or the bearer thereof"*.

Holder for Value: this is a holder that has given a valuable consideration for the bill or note, sec tion 27(1) of the bill of exchange act states that a valuable consideration for a bill may be constituted by:

(a) any consideration sufficient enough to support a simple contract;
(b) an antecedent debt or liability and such a debt or liability is deemed whether the bill is payable on demand or at a future time

Holder in due course: A holder in due course is one who has taken a bill, complete and regular on the face of it, before it was overdue, without notice that it had been previously dishonoured, in good faith and for the value, and that at the time the bill was negotiated to him he had no notice of any defect in the title of the person who negotiated it.

3.2 CHEQUES

3.2.1 WHAT IS A CHEQUE?

A cheque is a bill of exchange drawn on a banker and payable on demand. It is one of the commonest negotiable instruments in Nigeria. It can also be as an unconditional order in writing addressed by a customer to a bank/banker, signed by the customer issuing it, requiring the bank/banker to pay on demand or at a fixed determinable future date, a sum certain in money to or to the order of a specified person or bearer.

3.2.2 CHARACTERISTICS OF A CHEQUE

A cheque should possess amongst other things the following attributes in order to ensure its payment:

- Amounts in words and figure must correspond
- It must be properly dated (i.e. the date must be current)
- It must be properly signed by the drawer
- Alterations must be confirmed by the drawer by signing such alterations
- It must be signed by all the signatories if it is a company cheque
- It must not be mutilated
- The drawers account must be correctly specified

3.2.3 PARTIES TO A CHEQUE

Drawer: this is the account holder, that is the person who issues and signs the cheque.

Drawee: this refers to the banker/banker on whom the cheque is drawn, that is the party authorized to pay out the specified sum on presentment of the cheque.

Payee: this is the party to whom the specified sum is to be paid, that is the part in whose benefit the cheque is issued.

3.2.4 TYPES OF CHEQUES

1. Open Cheques: An open cheque is one that is payable over the counter. Open cheques can easily be cashed, however open cheques are not a very safe method of payment as they can be stolen and easily cashed they are also susceptible to fraud

2. Crossed Cheques: this type of cheques have two parallel transverse lines drawn across its face, the lines drawn across the face of the bill signifies that the cheque is only payable through the bank and not payable over the counter. It is an indication that the drawee should pay the specified sum into the account of the payee,So as to minimize fraud and guard against loss that would result from unauthorized possession and cashing of the cheque.

Types of crossing

General crossing consist of two parallel transverse lines drawn across the face of the cheque with or without the words "and co", "Not Negotiable" or "Not negotiable and Co" written on it. General crossing allows payment to be made through any bank.

Special crossing consist of two parallel transverse lines drawn across the face of the cheque with words restricting its negotiability. Special crossing allows payment to be made through the particular bank specified on the cheque.

Non-negotiable crossing: this does not imply that a cheque is not transferrable, cheques with non negotiable crossing are negotiable so long as their title is good. The holder of the cheque does not get a better title than the transferor had. Once the title of the transferor or endorser becomes defective the title of the transferee is also affected hence the transferee cannot claim the right of an holder in due course.

Account payee crossing: an account payee crossing implies that the cheque can only be collected for the account of the payee specified in the cheque, the banker can disregard the instruction at his only own risk and liability.

3.Order and Bearer's Cheque: a bearers cheque is a cheque that is payable to the bearer (i.e. the individual who presents it before the bank), it can be transferred by mere delivery. While an order cheque is one which the drawer or a subsequent specifies the individual to paid, it however does not restrict the transferability of the cheques.

3.2.5 Terminologies associated with cheque transactions

Stale Cheques: A cheque is said to be stale when it is presented after the expiration of the date specified on it. It implies that the cheque has been in circulation for a considerable period of time without being presented to the bank at the appropriate time for payment. In other words stale cheques are cheques whose validity period has elapsed or expired.

Post-Dated cheques: A post dated cheque is one that is issued to the payee before the date stated on it, it is a cheque that is payable at a specified future date. It should be noted on the part of the banker that post dated cheques should not be cashed before the due date

Dishonoured cheques: a cheque is said to be dishonoured when it is presented to the bank for payment but the bank declined payment for certain reasons, which may include: irregular signature, insufficient balance etc.

Countermand

Countermand written order, signed by the drawer (i.e. the customer) that is used by a drawer to notify the drawee (i.e. the bank) to stop the payment of a cheque, he had previously issued. The bank ensures the order is properly signed before taking action.

4.0 SUMMARY

Negotiable instruments are of various types and they all aid the processes of making transaction easy. They have flexibility and transferability features that most often involves two or three parties. They provide a convenient vehicle for transactions.

5.0 CONCLUSION

Negotiable instruments like cheques and bill of exchange have helped to simplify transactions and settlement of debt, holders of negotiable instruments can utilize these avenues and arrangement to make economic payment system to be flexible, efficient and effective .

6.0. Tutor- marked Assignment

- Define bill of Exchange ?
- Mention and explain the types of cheques known to you
- List and explain the types of bills you know and how they work
- Who is a holder? For value? In due course?

7.0 References.

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UNIT 3 ORGANISATIONAL STRUCTURE OF CLEARING BANKS

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3.2 Structure of clearing banks in Nigeria

3.3 Functions of banks to the economy

3.4 Organization of a Bank

3.5 Departmentalization In Banks

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3.8 Unit Banking And Branch Banking

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ORGANISATIONAL STRUCTURE OF CLEARING BANKS

1.0 Introduction

Banks play a very important roles in the economic development of any country. As an important component of the financial system, they channel scarce resources from surplus economic units to deficit units. Thus, to a reasonable extent, they exert a lot of influence on the pattern and trend of economic development, through their lending and deposit mobilization processes. The implication of the processes are buttressed by the understanding of the followings: Bank, Banker, Clearing Banks and details of clearing banks structure in Nigeria.

2.0 OBJECTIVES

At the end of the this unit the student should amongst other things be able to:

- The concept of Banks and clearing Banks
- Determine clearly structure of clearing Banks
- Define and differentiate unit, branch and correspondent banking.

3.1 THE CONCEPT OF BANKS AND CLEARING BANKS

What is bank?

Many writers in this field has defined a bank as a financial institution where money and other valuables are kept for safe custody. Although a bank may be an institution physically sited in a place, to accept money and other valuables, and provide mechanisms for funds management and efficient and effective payment functions. It is also a financial institution that bridges the gap between the surplus and deficits units of the economy. However, section 41 of the Nigerian

Banking act of (1969) defines a bank as "any person who carries on banking business sand includes a commercial bank, an acceptance house, discount house, financial institution and merchant bank".

What is banker?

Various definitions of a banker have been provided by different people and institutions all over the world. The Bankers Book Evidence Act Of 1879 defined a banker as "any person, persons, partnership or company carrying on the business of banking and having duly made a return to the commissions of Inland Revenue, and also any savings bank certified under the Act relating to savings bank and post office saving banks". In another development, the bills of exchange Act of 1882 defined a banker as "A body of persons whether incorporated or not who carry on the business of banking" from the above definitions, one will be made to believe that a banker's part of business involves receiving of money for credit into a current account which the depositor might withdraw on demand.

What is a clearing bank?

A clearing bank is a commercial (deposit money)bank that is part of a network of banks that can cleat cheques for its clients regardless of whether or not the cheque originates from the same commercial bank.

Clearing a cheque means processing it so that funds are deducted from drawer's account and put into the payee's account by the drawee and counterparts actions.

3.2 Structure of clearing banks in Nigeria

Banks are financial intermediaries that combine human and financial resources to ensure credit creation and deposit mobilization, which is required by the wider society for even development earning of adequate returns on equity investment. The character of a bank is crucial to the discharge of the above basic roles and the characteristics interplay to portray the structural makeup of the bank. According to Cross and Hempel, the structure of a bank in a dynamic sense encompasses various characteristic that shape or determine its individuality among which are its size, the market it serves and (its) own institutional organization".

From the foregoing, the structure of banks could generally be analyzed in terms of the following characteristics: Age of the bank, Size of the bank, Ownership, Management organization, Balance sheet.

The age of the Bank

Bank's are often characterized by their relative age in the industries. The oldest bank in the Nigeria banking system is above 100 years, out of the 89 banks operating in the market; as at 2003. Six are pre-independence banks, seven are first decade post independence banks, another seven are second decade post independence banks, while all others are new era banks. The above structure highlights the fact that what we have today are predominately new generation banks that sprang up between 1980-2004, although evidence shows that the older banks seem to be better capitalized than the new banks.

The age of the bank somehow determines the strength of a bank as measured by its assets base, the deposit base and loan and advance portfolio. It also determines the public image of the bank and the spread of the bank as measured by the number of branches in place.

Size of the bank

This also determines the structure of a clearing bank. Some variables such as total capitalization, spread, level of deposits and level of loans and advances determine the size of a bank. Spread of a bank is measured by the number of branches it has, thus, clearing (commercial) bank that has a lot of branches is usually considered big, this is because banks that have many branches are able to attract more deposits, thereby enhancing their loans and advances capacity.

Ownership structure

The pattern of ownership of a bank is crucial in determining the structure of the bank. This is because the owners influence the policy making apparatus of the bank, the character and focus of the bank. The ownership structure of banks in Nigeria before the deregulation of banking could be classified into two groups:

Indigenous bank: Basically government banks or private sector funded banks.

Mixed bank: These had foreign participation together with indigenous interest.

Prior to the deregulation of banking, the Federal and State governments had dominated interests in most clearing (commercial) banks. It is instructive to note that the state governments privatized their interests in most of these banks, in line with the privatization programme in place.

Organizational structure

The level of organization put in place by a bank determines the character of the bank. The type, quality of management and the level of organization are crucial in determining the structure of a bank. The organizational hierarchy of a bank includes its shareholders, the board of directors, top management and the line staff.

The balance sheet

The composition of the balance sheet of a bank is an important aspect of the structure of the bank.In fact, examination of how a bank obtains funds (various types of deposits, capital funds) and how it uses the funds obtained, usually reveal significant information about management decisions and policies. This would ultimately affect the organizational structure of bank. The balance sheet totals e.g. the net assets, affects the level of organization and the types of new policies to be put in place including the quality of management.

Market segment

The structure of banks to a large extent is influenced by the target market the bank serves. The market for banking services is highly segmented, especially with the proliferation of banks in Nigeria. Banks are now engaging increasingly in a measure of specialization, for example, most of the banks now engage in equipment leasing and venture capital financing and even the sale of GCE forms. This also affect the structure to be put in place and conceptually, the market it served to a large extent, determines the organization and management structure.

3.3 FUNCTIONS OF BANKS TO THE ECONOMY

The economy of any country is basically driven by the banking system, as it contributes to economic development thus:

1. Inculcation of banking habits to the populace.

2. Mobilization of Saving for Investment Purposes. This is achieved through keeping savings, fixed deposit and current accounts for customers.
3. Channeling resources from surplus economic units to deficit ones for investment purposes, this consists of the provision of loans and advances to the private and public sectors for various purposes and for the growth of domestic output and promotion of agricultural production, provision of infrastructure and export
4. Assists the government in the implementation of policies aimed at ensuring price stability, even development and high economic growth.
5. Provision of short-term and long term credits to the public sector.
6. They serve as channels for implementing various bilateral and multilateral trade agreements and policies.
7. They constitute avenues for the provision of various finance schemes designed to revamp the economy.
8. Provision of investment advice, ensuring proper project conception and management, investment management and other associated services.
9. Acting as agents to the government for dealing in foreign exchange and thus assisting in exchange rate stability.
10. Enhancing international trade and payment through provision of foreign exchange facilities for clients; bill for collection, foreign transfer facilities, electronic banking service etc.
11. Conduct brokerage services i.e. buying and selling of stocks and shares for their clients thereby assisting n the development of the capital market and promotion of investment culture.
12. They perform other services for customers like night safe facilities, safe keeping of valuables and provision of status reports and references for various clients. This is essentially the custodianship function.
13. Risk management: This is achieved through insurance services provide and other risk management strategies.

3.4 Organization of a Bank

Bank management seeks to achieve an efficient organization to enable them achieve the basic objectives of profitability and liquidity. Two basic principles actually guide the design of the organization structure of a bank:

a. **The principle of unity of objective**

   Here, an organizational structure is deemed effective if it facilitates the contribution of the various individuals in the bank to the attainment of the bank's objectives. The basic objectives of a bank here includes, profit maximization, adequate liquidity; high growth rates of deposits, increased net assets and capital and rendering efficient services.

b. **The principle of efficiency:** The organizational structure of a clearing bank is deemed efficient if it facilities the accomplishment of the banks objectives by the staff with minimum costs or unsought consequences.

Four crucial issues affect the effective organization of a bank

a. Basically, the organizational structure must reflect the bank's objectives. The basic objective of any bank is to make profit and also enhance shareholders net worth, ensure adequate liquidity and be a good corporate citizen. Thus, the organizational structure must reflect these objectives.
b. The structure must reflect the environment in which the bank is operating.
c. The structure must be staffed with highly motivated and properly trained staff.
d. There must exist departments in the structure of the bank.

3.5 Departmentalization in Banks

Departments are basic features of all banks. A department designates a district area, division or branch of a bank over which a manager has authority for the performance of specified activities. Departments in banks are evolved along specific lines. The span of control affects the type of departmentalization.

a. **Departmentalization of Bank functions:** This involves the grouping of departments in accordance with the functions of a bank (along functional lines). Here we have departments like;

- Credit department;
- Legal department;
- Head office administration;
- Inspection department;
- Computer operations department;
- Branch network departments;
- Human resources /Personal department;
- Corporate affairs
- Real estate development
- Finance/Account, training department etc

b. **Department by territory:** Departments along geographical areas connotes the grouping of activities in a given area or territory under a manager, also called an area manager or regional manager. The major advantage here is that it ensures better face to face communication on local operations.

c. **Department by service/products:** This strategy permits top management to delegate authority along the service or products lines of a bank. The specific services provided by banks would include the following;

- Foreign exchange
- Loans/advances
- Foreign transfers
- Commercial/market services
- Corporate services.

Thus, departments are often created to reflect the services/product lines provided by the bank.

d. **Customer Departmentalization:** This involves the grouping of activities to reflect a paramount interest in customers. Customers are grouped according to their peculiar needs and sizes of operation.

Examples include:

- Corporate clients department

- Retail banking department

e. **Departmentalization by services:** This structure entails grouping of activities that could be carried on in other departments, to a specialized department for purposes of efficiency or control or both. Examples include:
    - Personnel department
    - Account department
    - Maintenance department

3.6 Corporate Governance in banks: Good corporate governance has become a major global concern for banking management. The issue of good corporate governance is important and indispensable for the realization of the basic corporate objectives of profitability and liquidity in a bank. Corporate governance became paramount as a result of the major problems encountered by banks especially as regards such issues as unethical practices, insider abuses, massive fraud, unprofessional conduct, poor quality services, bank failures etc. Corporate governance is a term that is commonly used to describe the way business firms are managed. The corporate governance code covers every aspect of the organizational setup right form how resources are generated, deployed and utilized. Good corporate governance in a bank, for instance requires judicious and prudent management of resources, the preservation of the assets of the corporate firm, maintenance of ethical and professional standards and the pursuit of corporate objectives. It seeks to ensure customer satisfaction, high employee morale and the maintenance of market discipline. It also seeks to strengthen and stabilize the bank. Corporate governance requires the cooperation of various parties including:

- The board of directors
- The top management
- The operating managers especially the accounting staff and the internal auditors.
- The external auditors who attest to the validity of the accounting records and ensures proper reporting of the bank's activities.

According to Armstrong (2003) the Kings Report or corporate governance issues in South Africa in 1994 identified seven primary characteristics of good corporate governance thus:

- **Discipline:** This entails a commitment by top management to adhere to a code of behaviour that is universally accepted to be correct and proper.
- **Transparency:** This is the ease with which an outsider is able to make a meaningful analysis of a company's actions, its economic fundamentals and non-financial aspects pertinent to the success of the business.
- **Independence:** This relates to the extent to which internal mechanisms have been put in place to minimized or avoids potential conflicts of interest that exist.
- **Accountability:** Top management who make decisions and act on specific corporate issues must be accountable for such actions and held liable for the decisions.
- **Responsibility:** This relate to behaviour that allows for corrective action and for penalizing mismanagement. For example, the board must act responsibly towards all stakeholders of the firm.
- **Fairness:** The management must acknowledge and respect the right of various groups (minority interests and dominant shareholders) in the firm. The management must seek to preserve and protect these interests.
- **Social responsibility:** The corporate firm should be aware of and respond to social issues and ethical standards. Corporate management must realize that it owes society a duty to ensure the continuity of the firm, the preservation of societal welfare and show a high degree of social responsibility and from the perspective above, good corporate governance entail efficient management of resources and provision of responsible leadership. It requires the provision of timely and quality information and the enforcement of sanctions for branches in ethical standards, regulations and codes of conduct.

3.7 THE BOARD OF DIRECTORS

The board of directors of a bank is an important organ responsible for policy making and giving general directions to the bank (management and staff). Specifically, they are elected by shareholders for a fixed term, and may be executives or non-executive. The executive directors are part of general executive management, while the non-executive directors do not participate in day to day management of the bank.

A. **FUNCTIONS OF THE BOARD OF DIRECTORS:** The functions of the board of directors of a bank includes:

- General policy formulation for the bank.
- Advice and assistance to top management.
- Approval of large contracts.
- Final approval of large loans and risk exposures.
- Relating with government and regulatory agencies.
- Constituting the adult committee of the bank.

B. **QUALIFICATIONS:**

The Companies and Allied Matters Act 1990 specifies the qualifications for being a directors in any company in Nigeria. These also apply to bank directors. Specifically, a director must be some body of a sound mind, must not have been convicted of a criminal offence, must not be a discharged bankrupt, must not have attained an age above seventy, must have at certain basic a qualification etc. There are also restrictive clauses imposed on bank directors by Section 18.2 of BOFID 1991 as amended.

C. **TENURE OF DIRECTORS**

This is in accordance with the Articles and memorandum of the bank or as specified in the companies Act. However, Directors usually retire by rotation on a yearly basis. This allows for continuity in the policy-making framework of banks.

3.8 UNIT BANKING AND BRANCH BANKING

The Nigeria banking system could be said to be a mixture of the branch banking system and the unit banking system. Branch banking connotes a system whereby a single banking institution conducts operation at two or more locations. These branches are controlled from one central head office by the same top management and board of directors. Thus, the operational policies as it relates to the branches are virtually the same, although the character of the individual branch management may be different.

Banking in Nigerian is mainly conducted along the branch banking system. All the banks have a central head office that controls the branches, which are scattered across the whole country.

These branches have some operational procedures, perform virtually the same functions although in varying degrees, while certain strategic issues like determination of the primary and secondary reserves of the banks are performed by the head office of the bank. The branches are essentially retail outlets that market the financial services offered by the banks. It is interesting to note that as at December 1994, there were 65 commercial banks operating in Nigeria with a total of 2257 branches (NDIC Report: 1994). This position did not change significantly until the liquidation of 26 banks (Commercial and merchant) in 11998. By 2002, the banking system had 90 banks 2800 branches across the country.

3.8.1 UNIT BANKING

Unit banking is a situation where a single office banking institution provides banking services. The system thrives in economies where communities are homogenous and small with business, especially farming setup with adequate transportation and communication facilities.

Unit banking has been sustained to a reasonable extent in the United States of America Banking system. A variant of unit banking that operate in Nigeria is the community banking system. A community banking is essentially a unit banking owed by a single community or group of communities and has basic functions of providing banking services for the community at the grass root level.

Generally, branch banking enjoy greater operational efficiency than unit banking. Evidence show that branch banking enables banks to grow larger and to achieve economies of scale. This is because they are able to reduce long run average costs though labour specialization and portfolio diversification, especially with regards to the income earning assets. There is also the issue of allocation efficiency which is not the case in unit banking. However, unit banking leads to more personalized banking. Decision making is also faster and the response to the credit needs of the communities is quicker, although the volume may be very much limited.

3.8.2 CORRESPONDENT BANKING

Corresponding banking is an inter-banking relationship that enables banks support one another relative to their banking transactions, such as clearing account arrangements, international money transfers, trade financing, local currency exchange transactions and all other financial services associated with the movement of funds across national borders and sometimes even

within; when there is an arrangement whereby smaller banks in a country carry deposits with larger banks in the same country in exchange for the performance of various services.

The basic reason for this arrangement is that the small banks may find it very expensive to provide particular services and often times, it is virtually impossible to provide the service by the smaller bank hence the recourse to correspondent banking.

Generally, the advents of electronic banking and faster telecommunication facilities and fund transmission facilities e.g. Society for Worldwide Interbank Financial Telecommunications (SWIFT) and INTERNET have greatly given impetus to correspondent banking. The increased need for better liquidity and asset management practices, have also given impetus to correspondent banking. In this case, banks have increasingly resorted to interbank fund movements and fund sourcing. Correspondent banking has also expanded to include inter-bank arrangements relating to non-fund based activities like guarantees and documentary credits.

Correspondent banking to a large extent influences the movement of funds between countries especially with regards to international trade relations and international fund movements. This scenario is more prevalent when trade and exchange relations exist between these countries.

Nigeria maintains trading relations with various countries, especially European Countries and USA, thus frequent fund movement between the financial institutions in Nigeria and those of other countries encouraged the development of correspondent banking in Nigeria. Historically, correspondent banking started in Nigeria with the inter-bank relationships between Standard Bank of Nigeria which started operations in 1894 and Standard Chartered Bank of London.

This facilitated trading relationships between colonial Nigeria and metropolitan London. With the emergence of more banks in Nigeria and the increased level of economic development and international trade relations, correspondent banking developed further.

Correspondent banking takes the form of an inter-bank relationship between two banks in different countries whereby special arrangements they undertake banking transactions such as clearing arrangements, international money transfers, trade financing and refinancing, local currency exchange transactions and all other financial services associated with the movement of funds across national borders.

The import of this is that correspondent banking takes place between one bank in a particular country and another bank in another country for the purpose of facilitating the movement of funds.

Correspondent banking also connote an arrangement that exist between bank-based on the practice of smaller banks carrying deposits with large banks in exchange for performance of various services, Reeds et al (1980). This point of view posits further that there are two basic reasons that support the existence of correspondent banking:

- Banks find it impossible in many instances to provide certain services that they consider important.
- Where the services are provided, banks find them quite expensive.

Correspondent banking is conceptually different from offshore banking. According to Agene (1995), offshore banking entails the operation in a foreign country by a financial institution or branch office which has little connection with the foreign country's financial system.

THE NEEDS FOR CORRESPONDENT BANKING

As noted earlier, correspondent banking facilitates fund movements across national boundaries. In addition, it also serves the following purposes:

- ✓ Assists in foreign exchange dealing. Here, a large volume of fund movements are inter-bank arrangements.
- ✓ Assists in financial advisory service
- ✓ Assists in collections of cheques, drafts, letters of credit and cash item to beneficiaries. It also assists in consortium lending and offshore banking.
- ✓ Serves as avenues for keeping bank assets and liabilities. Banks are thus able to keep track of fund movements and transaction with various other units
- ✓ Assists in securities processing. Here, correspondent banking assists in transfer and settlements of transactions and dealing in securities. Banks in Nigeria have increasingly used correspondent banking over the years for various purposes above.

Developments that sustained the growth of correspondent banking in Nigeria:

1. The electronic revolution in banking worldwide. This encouraged the development of Electronic Funds Transfer System (EFT), the Society for Worldwide Inter-bank Financial Telecommunication (SWIFT). All these instruments facilitate fund movements.
2. The expansion in world trade and also the expansion in monetary relation and exchange mechanism between the developed countries and Nigeria.
3. The increased capital flows and capital movements between Nigeria and its trading partners.
4. The increase monetization of the Nigeria economy, the expansion of the financial infrastructure following economic deregulation and reforms in the Nigerian financial system.
5. The sophistication, expansion and developments in the financial and capital markets of the developed countries.
6. The emergence of the euro as the currency of the European Union.

Generally, positive developments in the Nigeria economy especially in the area of economic growth, in exports and international trade, the harnessing and rationalization of the national resource profile, the reduction of the external debt burden and stabilizing the banking industry ultimately encourage fund movements and thus the level of correspondent banking through enhanced inter-bank cooperation.

We shall highlight a few recent developments that have constrained inter-bank cooperation and thus correspondent banking. First is the high level of distressed and failed banks in Nigeria, which have tended to erode confidence of the investing public and the international community in the Nigerian banking system. This has negatively constrained correspondent banking relationships.

Secondly, the high levels of external debt burden in Nigeria arising from external debt overhang affects capital flows and exchange relations between Nigeria and its trading partners and thus inter-bank cooperation.

The high level of capital flight from Nigeria and net resource out flows negatively constrain correspondent banking. On the international scene, the high level of trade restrictions between

the developed countries and the developing countries, the evolvement of trade blocs have tended to limit fund movements and thus correspondent banking.

3.9 FUNDS MOVEMENTS

We had earlier noted that correspondent banking greatly assists fund movements. Three basic types of fund transmission modes are used in correspondent banking. These include:

- ✓ Mail and Telegraphic transfers (cable transfers)
- ✓ Electronic funds transfer
- ✓ SWIFT

a. MAIL AND TELEGRAPHIC TRANSFERS

Fund transmission by cable or telex takes place in domestic banking through a network of branches and then a foreign correspondent bank in the case of international banking, trade and exchange / settlements. A telegraphic transfer differs from mail transfer in two ways. First, the message in the case of telegraphic transfer is transmitted by means of cable or telex instead of air mail and is thus faster but costs more.

Secondly, the means of authentication is by a test key instead of signature as in the case of mail transfer.

Mail transfer on the other hand could be described as an authenticated order in writing addressed by one bank to another, stating the bank to which it is addressed to pay the sum certain in money to or on application by, a specified person or beneficiary. The method of transmitting the message is by airmail, in the case of mail transfer. In the two types of fund transmission, an authenticated payment instruction to the correspondent bank indicating reimbursement details is usually sent. The correspondent bank executes the remittance instructions and obtains reimbursement as indicated in the remittance letter, if this is applicable.

b. ELECTRONIC FUNDS TRANSFER/ELECTRONIC BANKING

This method of fund transmission has been facilitated by the introduction of computer technology and electronic banking. The EFT seeks to remove the construction of time, distance, volume to the system of fund transfer systems.

This system involves installing electronic terminals at banks. These terminals read the information imprinted magnetically on special cards and these are sent instantaneously over telephones to other computer networks where the instructions are decoded and executed. This method of transfer is largely underdeveloped in Nigeria, although a few banks have ventured into providing electronic banking.

c. SOCIETY FOR WORLDWIDE INTER-BANK FINANCIAL TELECOMMUNICATIONS (SWIFT)

SWIFT play a key role in fund transfer and fund movement among different countries and member banks of the system all over the world. SWIFT is the operating organization of a computer network providing a communication service for the transmission of international banking messages. The system is a cooperative society registered in Brussels under Belgian law and is operated by member banks. The development and operating costs are taken care of through charges to originators of the messages transmitted.

In the advanced market economies, the ordinary SWIFT messages have gradually replaced the mail transfer methods, while the argent SWIFT message has replaced the cable or telex transfers. According to Agene (1995), SWIFT was established to provide a means by which banks could give instructions for financial transactions among themselves using a secure, standardized, audible, controllable and rapid system. The SWIFT system has aided fund movement and is a major recent advancement in international payments system.

4.0 Conclusion

Banks are institutions licensed to carry out banking functions, among which is to open accounts for customers to make deposits, safeguard valuables and provide credits. However in order to payment for transactions simple and efficient, they embark upon intermediary and other effective services to the public. In the course of the performance of their function the need to interact among banks, especially on behalf of their customers becomes imperative, leading them to working out an arrange for the settlement of cheques differentials in value among banks giving the license to Participate in this process called clearing. Clearing Banks are actually licensed banks, as well as banks approved by CBN to go to the clearing house to facilitate the matching and settlement of accounts via issued cheques of the approved banks. The banks that

are not licensed to participate in the clearing house do take part indirectly by having any of the participating banks as their correspondent banks.

5.0. Summary

Clearing banks are basically banks that have the approval to be a part of the CBN cheque clearing and matching process. They maybe Banks operating the unit, branch or correspondent banking principles. In all the function of clearing allows the payment mechanism to flow freely and clearly, so that errors can be detected and corrected when noticed, thereby building trust and confidence; which is the cornerstone of banking.

6.0 Tutor Marked Assignment

1. The structure of a bank in a dynamic sense encompasses various characteristics that shape or determine its individuality. Evaluate this statement and comment on the structure of clearing banks in Nigeria.
2. Design an appropriate structure for a small bank specifying the lines of communication and chain of command.
3. Examine the impacts of universal banking on the marketing of financial services in Nigeria.
4. Differentiate between unit banking and branch banking. What factors encourage the existence of unit banks
5. Write short notes on, bank, banker and clearing banks.

7.0 References

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MODULE 4 BANK PAYMENT SYSTEM

Unit 1 Cash and Cheques

Unit 2 ETF and Internet banking

Unit 3 Banking Lending

UNIT 1 B ANKING SYSTEM METHOD OF PAYMENTS

CONTENTS

1.0 Introduction
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7.0 References/ further Reading

1.0 INTRODUCTION

The banking system has greatly evolved over the years most especially as regards payment modes. Over time, the major mode of payment was basically over the counter cash delivery mechanism and subsequently transfer from account to account . The transfer of funds from one account to another in the same bank and branch takes little time, whereas from one

bank to another in the same zone takes two to three days and among different zones took more days. However with respect to modernization of Banking system,structures and payments, the methods described subsequently are now prevalent.

2.0 OBJECTIVES

At the end of the this unit the student should amongst other things be able to:

- The regulations governing Bank payment systems
- Determine the different Bank payment methods available
- Know the meaning of In-clearing capture, statement rendering, Examination & filing

3.0 MAIN CONTENT

3.1 BANKING SYSTEM METHOD OF PAYMENT

The function of channelling funds from surplus economic units to deficit economic units often take place via two major channels. The direct and indirect channels. However, when channelling of fund involves an intermediate(middleman), we are concurrent with the indirect method. However, the banks as intermediary are not in business only to channel fields inexpensively and efficiently, but also in business to make profit.

In the attempt to making these funds channelling aspect effectively, they attempt to create efficient and effective payment system.

Bank services includes safe keeping of vehicles, offering of cheque in accounts(demand deposit), offering of trust services, savings deposits, discounting commercial notes and making business and corporate loans, currency exchanges, granting consumer loans, offering equipment leasing financial advising, venture capital loans and cash management.

However, the payment method of the banking system are actually regulated by law; and some of the laws governing payment system are:

Bank Secrecy Act (BSA), which places straight reporting requirements on banks for deposits, withdrawals or exchange of money that appears suspicious (infact any account that transact above 1M a day) will have to part up a disclosure as per the money laundry Act.

REGULITION E: This is electronic fund transfer Act, which provides protection and procedures for customer and bank transacting pre authorized EFT payment, as well as ATM and POS transactions. The regulation details the disclosure required when transactions are initiated, transferred, and are receiving. It also outlines customer and bank responsibilities for reporting and resolving disputed or erroneous electronic transaction and stop payment on pre authorized payment it places different limit on liability fr authorizes transfer depending on how promptly the consumer notifies his or her bank. If a bank is notified within two days of leaving of a loss or theft of a debit card, consumer's liability for unauthorized transaction up to a total of $50. therefore wanting buyer can add to the consumer's liability.

REGULATION J: This regulation concerns cheques and funds transfer, as per cheque collection and returns, cash and non cash items processes through central bank, as well as fund transfer through feel wire. It is basically to provide rules for affecting all returning items and settle balance.

REGULATION CC: This one concerns expedited funds availability Act, which requires depository institution to make funds deposit into transaction accounts available for withdrawal within a set availability schedule. This depends on the nature of cheque involved (casher's or personal cheque) and whether the chque is local or non-local

Bank only hold funds beyond general funds available schedule under certain "safeguard"

exception are if a bank involves an exception it must unify the customer in writing,

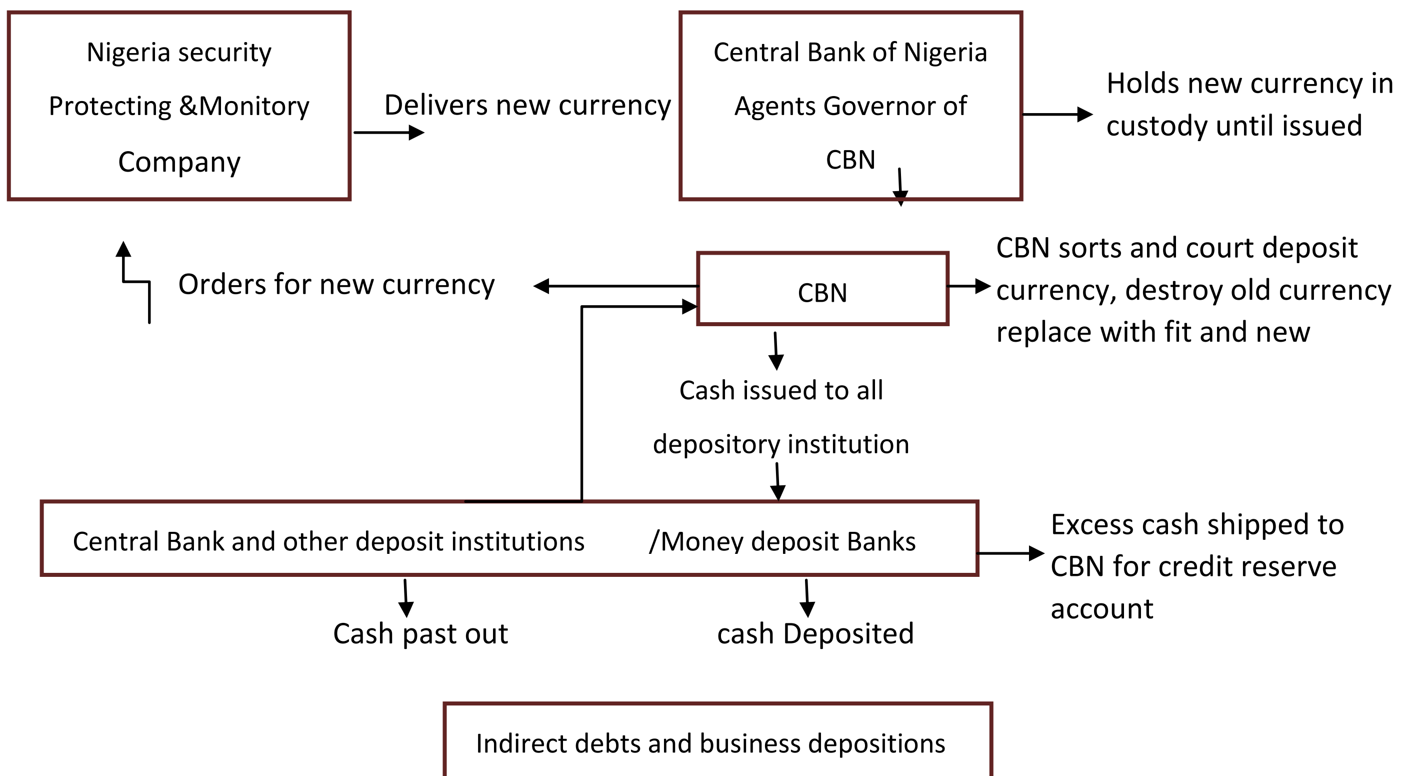
*educate customer about substitute cheques and provides special customer notices in certain situation.

*provides warranties and identities to protect the parties handling substitution cheques

*establish a process by which customers may receive an expedited re-credit of amounts paid if they believe a substitution cheque they received was incorrectly charged to their account

3.2 PAYMENT SYSTEM

3.2.1. CASH PAYMENT SYSTEM: this is one payment system that require everyone uses to large extend. Cash is printed by the Nigerian printing, unity and security conform and it is then processed through central bank system to consumers and actually back to the central bank for destruction. It is often said that bad (dirty-paper) money drives away good money because it goes round and round until it ceases to go round by finding its way back to CBN for destruction and only then can crisp (new) notes circulate freely.



3.2.2 CHEQUE PAYMENT SYSTEM:

Cheque is another method and a government method of making payment. This is so because a huge sum of money maybe contained injust one small piece of paper/document. A complete cheques chooses three parties – the drawer, drawee and payee, and ofcourse it tells a bank how

much money should be transferred, when it should be transferred and to whom. It is a universally accepted method until sets of rules govern their negotiability, transferability, liability of parties and processes.

A CHEQUE: is a negotiable instrument involves three parties: the person write the cheque (drawer), the person to whom the cheque is written (payee) and the bank that house the chequing account (the drawee). It is a consequent way of making payment for goods, services and other obligation, for the drawer. For the payee, a conviction of the cheque will be exchange for cash at a bank teller or credited to the payee's account in a bank. It has some basic features –

(i) it is payable to bearer if not crossed.

(ii) unconditional order or promise to pay.

(iii) amount certain in money.

(iv) payable on cleared or determinable future debt written and signed.

<u>Types of Cheques</u>

In addition to personal and business cheques, banks provided cashier's cheques, teller's cheques or certified cheque for payment transactions

(i) **Cashier's Cheque**: this one is issued by the bank and drawn on the bank, having makes the bank both the drawer and the drawee. Often bank use it to pay their own obligation.

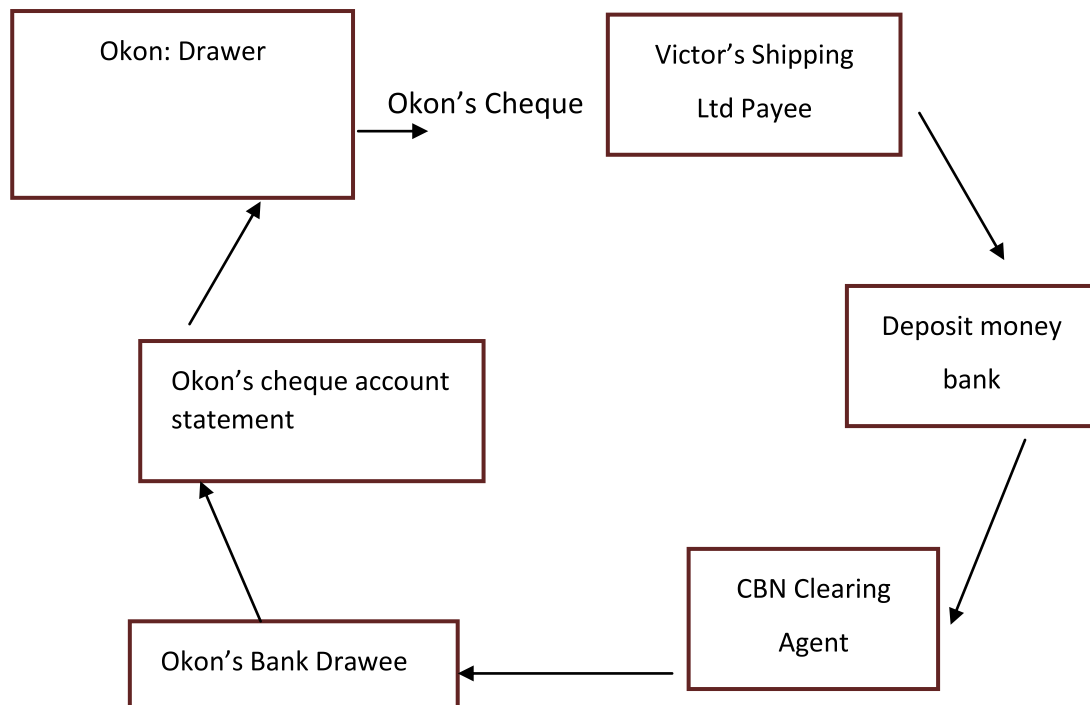
(ii) **TELLER CHEQUE:** this one is issued by one bank and drawn on another bank or payer. The issuing banks obligation for this cheque is the same on cashier's cheque. The payer bank provides customer services to both the consumer and the issuing house.

(iii) **<u>CERTIFIED CHEQUE:</u>** This one is a draft, as it is accepted by the bank on which it is drawn. It is depositor's cheque stamped certified, with a signature and data. The original order to pay is transferred to the banks promise to pay. They are legal

liabilities of the bank. Is complete the process of certifying a cheque, the bank places an official bank stamp and signature on the cheque, after confirmation of the personal cheque above the funds for the cheque, debiting the customer's account and creating a certified cheque outstanding account. The magnetic ink character recitation.

(MICR)line is general with certified cheque account number or mutilated so that it can't pass through the customer's account.

THE CHEQUE PAYMENT PROCESS



The payment process starts when the cheque is transferred from one person or company to another person or company. The authorization is in signing the bottom of the cheque when it is presented before the bank for payment and then a collection process begun, which results in the transfer of money from the drawer's account to the beneficiary or beneficiary's account (payment)

DRAWER: In the cheque payment process, the drawer starts up by writing a cheque on his or her account payable to an identifiable person, bearer or cash.

IDENTIFIABLE PERSON: in this instant case, the cheque, requires endorsement by the identifiable person and delivery or transfer of the cheque in the course of negotiation. Effort must be made to ascertain the validity of all endorsement.

CHEQUE PAYMENT AS "AND OR OF": This is a cheque payable to joint payees (Bills and Bright) and as such requires the endorsement of both persons. However, is it in payable to one or the other (Bill or Bright), the other can negotiate the cheque.

BEARER CHEQUE: This one is not to a specified or identifiable person and it could be studied were delivery alone and case, negotiation is by endorsement. Any person with such instrument (Payable to bearer) is the holder of same. However, if the bearer takes the cheque to a teller to obtain cash, he is expected to endorse it in ordedr to identify who is collecting the cash.

HOLDER IN DUE COURSE: The person in position of a cheque in the holder and one entitled to receive payment of the instrument, whereas holder in due course in one who holds a negotiable instrument (cheque) and who takes the instrument for (i) Value (ii) in good faith (iii) without notice that it is over due or dishournoured (iv) without knowledge that it has an unauthorized signature or is altered. (v) without knowledge of claims to the instrument or defences against payment.

THE PAYEE: The payee is one who accepts the cheque from the drawer. He can transfer the cheque to another person, is to cash or keep it in his account. What happens to the cheque is a function of the type of endorsements.

TYPES OF ENDORSEMENT ARE

(i) **Endorsement In Bank**: This is the signature of the payee and it therefore becomes a bearer negotiated without other endorsement.

(ii) **A Special Endorsement:** This one means another designated person. It may state "pay to the order of" and then the payee signs under that statement. Only the designated person can negotiate the cheque. This could be used If the payee is mailing the cheque to another.

(iii) **Restrictive Endorsement:** Here the payee or other holder of a cheque restricts the purpose for which the cheque may be used. The most common one is "For

deposit only" and if endorsed this way, it can only be for deposit to an account only, as any other used is prohibited, just like crossed cheque.

BANK (DEPOSITORY): This is a bank in which a cheque is first deposited. It may be the paying bank (Drawee) if the cheque is drawn on, payable at, or payable through the bank. From there it is enlisted, proofed, captured, sorted and cleaned for presentment to the drawee.

PAYING CHEQUE: A bank is under obligation to pay a cheue that is properly payable and presented by his customer. When a person presents a cheque deposited or negotiated for cash at the bank on which it is drawn (ou-us cheque) to a teller, it is deposited in an account or paid over the counter. If it is accepted or paid by mistake, it is deemed not to have been paid in spite of final payment. Owners cheque usually presents a high risk to the bank, therefore the teller.

Must business non-visual (is there a stop payment order please? It's a hold been an the account, is there sufficient balance to cover the cheque, and is the account balance available to the drawer) as this concern paying a cheque. The visual elements concern cashing a cheque item is the item an actual cheque drawn on the bank is the signature genuine and authorized? Has the cheque been altered? Is the cheque properly dated? Is the cheque properly endorsed?

However, online system now allows tellers to view an image of the banks record of the customers signature so it can be compared to the actual signature on the cheque.

THE DRAWEE: The Drawee (Paying Bank) receives cheque from other banks through a clearing house and bank must follow before payment procedure irrespective of how the cheque was received.

IN-CLEARING CAPTURE: Here a bank or CBN presents cash letters to the drawee, who then prepare the cheque for capture, and after capturing of the date settlement of the cheque is then effect.

The entire MICR it must be captured though, if not cheques are rejected and the error is corrected before posting.

POSTING: Here data capture runs (over the counter and in-clearing item) are stayed through the day and after total completion of the capture runs at the end of the day, transactions are posted to accounts. Posting is actually the process of adds deposits to an account balance and substracting

cheques and other withdrawals from the balance. Deposit and other credits are posted first, before debits.

E-CAPTION ITEMS: These are cheques rejected due to various reaction (stop placed on the account insufficient fund)from the normal posting process and as such requires special handling. Each exception item requires action and whatever the reason cheque drawn on an account are when a hold is placed must be rejected, examined, paid or returned. The proper thing must be done. It can be represented after correction.

EXAMINATION AND FILING: With the nature of traffic of most banks, bill filing procedures becomes imminent, as cheques are sorted daily by statement cycles and filled in bundles. After the examination of datails (signature, date, number etc) they are separated, sorted into account number sequence using letter filing based or image based automated signature verification.

After the sequence with a divider to separate accounts, returned cheques are taken to a statement preparation area for processing.

STATEMENT RENDERING: In a typical statement rendering process, statement are printed in account number sequence and cheques are sorted into account number sequence. Then a bar code flowing number of debit items is printed on the statement. Thereafter, cheques are controlled and it the number equals that on the statement, they are enveloped, sealed and stamped for postage. When a customer receives a statement in the mail listing previous months clearing account deposits and debits the cheque payments process had come full cycle.

4.0 Conclusion * from here.

Banks are institutions licensed to carry out banking functions, among which is to open accounts for customers to make deposits, safeguard valuables and provide credits. However in order to payment for transactions simple and efficient, they embark upon intermediary and other effective services to the public. In the course of the performance of their function the need to interact among banks, especially on behalf of their customers becomes imperative, leading them to working out an arrange for the settlement of cheques differentials in value among banks giving the license to Participate in this process called clearing. Clearing Banks are actually licensed banks, as well as banks approved by CBN to go to the clearing house to facilitate the

matching and settlement of accounts via issued cheques of the approved banks. The banks that are not licensed to participate in the clearing house do take part indirectly by having any of the participating banks as their correspondent banks.

5.0. Summary

Clearing banks are basically banks that have the approval to be a part of the CBN cheque clearing and matching process. They maybe Banks operating the unit, branch or correspondent banking principles. In all the function of clearing allows the payment mechanism to flow freely and clearly, so that errors can be detected and corrected when noticed, thereby building trust and confidence; which is the cornerstone of banking.

6.0 Tutor Marked Assignment

1. The structure of a bank in a dynamic sense encompasses various characteristics that shape or determine its individuality. Evaluate this statement and comment on the structure of clearing banks in Nigeria.
2. Design an appropriate structure for a small bank specifying the lines of communication and chain of command.
3. Examine the impacts of universal banking on the marketing of financial services in Nigeria.
4. Differentiate between unit banking and branch banking. What factors encourage the existence of unit banks
5. J Write short notes on, bank, banker and clearing banks.

7.0 References

Jombo, O.C. (2003). Elements of Banking. Owerri: Barloz Publishers

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UNIT 2. ELECTRONIC FUNDS TRANSFER AND ELECTRONIC BANKING

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1.0 Introduction
2.0 Objectives
3.0 Main content
    3.1 Electronic Banking
        3.1.1 Debit Cards
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5.0 Conclusion
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7.0 References/ further Reading

1.0 Introduction

Electronic funds transfer is one of the evolution of the banking systems that attempts at making transactions and especially payments to be seamless. You can send funds or receive fund through electronic and wireless systems and this also has a global coverage through many linkages.

2.0. Objectives

At the end of the this unit the student should amongst other things be able to:

- The nature and types of bank cards available for use in the system
- Understand the workings of the automated clearing house/systems for EFT

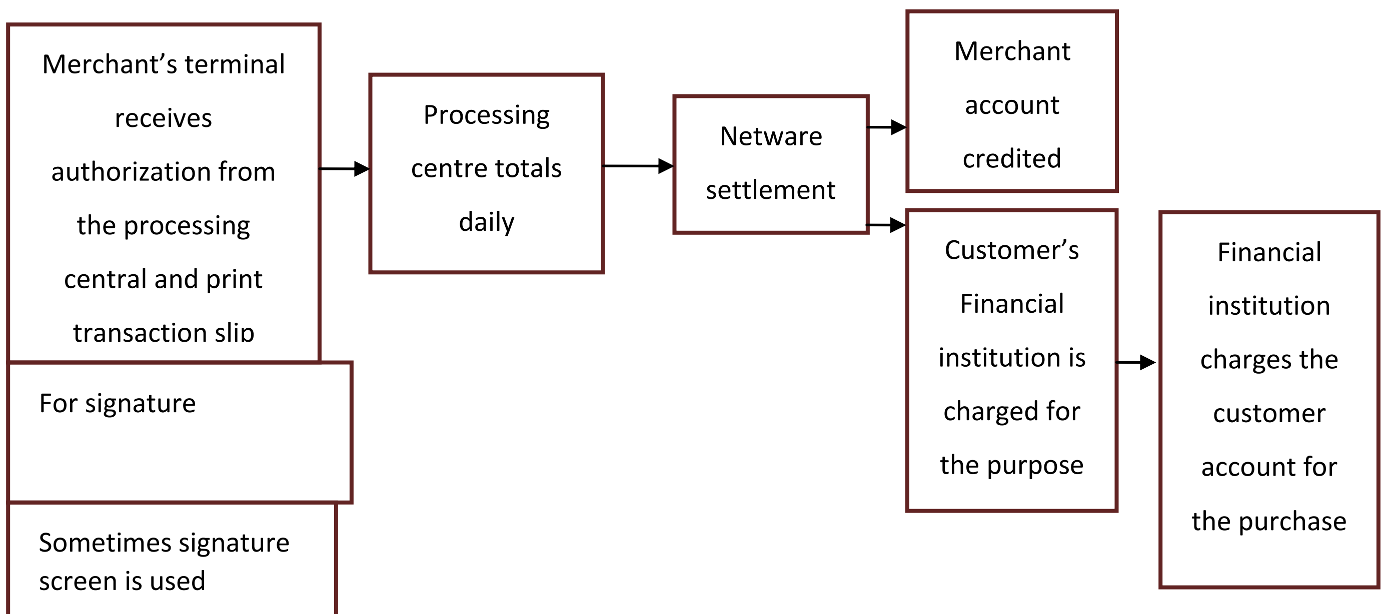
- Know the meaning of Internet Banking

3.1 ELECTRONIC BANKING SYSTEM: This is innovation that offers a convenient alternative to cheque writing. They are card based, which include debit cards, stored value cards, smart cards, electronic fund transfer and internet banking payment system.

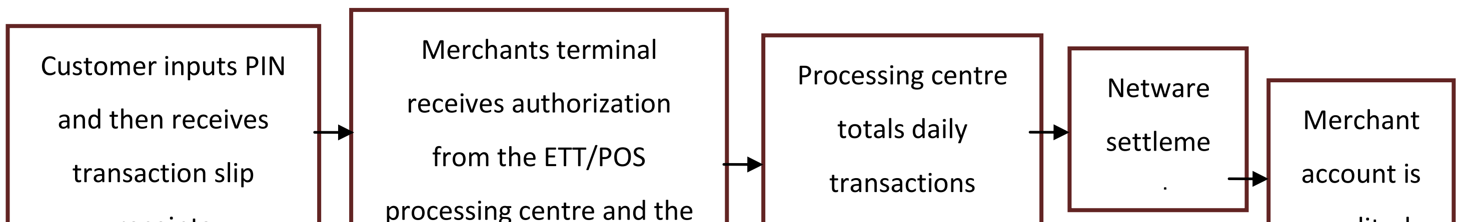
3.1.1 **DEBIT CARDS:** It is a convenient alternative to paper cheques at the Point Of Sale (**POS**). The cards has a magnetic chips that allow the customer to perform routine financial transaction (withdrawals, deposits and transfer of funds) between accounts and to made payments. There are basically two types of Card-LIN only debit cards, where transactions are process online and requires transactions. The other is the signature debit Cards used with either a PIN for online transaction or a signature for offline transaction. They are used at ATMs and many merchant locations. They may carry the master card, verve or vosa logo.

Offline transaction is authorized only, as the cardholder's account is not charged until the processing center makes the settlement for the transaction.

Offline transaction steps (signature required for offline purchase)



ONLINE PURCHASE (PIN REQUIRED)



3.1.2 STORED VALUE CARD: This card stores a specific amount of funds and reduces by the value of the purchase (s) made from time to time (eg. Welmart card). Some cards are for a time use, whereas others may be reloaded with value. They are sold by a wide spectrum of merchants and several service providers, as you give them cash the input the value into the card, which of course becomes safer than cash or cheque and even easier to carry about;

3.1.3 SMART CARDS: This is an emerging card based technology that can do a variety of activities-debit card, credit card, stored valve card, medical ID Card, drivers license, national ID Card etc. it has the look of a debit card but contains a microprocessor chip that allows the card to compute and communicate information and store cardholder's data

3.2 THE AUTOMATED CLEARING HOUSE AND ETF TRANSACTIONS

The national automated clearing house (NACHA) developed operating rules and business practices for electronic payments, using the Automated Clearing House Network. The Federal research wire network (FED Wire)is another. like SWIFT etc

Using the ACH Network, the bank originating the ACH transaction is the originating depository Financial institution (ODFI) and the bank receiving the transaction is the (RDFI). The customer directs the ODFI bank to originate the transfer (pre-authorized transfer) this transfer is batched with others and sent to ACH, as outfits sends batches of different levels of transfers to ACH, it then sends, settles and send credits and debit to customer account.

3.3 INTERNET BANKING PAYMENTS: This is an electronic delivering of banking processes and services. With the help of internet banking sites and Applications, customers using personal computers with internet access can make transfers between account, pay bills, make

online purchase and loan applications. They can also review account balances. Lots of personalized information and data access is imputed into the system and regular actions taken at specified intervals depending on the command from the customer with respect to originating depository with the customer.

It must be noted that the internet banking system of payment uses the ACH care were ruling the ODFI to the RDT.

4.0. Summary

Electronic funds transfer system and electronic banking is the fastest way to do business in the modern times and even globally. It means you can do any transaction from the confines of your bedroom, conveniently, efficiently and effectively.

5.0 Conclusion

The E-banking platforms and applications have taken over business today and has strongly contributed to the ease of doing business.Creating steps and systems for online and offline purchases of goods and other valuables. It is the current way to go and it has greatly impacted on the system with particular reference to banks and banking culture of our citizens.

6.0 Tutor-marked Assignments

1 Mention and explain the types of electronic banking cards that you know, which do you prefer?

2. Critically examine and explain how the Automated clearing house system works
3. Schematically explain the steps involved in online purchase arrangements

4. Write short notes on ETF and E-Banking platforms.

7.0 References:

Jombo, O.C. (2003). Elements of Banking. Owerri: Barloz Publishers

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UNIT 3 BANK LENDING

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3.1 The Concept of Bank Lending

3.2 Types Of Bank Lending

3.2.1 Consumer Loans:

3.2.2 Business/Commercial Loans

3.2.3 Mortgage/Real Estate Loans

4 Summary

5 Conclusion

6 Tutor-marked Assignment

7 References/ further Reading

1.0 INTRODUCTION

Bank lending is basically the key factor in banking methods and practices, it is fundamental that keep banks in existence and perhaps grow. However their are various types of lending and the ability to synchronize these different forms properly leads to profitability of banks and that's the reason we say banks create money, even when they don't print money

2.0 OBJECTIVES

At the end of the this unit the student should amongst other things be able to:

- The bank lending concepts
- Know the five C's for lending
- Also determine the types of bank lending practices that are comm

3.0 MAIN CONTENT

3.1 BANK LENDING

Lending is the root of bank business, as soon as deposits are been taken. it is actually the cornerstone of the money creating functions of banks. From the three strongholds of banks – deposit, payment and lending, lending function is a major source of income to the bank . the quality of a bank's loan portfolio determines to a reasonable extent its survival capacity because lending is actually one of the most traditional elements in bank-customer contractual relationship.

Over the years, commercial banks have been the major source of credits, but competitors have emerged thereby making finance companies, insurance companies, pension funds etc as other sources of credits. In recent times beyond commercial bank loans which is now offered even by savings banks, large corporate firms with excellent credit ratings borrow in the money market by using commercial papers and even banks borrow among themselves and from the central bank as a lender of last resort.

Importantly is the basic condition for lending, which are- (a) Character, (b) Capacity-contractual, (c) Capital, (d) Collateral and (e) Condition-Economic.

Bank Roles as Lenders

Banks albeit remains the most important lending source and unarguably so. They provide a variety of loans ranging from short, medium and long term(even up to 20 years) and some are actually secured by collateral

3.2 TYPES OF BANK LENDING

1. Consumer loans
2. Business loans
3. Mortgage loans

4. Government sponsored loans

3.2.1 Consumer Loans: this is a part of full service lending; this is the demand for consumer loans to meet up basic consumption needs/ requirement and are referred as agreed. They come in two ways

Open End Credit: here a borrower is given a revolving time of credit where he can draw funds for a specific time frame and amount. This the balance to fluctuate between zero and the maximum limit. They are basically credit card and home equity line of credit.

Closed End Credit: this is a form of instalment loans, with specified amount, and maturity period and number of payment with due dates.

The borrower receives a lump sum upfront and payment are scheduled monthly and often times the bank automatically debits the account of the borrower. This type could be secured or unsecured e.g. A car purchased loan, where the bank holders on the title of the car within the tenure of the loan.

3.2.2 Business/Commercial Loans: This constitute the largest component of a bank's total loan portfolio. This covers a variety loan products to cover a diverse area for example:

i. **Working Capital Loan:** A short term loan (30-70 days) for the provision of immediate daily needs of the firm
ii. **Term Loan:** this one has a typical maturity 1-5 years, which is normally used to acquire fixed assets at which repayment planning tied to the useful life span of the asset.
iii. **Syndicate loan:** usually when the amount involved is very high and it is therefore shared and given out by more than one bank to a particular customer. This maybe due to the fact that the amount exceeds the capacity of one bank as regards the loans limit policy of the bank.
iv. **Lease Financing:** here the bank owns the collateral and leased it to the customer for a specified period and receives monthly payments, depending on the forms of the lease, ownership may be transferred to the customer when the lease ends, and furthermore, it is generally known that financial lease are non-cancellable.

Letters of credit: this is a document issued by the bank to substitute the bank credit for the credit of buyer of goods, making the buyer no to pay in advance.

It should be known that bank lending starts with the application by the customer and does not end with the delivery of the credit to the customer, but entails constant monitoring by the bank until the expiration of the loan

3.2.3 Mortgage/Real Estate Loans

A mortgage loan is a long term and closed end credit facility, secured for the purpose building/acquiring residential houses, shopping centres and office building. Mortgage loans are usually requires the borrower to pledge his property as collateral security.

4.0. Summary

It's been confirm that without bank lending, banks won't operate successfully, and there will not also be proper investment and the wheel of economic development will stagnate. However in delivering credits, banks consider several factors among which are the identification of genuine areas of lack and need, sectoral balances and capability for payback.

5.0. Conclusion

Banks have been doing what they know how to do best, give credits to the deficits economic units of the system who have profitable, investable ideas that will help propel the economy. So far it has been working, especially as the determine the delivery along certain basic and very important lines like- Consumer, Business a new Mortgage routes

6.0. Tutor-marked Assignments

1 What constitute the basic characteristic of the types of loans that you know

2. Identify and explain the C' s for bank lending

3. Mention the different types of loan products, with emphasis on commercial loans

7.0. References/ further Reading

Jombo, O.C. (2003). Elements of Banking. Owerri: Barloz Publishers

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MODULE 5 BANK CUSTOMERS AND ACCOUNTS

Unit 1 Bank Customers and Accounts

Unit 2 Bank Account services for Exporters

Unit 3 Banking Institute

UNIT 1 B ANK CUSTOMERS AND ACCOUNTS

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3.4.2 Deposit Account:

3.4.3 Basic Difference Between Current And Deposit Account

3.4.4 Special Accounts

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1.0 INTRODUCTION

Bank business has always been a contractual and fiducial relationship between her and customers. To leave funds in the hand of a legal entity in the belief of safety and can only be for the reason of trust. However, being a bank customer entails a lot, among which is the fact that one must have an account with the bank before anything else. Therefore the complex web of this relationship requires proper elucidation.

2.0 Objectives

At the end of the this unit the student should amongst other things be able to:

- Who is a bank customer
- Know the type of accounts in the banking system
- Understands the interpretation principles of bank Accounts

3.0 MAIN CONTENT

3.1 BANK CUSTOMER AND CUSTOMER ACCOUNT INTERPRETATION

3.1.1 BANK CUSTOMER: In the business of Banking, just like any other business, the customer is the king. The customer is the whole fulcrum of the existence of the Bank. Ordinarily the term customer refers to any person who enters into a contract for goods and services interaction with another, shop or business entity. However, the situation in banking is different, because the mere giving of financial advise are ordered any casual relationship has not been seen to constitute a Bank/Customer relationship. Rather what is important is the determination of this relation is the nature of conscience which must involve account opening transaction. In fact the facilities for depositing money and the convenience of the cheque Book, ATM and other cards are the one hand are at the root of the conception of the word customer. Igweoke (2005) furthermore, it has been previously held that for a person to be a Bank customer, it is essential and indispensable that the person should have opened an account in the bank. In Great Western

Railway Company v London and country banking Co. it was held that a person who far above Twenty years has been cashing a bank's cheque Payment to loan over the counter without opening an account in the bank. Lord Davey pointed out that there must be some sort of account, either a deposit or current or some similar related account to make a person a customer of a bank. Again whether the account is opened by the person himself or by another person on his behalf and upon his authority is irrelevant to constitute his not being a customer, it was further emphasized in the case of Woods V Mortoas Bank Ltd, where it was held that the Plaintiff is the bank's customer and that a person becomes a bank's customer as soon as arrangement for opening an account has been completed and whether a deposit has actually been made is immaterial. Clearly there is no universally accepted definition of who a bank customer is. It only an issue of the circumstance of fact, as each case must be seen from its own merit.

3.1.2 NATURE OF BANKER/CUSTOMER RELATIONSHIP

The relationship that exist between a banker and a Bank customer is basically contractual in nature and equally a debtor and a creditor relationship. It is an unwritten kind of relationship covering that of a loan arrangement in which the customer lends money to the bank who accepts with an understanding to accept future ones. The Bank however accepts the loans not as a trustees, but as a debtor and promised to repay them as and when requested by the customer through the issuance of cheques. In some instance this modalities are reversed, as when the account of the customer is overdrawn or where a specific loan or overdraft is granted to the customer by the bank in another dimension, this is the trustee/beneficiary relationship as well as principal agent one also. In a situation where a customer deposit treasury bills or any bills with his bank and the bank agrees to receive the interest there from or to renegotiate or make sale of them and to credit the customer's account with proceeds, the bank may well be in the position of a trustees and therefore sustains a judiciary character. Also, where a customer draws on his account with his bank by means of a cheque and the bank involve the cheque, this takes on the principal/Agent relationship.

3.2 CUSTOMER ACCOUNTS INTERPRETATION

Opening of account by a bank customer is the root of bank/customer relationship and there are actually many types of accounts and rules governing them.

3.3 OPENING OF ACCOUNT

Any person (natural or legal) has the right to open and loan account with any bank, even a minor. The essential thing to do on the part of the bank is to seek formal and proper identification of a prospective customer, and obtain proper introduction or reference as regards the customer. In the case of united insurance co v Muslim bank, the court held that the defendant bank was negligent and failed to observe the standard expected of a reasonable banker, because the bank made no initial enquiry about the prospective customers identity or character before opening a savings account for him or subsequently before collecting a cheque on his behalf two days later.

i. In the case of a limited liability company much broader steps are to be taken and they include Get references of the directors of the company request for the production of the original certificate of incorporation and obtain a copy there from.
ii. Obtain a certified true copy of the memorandum and articles of association.
iii. Obtain specimen signatures of all who are to operate the account
iv. Request a copy of the certificate of commencement of business

3.4 TYPES OF BANK ACCOUNTS

Bank accounts are often classified according to subject matter or special designation of the customer. However, there are basically two types of account the current and deposit accounts.

3.4.1 Current Account: in this case, the account holder gets his or her money repaid by means of cheque of a customer addressed to the bank at the branch were the account is kept. No interest is usually payable on account balance, although some times and of banking practice or law bankers are obligated to pay interest on certain minimum balance. The account holder may be a creditor (cash balance) to the bank at one point, and at another point within the same time circumstance a debtor (when no cash balance in the account) when the customer draws beyond his balance (overdraft).

3.4.2 Deposit Account: This is fundamentally a savings account in which the account owner makes periodic savings with the intention to Make interest.

In recent times the savings account has become more flexible, adding cheques and other methods of withdrawal and transfer of funds in the system.

3.4.3 BASIC DIFFERENCE BETWEEN CURRENT AND DEPOSIT ACCOUNT

i. A deposit account is a lodgment or savings account, while a current account is a payment or withdrawal one.
ii. A current account holders utilizes a cheque book in withdrawals while a deposit account holder basically uses a passbook, though in recent times it can operate a cheque system with limited capacity.
iii. Statement of current account holder is given periodically either in hard copy or electronically and sometimes upon request. But for deposit account, transaction details are always in the passbook.
iv. Withdrawals from deposit account is often upon notice (7 days) todo so. So, although this is somehow related, you cannot withdraw to the last kobo, whereas in current account you can withdraw to the last kobo.
v. For current account holding, a commission on transaction (COT) is usually charged but not so far a savings/Deposit Account.
vi. The Deposit account balance attracts interest, while the current account holder is not paid interest.

3.4.4 SPECIAL ACCOUNTS

All the other accounts are designated according to their ability needs or circumstances and some of them are:

Joint Accounts: This is when a n account or accounts bears the name of more than one person upon which individually and collectively they can claim ownership. They come in three forms:

i. Where two or more persons open an account in their names

ii. Where one person opens an account in his own name and those of another person or persons and
iii. Where a third party opens an account in the names of two or more persons.

These accounts includes that of partnership, trusts, executorships and administrators legal practitioners, limited liability company etc. This study's emphasis is on partnership and limited liability accounts

Partnership accounts: in this type of account, the agreement simplifies the rights or power of the partners with relations to the partnership account. Section 5 and 6 of the English partnership Act 1890 as applicable to Nigeria, partner in any organisation or company is an agent of that organisation (company) which his/her function is for the business of the organisation (company). The fact here, is that partnership entitles each partner to open an account in his/her name for the organisation and to hold up the partnership account. Account opened with the banker by a partner in his/her name doesn't mean that the account was open on his/her behalf, either it doesn't mean that the authority has bind partner for his organisation(company) to opening account in his own name other than the organisation (company) name. meanwhile, the banker can as well prove that the partner was acting as an agent of the organisation(company) that the account belongs to the organisation (company).

Dissolution of a partnership, the power of a partner to draw from the account of the organisation (company) stops. According to Blackhouse v. Charlton cited the partnership act 1890. It was held that a surviving partner has no right to draw from a partnership account. But section 38 0f the Act provides that after the dissolution of the partnership, says that the authority of a partner binding the organisation (company) continues notwithstanding the dissolution so far as may be necessary to lay off matters of partnership and to complete the transactions began but not completed at the time of dissolution.

Limited Liability Accounts: Something very important would be considered when opening banks and corporate account for limited liability companies. Firstly limited liability companies has a separate legal personality different from those of the shareholders. Secondly opening of account for corporate, bank must need the references from the directors, require to produce the certificate of incorporation and copies of its articles and memorandum of association. Thirdly in corporate account, the bank considers the implication of the doctrine of ultra-vires which affects

not only the capacity of the company to borrow money but on how the money will be protected. Articles and memorandum of association being public documents are open to all persons and banks, who may have any transaction with constructive notice of their contents. A Bank planning to borrow money to such an organisation (company) must inspect these documents before making any payment or taking anything as collateral for borrowing.

Though even when the company has the authority to borrow, articles of association contains directives of how money is to be applied. This implies that, if the directors borrow money out of the scope of the articles, this will be ultra-vires and the bank may have difficulties in recovering the money from the firm. This also tells us that the articles of association contain a ceiling on how much a firm will borrow at any given time or for specific projects. It also contains the method of affecting or stipulates the borrowing condition of the company.

Another item here is that company account also talk about the drawing of cheques or negotiable instruments. Bank also seek the drawing of cheques or negotiable instruments. But also seek the mandate of directors or other persons that are empowered to withdraw from the company's account section 73(1) CAMD 1990.

4.0. Summary

Bank customer relation being a contractual one inter changes position. This is because a creditor today, may be a debtor. Hence the need to know how it works and the type of accounts in operation

5.0. Conclusion

Bank customer relationship is a complex thing, and the account interpretation hovers basically around the deposit and current account workings.

6.0. Tutor-marked Assignments

1 Who is a bank customer

2. Mention and explain the types of Bank accounts that you know

7.0. References/ further Reading

Jombo, O.C. (2003). Elements of Banking. Owerri: Barloz Publishers

Nzotta, S.M. (2004). Money, Banking and Finance: Theory and Practice. Owerri: Hudson-Jude Publishers

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UNIT 2 BANK CUSTOMERS AND BANK ACCOUNTS SERVICES

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3.8 Banker's Acceptance

3.8 Bill Of Lading

4.0 Summary

5.0 Conclusion

6.0 Tutor-marked Assignment

8.0 References/ further Reading

1.0 INTRODUCTION

In the course of this programme, it has been made clear that it is not all who are called customers are actually customers, especially in bank business. A bank customer must be one who has an account with the bank, even if he does not frequent the bank, as he can always send any one to cash(pay in and withdraw) funds for him. Once upon a time, the belief was that the customer must be a current account holder, but that has evolve to include other accounts. The accounts in the banking system has now become so vast and of different types. Most often the accounts are opened to suit specific circumstances. In this instance, however we will be looking at account services for exporters and importers.

2.0 Objectives

At the end of the this unit the student should amongst other things be able to:

- Liabilities of banks as regards letter of credits
- Know the triangular relationship between and among importer,exporter and the bank
- Understand letters of credits (variants)
- Know the types of Drafts to apply

3.0 MAIN CONTENT

3.1 BANK ACCOUNT SERVICES FOR EXPORTERS AND IMPORTERS

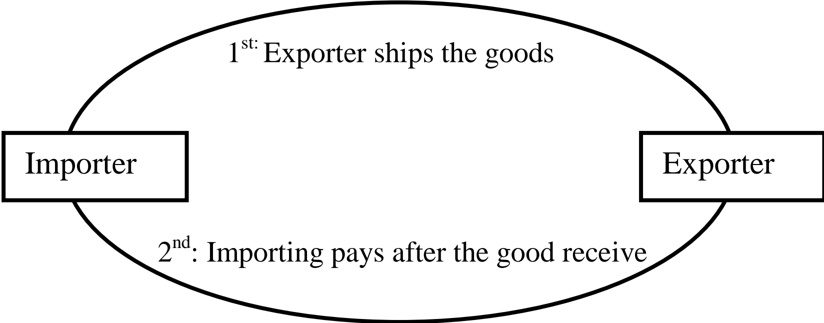
Banks are financial institutions that offer diverse services to individuals, group of individuals, firms government agencies etc. The services include acceptance of deposits, granting of loans and advances, agency services, payment and collection of cheques, execution of standing order, remittance of funds, safe custody, performance of government transaction etc. Banks generally operate three types of account which are savings account, fixed deposit account and current account. Hence the bank account suitable for importers and exporters, (businessmen/business organization involved in importing and exporting) is the current account.It concerns the current account used by importer/exporter as Trade Current Account (TCA); others refer to it as Global Current Account (GCA). The use of current account by an exporter and importer is instigated by international trade. The bank services offered to importers and exporter include. Issuing letter of credit, draft, and hill of lading.

International trade must work around a fundamental dilemma. Imagine are exporter and an importer and an importer who would like to do business with are another. Imagine also.

International trade must work around a fundamental dilemma. Imagine an importer and an exporter who would like to do business with one another. Imagine also that they live in different countries located far apart. They have never met. They speak different languages. They operate in different political environments. They come from cultures that have different standards for honouring obligations to other persons. They both know that is they default on an delegation, the

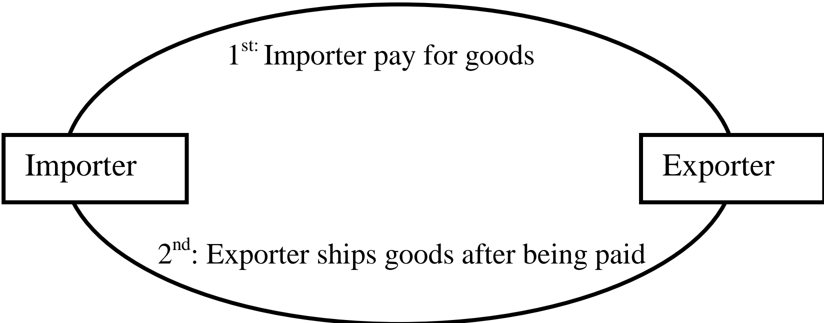
other party will have a hard time catching up to seek redress. White it might be too larsh to say they don't trust one another, each has perfectly valid reasons for being very countries in dealing with the other.

Because of the distance between the two, it is not possible to simultaneously hard over goods with one hand and accept payment with the other. The importer would prefer the following.

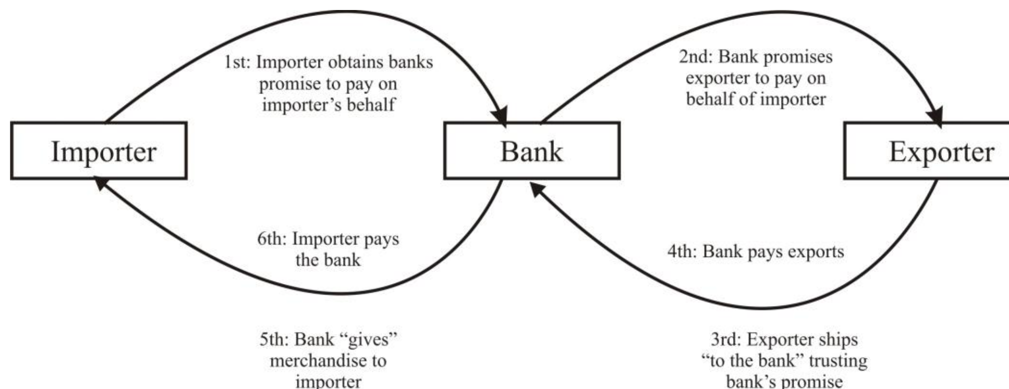


*. Correct importing to Importer pays after the goods have been recieved

If done this way, all risk is shifted to the exporter. The exporter's preferences are exactly the opposite, which of course shift all risk to the importer.



The fundamental dilemma of being unwilling to trust a manager in a foreign land is solved by using a highly respected bank as intermediary. A great simplified view is the following:



In this simplified view, the importer obtains the bank's promise to pay on its behalf, knowing the exporter will trust the bank. The bank's promise to pay is called a letter credit.

The exporter ships the merchandised to the importer's country. Title to the merchandise is given to the bank or a document called an order bill of lading. The exporter asks the bank to pay for the goods, and the bank does so. The document to request payment is sight draft. The bank, having paid for the goods, now passes title for the importer, when the bank trusts. At that time or later, depending on their agreement, the importer reimburses the bank.

Financial managers of multinational firms must understand these three basic documents, in part because their firms will often trade with unaffiliated parties, but also because the system of

documentation provides a sources of short-term capital that can be drawn on even when shipment are to are to sister affiliates.

3.2 BENEFITS OF THE SYSTEM

The three key documents (letter of credit, draft and bill of coding) constitute s system developed and modified over lime to protect both importer and exporter form the risk of non-completion and foreign exchange risk as well as provide a means of financing.

3.3 RISK OF NON COMPLETION

As stated earlier, once importer and exporter agree on terms the seller usually prefers to maintain legal title to the goods until paid, or at least until assured of payment. The buyer, however will be reluctant to pay before receiving the goods, or at least before receiving title to them. Each wants assurance that the other party will complete its portion.

3.4 PROTECTION AGAINST FOREIGN EXCHANGES RISK

International trade, foreign exchange risk arises from transaction exposure. If the transaction requires payment in the exporter's currency, the importer carries the foreign exchange risk. If the transaction calls for payment in the importer's currency, the exporter has the foreign exchange risk.

Transaction exposure can be hedged, but in order to ledge the exposed party must be certain that payment of a specified amount will be made on a particular date.

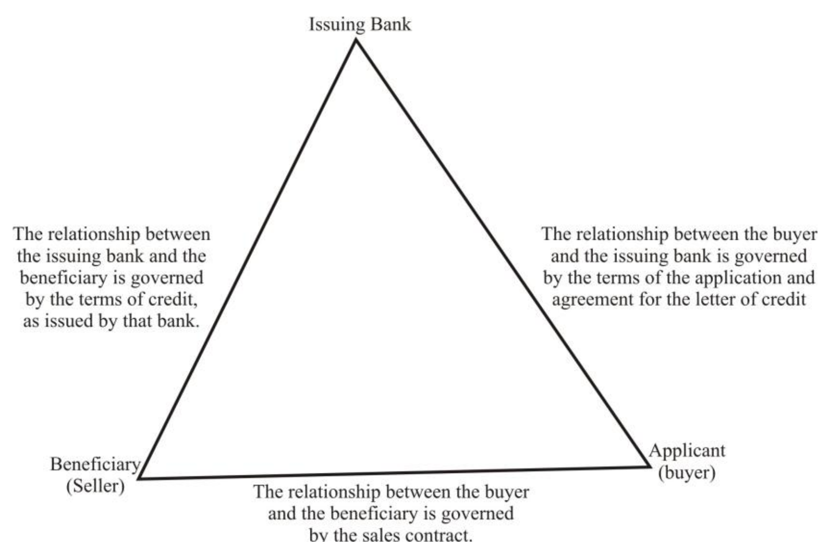
The risk of non-completion and foreign exchange risk are most important when the international trade is episode, with no outstanding for agreement for recurring shipments and no sustained relationship between buyer and seller. When the import/export relationship is of a recurring nature, as in its case of manufactured goods shipped weekly or monthly to a find assembly or retail in another, and when it is between countries whose currencies are considered strong, the exporter may well bill the importer an open account after a normal credit check. Banks provide credit information and collection services outside of the system of processing the draft drawn against letter of credit.

3.5 FINANCING THE TRADE

Most international trade involves a time lag during which funds are tied up while the merchandise is in transit. Once the risks of non-completion ad of exchange rate charges are eliminated, banks are willing to finance goods in transit. A bank can finance goods in transit, as well as goods held for sale, based on the key documents, without expressing itself to questions about the quality of the merchandise or other physical aspects of the shipment.

3.6 LETTER OF CREDIT

The uniform customs and practice for documentary credits, 1962 defines a letter of credit as any arrangement, however named or classified whereby a bank (the issuing banks), acting on the request and in accordance with the instructions of a customer (the oppleant for the credit) is to make payment to or to the order of a third party (the beneficiary or is to pay, accept or negotiable bills of exchange (drafts) drawn by the beneficiary, or authorizes such payments to be made or such drafts to be paid, accepts or negotiated by another against stipulated terms and conditions in other words, a documentary letter of credit is a written undertaking issued by a bank under which it processes another party the (beneficiary usually the seller or exporter) that is presentation of certain documents it will reimburse the beneficiary any amount due to him in respect of certain goods sent to a third party usually a customer of the issuing bank). In international trade a letter of credit is sometimes referred to as a commercial letter of credit, a documentary letter of credit, or simply a credit. A letter of credit reduces the risk of non-completion since the bank agrees to pay against document rather than actual merchandise. The relationship among the three parties is shown below



Source: First National Bank of Chicago, financing US Exports, compiled by Patricia A. Ferris, January 1975, p.

3.6.1 ESSENCE OF THE AGREEMENT

The essence of a letter of credit is the promise of the issuing bank to pay against specified documents, such must accompany and draft drawn against the credit (the letter of credit is a separate transaction from any sales or other current on which it might be based. To constitute a true letter of credit transaction, all of the following five elements must be present with respect to the issuing bank:

1. The issuing bank must receive a fee or other valid business consideration for issuing the letter of credit.
2. The bank's letter of credit must contain a specified expiration date or a definite maturity.
3. The bank's commitment must be have a stated maximum amount of money.
4. The bank's obligation to pay must arise only on the presentation of specific documents, and the bank must not be called on to determine disputed questions of fact or law.
5. The bank's customer must have an unqualified obligation to re-imburse the bank on the same condition as the bank has paid.

3.6.2 VARIATIONS IN THE TERMS OF A LETTER OF CREDIT

Most commercial letters of credit are documentary, meaning that certain documents must be included with any drafts drawn under their terms. Required documents usually include an order of lading, a commercial invoice, and any of the following: consular invoice, insurance certificate

or policy, certificate of origin, weight list, certificate of analysis, packing list. Commercial letters of credit are also classified as follows:

1. **Irrevocable Versus Revocable:** An irrevocable letter of credit obligates the issuing bank to honour drafts drawn in compliance with the credit and can be rather cancelled nor modified without the consent of all parties, including in particular the beneficiary (exporter). A revocable letter of credit can be canceled or amended at any time before payment; it is intended to serve as a means of arranging payment but not as a guarantee of payment.
2. **Confirmed Versus Unconfirmed:** A letter of credit issued by one bank cane be confirmed by another, in which case both banks are obligated to honour drafts drawn in compliance with the credit. An unconfirmed letter of credit is the obligation of only the issuing bank. An exporter is likely to want a foreign bank's letter of credit confirmed bank's ability to pay. Such doubts can arise when the exporter is unsure of the financial standing of the foreign bank, or if political or economically conditions in the foreign banks are unstable.
3. **Revolving Versus None revolving:** Most letters of credit are nonrevolving; they are valid for one transactions only. Under some circumstances, a revolving credit issued. A N10,000 revolving weekly credit means the beneficiary is authorized to draw drafts up to N10000 each week until the credit expires. The period of a revolving credit might be daily, weekly or monthly. Because the maximum exposure under an irrevocable revolving credit is very great (the buyer and cannot stop its obligation to pay for future shipments even if it is dissatisfied with the merchandise), most revolving credits are issued in revocable form. A revolving credit may be non-cumulative in which case any amount not used by the beneficiary during the specified period may not be drawn against in a letter period; or at may be cumulative, in which case undrawn amounts carry over to future periods.

3.6.3 ISSUERS OF LETTERS OF CREDIT

From an exporter's point of view, a documentary letter of credit is one of the following types:

1. An irrevocable letter of credit issued by a domestic bank
2. An irrevocable letter of credit issued by a foreign bank and confirmed irrevocably by a domestic bank, or an occasion confirmed by a third-country foreign bank.
3. An irrevocable letter of credit issued by a foreign bank without the confirmation of a domestic bank. This situation the domestic bank simply transmits information (when the letter is opened) and forwards draft for collection but does not guarantee payment.
4. A revocable letter of credit established to arrange for payment.

Exporters naturally prefer types 1 and 2, since they need look no further than a bank in their own country for compliance with the terms if the letter of credit. Although a letter of credit issued by a foreign bank along (type 3) might well be of the highest esteem, may exporters, especially smaller firms, are not in a position to evaluate or deal with foreign banks directly if difficulties arise.

Every irrevocable letter of credit must indicate an expiration date beyond which documents for payment or acceptance will not be accepted. Documents, just as drafts or bills of lading, must be presented within a reasonable time after issue. If there is undue delay, the bank may refuse to accept them.

3.6.4 ADVANTAGES AND DISADVANTAGES OF LETTERS CREDIT

The primary advantages of letter of credit is that the exporter can sell against a bank's premise to pay rather than position as to commercial firm. The exporter is also in a more secure position as to the availability of foreign exchange to pay for the sale, since banks are more likely to be aware of foreign exchange conditions and rules than is the importing firm itself. If the importing country should charge its foreign exchange rules during the course of a transaction, the government is likely to allow already outstanding bank letters of credit to be honoured for fear of throwing its own domestic banks into international disrepute. Of course if the letter of credit is confirmed by a bank in the exporter's country, the exporter avoids any problem of blocked foreign exchange.

An exporter may fixed that an order backed by an irrevocable letter of credit will facilitated obtaining domestic pre-export financing. If the exporter's reputation for delivery is good, a local

bank may lead fund to process and prepare the merchandize for shipment. Once the merchandise is shipped in compliance with the terms and conditions of the credit, payment for the business transaction is made and funds are generated to repay the pre-export loan.

The major advantage to the importer of a letter of credit is that the importer need not payout until the documents have arrived at a local port or airfield and unless all conditions stated in the credit have fulfilled. The main disadvantage are the fee charged by the importer's bank for issuing its letter of credit, and the possibility that the letter of credit reduces the importer's borrowing line of credit from its bank.

3.6.5 LIABILITIES OF BANKS UNDER LETTERS OF CREDIT

The basic nature of a letter of credit is that the banks is obligated to pay against documents, not actual goods. Thus bank must carefully examine documents to be sure they are in accordance with the original terms and conditions of the letter of credit. Banks are not liable for defects in the documents on the face the document. Thus, for example, the bank is not responsible for detecting false documents, for verifying that the quantities, quality, weights or conditions of the goods is other than what is stated on the documents; or for validating the good faith and performance of any of the parties to the underlying transaction. The bank is not responsible I message are delayed or lost, or of such event as strikes, lockouts, riots, or war.

3.7 DRAFT

A draft, sometimes called a Bill of Exchange (B/E) or first of exchange, is the instrument normally used in international commerce to effect payment. A draft is simply an order written by an exporter instructing an importer, or an importer's agent, to pay a specified amount of money at a specified time. (A personal cheque is another type of draft; the cheque waits as order to a bank to pay a specified amount of money on demand to the order of a designated beneficiary).

The person or business initiating the draft is known as the maker, drawer, or originator. Normally this party is the exporter who sells and ships the merchandise. The party to whom the draft is addressed is the drawee. The drawee is asked to honour the draft that is, to pay the amount requested according to the stated terms. In commercial transactions the drawee is either the buyer

in which case the draft is called a trade draft, or the buyer's bank, in which case the draft is called a bank draft.

Bank drafts are usually drawn according to the terms of a letter of credit. A draft may be drawn as a bearer instrument, or it may designate a person to whom payment is made. This person known as the payee, may be the drawer itself or it may be some other party such as the drawer's bank.

International practice is to use drafts to settle trade transactions. This differs from domestic practice in which a seller usually ships merchandise on an open account, followed by a commercial invoice that specifies the amount due and the terms of payment. In domestic transaction, the buyer can often obtain possession of the merchandise without signing a formal document acknowledging his or her obligation to pay. In contrast, due to the lack of trust in international transactions, payment or a formal promise to pay is required before the buyer can obtain the merchandise.

3.7.1 CONVERSION OF DRAFTS

If properly drawn, drafts can become negotiable instruments. As such, they provide a convenient instrument for financing the international movement of the merchandise. To become a negotiable instrument, a draft or bill of exchange must confirm to the following requirement.

1. It must be in writing and signed by the maker or drawer
2. It must contain an unconditional promise or order to pay a definite sum of money
3. It must be payable on demand or at a fixed or determinable future date
4. It must be payable to order or to bearer.

If a draft is drawn in conformity with the requirements just listed, a person receiving it with proper endorsements becomes a "holder in due course". This privilege legal status enables the holder to receive payment despite any personal disagreements between drawee and maker because of controversy over the underlying commercial transaction. If the drawee dishonours the darft, payment must be made to any holder in due course by any prior endorser or by the maker.

This clearer definition of the rights of parties who hold a negotiable instrument as a holder in due course has contributed significantly to the widespread acceptance of various forms of draft, including personal checks

3.7.2 TYPES OF DRAFTS

Drafts fall into two categories, sight drafts and time drafts.

A sight draft is payable on presentation to the drawee, the drawee must pay at once or dishonor the draft. A time draft allows for a delay in payment normally 30, 60, 90 or 120 days. It is presented to the drawee, into signifies acceptance of it by writing or stamping a notice of acceptance on its face. A time draft is also called usance draft. Once accepted, the time draft becomes a promise to pay by the accepting party. When a time draft is drawn or and accept by a bank, it is called a banker's acceptance. When it is drawn on and accepted by a business firm, it is called a trade acceptance.

The time period of a draft is referred to as its tenor or usuance. To qualify as a negotiable instrument, and so be attractive to a holder in due course, a draft must be payable on a fixed or determinable future date. For example, 60 days after sight is a determinable date, such a maturity being established precisely at the time the draft is accepted. However, payment "on arrived of goods" is not determinable, since the date of arrival cannot be known in advance. Indeed, there is no assurance that goods will arrive at all. Third parties would have no interest in investing in it because they could not be certain they would ever be paid. Note, however, that a non-negotiable acceptance is still a legal device to obtain payment unless a defect exists in the underlying commercial transaction. That is, a non-negotiable draft create a legal obligation between the original parties without giving third parties (holders in due course) any privilege claim.

Drafts also classified as clean or documentary. A clean draft is an order to pay unaccompanied by any other documents. When it is used in trade, the seller has usually sent the shipping documents directly to the buyer, who thus obtains possessions of the merchandise independent of its payment (on a clean sight draft) or acceptance (on a clean time draft). Clean drafts are often used by multinational firms shipping to their own affiliates because matters of trust and credit are

not owned. Clean drafts are also used for non-trade remittances for example, when collecting of an outstanding debt is sought. Use of a clean draft puts pressure on a recalcitrant debtor by forcing it to convert an open-account obligation into documentary form. Failure to pay or accept such a draft when presented through a local bank can damage the drawee reputation.

Most drafts in international trade are "documentary", which mean various shipping documents are attached to the draft. Payment (for sight draft) or acceptance (for the time) is required to obtain possession of those documents, which are in turn needed to obtain the goods involved in the transaction. If documents are to be delivered for the buyer on payment of the draft, it is known as a "D/P draft", it the documents are delivered on acceptance, the draft is called a "D/A draft".

3.8 BANKER'S ACCEPTANCE

When a draft is acceptance by a bank, it becomes a banker's acceptance. As such it is the unconditional promise of that bank to make payment on the draft when it matures. In quality the banker's acceptance is practically identical to a marketable bank certificate of deposit (CD). Therefore of a banker's acceptance need not wait until maturity to liquidate the investment, but may sell the acceptance in the money market, where constant trading in such instruments occurs.

The first owner of the banker's acceptance created from an international trade transaction will be the exporter, who receives the accepted draft after the bank has stamped it "accepted".

For example

The exporter may hold the acceptance until maturity and then collect. On an acceptance of, say, N125,000 for six months, the exporter would receive the face amount less bank's acceptance commission o 2.5% per annum.

Face amount of the acceptance	-	N125,000
Less 2.5% per annum commission for banks	-	N1563
Amount received by exporter in six months	-	N123, 437

Alternatively, the exporters many "discount" that is sell at a reduced price – the acceptance to its bank in order to receive funds at once. The exporter will then receive the face amount of the acceptance less both the acceptance fee and the going market rate of discount for banker's acceptances. If the discount rate were 5% per annum, the exporter would receive the following:

Face amount of the acceptance	-	125,000
Less 2.5% per annum commission for six months	-	1,563
Less 5% per a discount sale for	-	3,125
Amount received by exporter at once	-	120,312

The discounting banking hold the acceptance in its own portfolio earning for itself 7% per annum discount rate, or the acceptance may be resold in the acceptance market to portfolio investor. Investors by buying bankers' acceptance provide the funds that fence the underlying commercial transaction.

3.9 BILL OF LADING

The bill of lading (B/L) is issued to the exporter by a common comers transporting the merchandise. It serves three proposes: a receipt, a contract, and a document of title.

A receipt, the bill of lading indicates the carrier has received the merchandise described on the face of the document. The comer is not responsible for ascertaining that the containers hold what is alleged to be their contents, so descriptions of merchandise on bills are usually short and simple. If shipping changes are paid i-advance, the bill of lading will usually be stamped "freight paid" or "freight prepaid".

As a contact, the bill of lading indicates the obligation of the comer to provide certain transportation in return for certain changes. Common comers cannot disclaim responsibility for their negligence through inserting special clauses in a bill of lading. The bill of lading may specify alternative ports in the event that delivery cannot be made to designated port, or it may specify the goods will be returned to the exporter at the exporter's expense.

As a document of little, the bill of lading is used to obtain payment or a written promise of payment before the merchandise is released to the importer. The bill of lading can also function as collateral against which funds may be advanced to the exporter by it local bank prior to or during shipment and before final payment by the importer.

4.0 Summary:

Bank customers and accounts , as regards foreign transactions involves set of arrangements that includes services of acceptance of deposits, granting of loans and advances and agency services, which basically concentrates on global current account workings. It involves letters of credits, drafts and bills of lading and the routes that concludes international trade transactions financing. It could be a two steps route or a six steps route that involves the bank. The second route helps in reducing foreign exchange risk and the financing arrangements as regards payments made lesss cumbersome with respect to the use of any of the variants of available letters of credits from the bank's.

5.0 Conclusion:

The bank's method of playing the role of acceptance houses, and financing foreign trade transactions is a function that reduces risk to the barest minimum through the nature and accounts created for customers for such circumstances. So far the way and manner the bank's have perform their duties along this lines have made exporter and Importers to be confident in international trade relationship- transactions and payments.

6.0. REVIEW QUESTIONS

1. Discuss the key documents which are necessary for export and import to take place noting the differences and similarities.
2. The area crucial documents have constituted a system to protect both the exporter and importer. Discuss the possibilities of these.
3. Vider what condition can domestic bank (that issued letter of credit) be thrown into international disrepute?
4. Write short notes on the following

i. Trade acceptance
ii. Banker’s acceptance

iii. Holder-in-due-course

iv. Drawee

v. Drawer

5. Discuss the conditions which provides the conversion of drafts into negotiable instruments

6. Critically explain and examines the uses of clean draft

7. Explain the difference between bill of lading as a document and bill of lading as contract

8. Explain documenting in detail

9. Discuss the following

i. The advantages of letter credit to an exporter

ii. The disadvantages of letter of credit to an importer

10. Explain the difference between sight drafts and time drafts.

11. What makes a letter of credit revolving, non-revolving and confirmed

12. An exporter is likely to want a foreign bank's letter of credit confirmed by a domestic bank. Discuss two reasons of the transaction. The three key trade documents – letter of credit, draft and bill of lading – are part of a carefully constructed system to determine who bears the financial loss if one the parties defaults at any time.

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UNIT 3 CHARTERED INSTITUTE OF BANKERS IN NIGERIA

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1.0 INTRODUCTION

This is a legal institution that is created through the instrumentality of law to regulate the ethical conduct of those in the profession of Banking,even through the Organisation of

examination and other knowledge improving Programs, as well as the setting of standards and codes for professionalism to thrive in the banking sector.

2.0 Objectives

At the end of the this unit the student should amongst other things be able to:

- The importance of the Institute of Bankers in Nigeria
- Know the types of committees in the institute
- Understand the workings of the management of the Institute and how members are drawn

3.0 MAIN CONTENT

3.1 The evolution of banking system

The beginning system and banks in the world- overview

It can be traced to extent accurately that banking in the world started from the area of paper money which is the fourth stage of the evolution of gold and silver coins from one place to another by traders alike became risky and inconvenient. Those that lived in big town and can afford vaults and safeguard their metallic coins in them while those that coundn't look around for someone that have and ask for help or keep risking it being stolen. Far back the thirteen century a group of Italian goldsmith migrated from an Italian province, lambardy and settled in a part of London, today called lambard street. At first, these Italian goldsmith only came out the traditional services of their craft. But as time went on, their business expanded and they found it necessary to acquire vaults and safes for the safe custody of all gold and precious metals they received from clients. About the seventeen century these goldsmiths took the gold (both in form of gold coins and billions) from these people for safe keeping and issued a receipt which acknowledge the deposit to return it on demand. As time went on, more and more people came to hold these receipts and more people came to hold these receipts and the began to circulate for value among traders. The goldsmiths started what we know today as banking function which gradually increase from I.O.U or promissory note functions through receipts to various banking functions we see today like lending, interest for deposit as an incentive. the developments in the goldsmiths activities led to small groups of goldsmiths, pulling their resources together and setting up business as merchant and private bankers. And this is how rudimentary banking

started in the world. Not too long after the establishment of the merchant and private bankers, in an attempt to check this abuses the bank of England was found as private joint stock company in 1694 in he reign of William III, parliamentary sanction was obtain for the issue of a charter cleared corporation styled “the governor and the company of the bank of England” with a capital of £1.2million.

3.2 The beginning of banking in Nigeria- an overview:

The banking system in Nigeria started during the colonial era with establishment of the colonial banks with the primary aim of meeting the commercial needs of the colonial government and the banking system in Nigeria is regulated thyough the central bank of Nigeria. This apex bank started operation in july 1, 1969 and back by the act of parliament 1958 as amended in 1991, 1993,1997, 1998, 1999, 2007. in 1892, African banking corporation and british west Africa, now first bank on Nigeria were established in Nigeria as the first bank in Nigeria then in 1925, anglo-egyptian bank and national abnk of south Africa gave birth to barcleys bank in Nigeria in 1948, british and French for commercial and industrial started operation in Nigeria, which metamorphose into the united bank for Africa. The first domestic bank in Nigeria was established in 1929 and called industrial and commercial bank. The bank liquated in 1930 and was replaced by mercantilea bank in 1931. the African continental bank was created in 1949 as the only sustainable indigenous bank after the liquidation of the industrial and commercial bank. The year 1947 shows the emergency of the agricultural bank called the Nigeria bank of farmers and commercial bank. Subsequently, banking system expanded and grew in Nigeria to what we have today with so many enactment, reforms, acts and regulations guiding and controlling the banking system in Nigeria.

3.3 The regulation, management, control and act of the banking profession in Nigeria

There is no standard definition for the word “banking” but a quick a the relevant legislation on the subject will throw sufficient light on the functional meaning and those engage in the profession and the place where such profession is practiced.

People involved in the profession are called bankers and according to bill of exchange Act 1882 a statute of general application of adeniji (1988 reprinted) a "banker" is defined to include a body of persons, whether incorporate or not who carry on the business of banking.

The business of banking according to some book "the law and practice of banking in Nigeria" by adeniji (1988 reprinted) from the act, generally most include, as the major part of business apart from lending, the acceptance of deposit and collection of cheques and other payment.

The Nigeria bank act 1969 describes a bank as "any person who carries on banking business and includes the commercial bank an acceptance house, discount house, and financial institution. The banking amendment act No 31970 further defines banking business as "the business of receiving monies from outside sources as deposits, irrespective of the payment of invest and the granting of money, loans and acceptance of credit or purchase and sale of securities for account of other or the incurring of the obligations to acquire claims in respect of loan prior to the maturing of the assumption of guarantees and other warrantees for other or the affecting transfers and clearings and such other transactions as the minister may on the recommendation of the central bank order published in federal gazette, designated as banking business.

The banking legislation which has repeal all other existing banking legislation in Nigeria known as "Banks and other financial institution decree No25, 1991 has redefined a bank(under section 61) to mean a company duly incorporated in Nigeria and holds a valid banking license issued under this decree to "banking business" as interpreted by the decree.

The decree No25 of 1991 went ahead to redefine 'banking business" to mean the business offering deposits on current account, savings account or other similar account paying in or collecting cheques, drawn by or paid in by customers, provision of finance or such other business as the governor of the central bank may, by other published in the gazette, designated as banking business.

3.4 The regulation and control of banking profession in Nigeria.

The banking profession in Nigeria is controlled by three major bodies, namely; the bankers committee, the clearing house committee and the Nigeria institution of bankers which is now chartered and called the chartered institute of bankers in Nigeria. (CIBN).

3.5 The bankers committee

This committee consist of:

(i) The governor of central bank, who act as the chairman of the committee and precise over all its meetings; and

(ii) The chief executive of all the banks except development banks in Nigeria.

This body which is at the apex of the profession is the supreme body on banking matters. It is charged with the responsibility of formulating policies and finding solution to common banking problems arising in Nigeria.

3.6 The clearing house committee:

The clearing house committee is compose of

(i) a representative of the central bank of Nigeria, as chairman

(ii) five other member drawn from among member banks services

this body is charge with the responsibility of controlling the clearing house, making amendments to the clearing house rules, subject to subsequent agreement by the bankers committee. The committee may also introduce changes int the regulations affecting the day to day running of the clearing house and approve applications for membership in the scheme.

There are clearing house in all town where central bank ha branches. The obligations handed in clearing houses include cheque, draft, bankers payments, debit notes and warrants. The clearing houses have proved convenient for the distribution of correspondence and bank statement. It is envisage that the increasing bank transaction and their wide spread braches required by the rural banking police of the central bank would in future led to the establishment of clearing houses in all the state capital in the country.

3.7 The institution of Bankers:

The institution of bankers is an offspring of the century old institute of bankers, it was founded as a local branch in November 1963 by the bankers committee. The institution us ran by a council compose of elected members, five of which are chief executives of banking nominated by the bankers committee. Main objective of the institute are to-

(i) promote banking education in the country with a view of helping staff employed in the banking techniques and prepared them for higher responsibilities in their various institutions.

(ii) Maintain discipline in the banking profession through a discipline committee.

(iii) Hold and help to secure the observance professional ethics and tradition in the banking system.

(iv) Give advice to the government whenever such is requested an collaborate with in formulating policies in banking sectors of the nations economy

(v) Facilitate the consideration and discussion of matters of interest to bankers and public.

(vi) Conduct examination for the award of associate membership of the institution.

Since its inception, the Nigeria institution of bankers has withstood the challenges posed by the storage of manpower in the banking industry in Nigeria. The institute has concentrated its effort on helping members of staff employed in the banking industrial to acquire modern banking techniques and prepare for higher responsibilities in various institution. In pursuance of this objectives, the institute has a planned educational program covering the conduct of revision course for its examination and various seminars are held to further educate its members on the law and practice of banking and improve their professional skills.

A young entrants into the banking industry, with a minimum qualification of the west African school certificate of G.C.E ordinary level, with pass in English language and mathematics can prepare himself for the associate membership of the institution of bankers examination (AIB) open only to those who are employed in banks or students of full time course in colleges or

universities in the country. Candidates can become full time member on passing the part I and II of the examinations respectively.

Candidates for the institute examinations are required to pass all the subject of each sections of the part I and II at sitting. Reference maybe allowed incase of marginal failure in a subject, but he candidate must pass that subject within the following twelve minth otherwise he will be required to resit on the subjects in the section in subsequent examinations candidate cannot proceed to part II examination until he has passed all the section in part I

The completion of all sections of part II will qualify a candidate for the award of AIB, provided the candidate had at least five years banking experience and has been a member of the institute. There is still a further post graduate examination for any member who is keen to widen his banking knowledge; this is the part III examination, candidate for this are required to satisfy the examiners in all subjects of each section at the same sitting, but candidates who fail to in one of the subjects maybe referred. The completion of part III will qualify a candidate for the award of AIB(M) provided he has had at least five years banking experience and has registered as a member of the institute.

Most of the colleges of technology and polytechnique have the syllabus of the institute and some of them have started offering courses for students covering the part I and II examinations.

The committee set up to examine the Nigeria financial system and make recommendations reiterated the acute storage of trained manpower in the banking business and thought that the present avenue of training are not adequate for the need of the industry. It recommended that the central bank of Nigeria should take the role to initiate, develop and finance a scheme for massive training of staff for the industry as a whole. Incompliance with this recommendation, the central bank has started discussion with the banks, the Nigeria institute of bankers, universities offering course related to banking, and college of technology and polytechnics with a view to consolidate the affairs of all concerned towards maximum production of trained staff for the banks. In addition, most of the commercial banks have trained schools of their own where various levels of their personnel are trained to acquire better skills. The central bank also has its own trained schools designed to carter for its staff and has been admitted a few members of staff of other financial institutions into the school.

3.0. The Nigeria institute of banker was chartered in 1990 (now ACT 5o of 2007) the name is now chartered institute of bankers of Nigeria (CIBN).

3.1 The principle responsibilities of CIBN includes the determination of the standards of knowledge and skills to be attained by person seeking to become a member of banking profession, conducting professional examinations leading to the award of certificates and ensuring the furtherance, maintenance and observation of ethical standards and and professionalism among practitioners. the banking profession in Nigeria.

3.8 Membership:

The institute has corporate and individual members. Corporate members are: the bank of Nigeria, the Nigeria deposit insurance corporation, all deposit money bank, development bank, mortgage banks, micro finance bank and discount houses.

3.9 **Vision statement**:

To be a world class institute in banking and finance education, ethics and professionalism

Mission

to consolidate and sustain it a position as a self regulatory professional body in Nigeria promoting banking and finance education, ethics and professionalism consistence with global practice

Core values

*professionalism

*integrity

*excellence

*transparence

*ethics

*commitment

3.10 Executive management

Name	**Designation**
Oju m. ogubunka; Ph.D; FCIB	Registrar/chief executive
Mr, olutale faclare, FCIB	Deput Registrar
Mr. segun shunubi	Assistant director, members services
Mrs. Rukayat Ysuf	Assistance director national secretariat annex, Abuja.
Mr. Oluseye awejobi, FCIB	Assistant director ethics and professionalism
Mr. akin morakinyo	Assistant direction, capacity building and certification
Mr. Festus Anyanwu, ACIB	Principle manager, finance and corporate services
Mrs.Sena Ayodeji, ACIB	Principle manager, learning and development

3.4.1 **Office holder**

Name	**Description**

Mr. Segun Aina OFR, FCIB	President/chairman of council
Otunba(mrs) Debola Osibogun, FCIB	First vise president
Deacon Segun Ajibola Ph.D, FCIB	Second vise president
Mr. uche Messiah Olowu, FCIB	National treasurer
Uju M Ogubunka, Ph.D, FCIB	Registrar/chief executive

CIBN past presidents

Lagos local of the institute of London

[the forerunner of the chartered institute of banker of Nigeria]

Period	**Name**
1963-1965	Mr. D.A Macleod
1965-1967	Mr. C.K.N Obih FCIB
1967-1976	Sir (chief) F.A Ijewere, FCIB) (deaced)

Nigeria institution of bankers

Period	**Name**
1976	Sir (chief) F.A Ijewere, FCIB

	(deased)
1976-1981	Alh (chief) A.O.G Otiti, OON, FCIB
1982-1985	H.R.H (alh) S.A.O sule OON, FCIB
1985-1987	HRH (prof) Green O. Nwankwo, OON, FCIB
1987-1989	Chief Samuel I. Adegbite, OFR,FCIB
1989-1990	Dr. F.A Adekanye FCIB (deceased)

The chartered institute of Banker in Nigeria

Period	Name
1990-1992	Dr.F.A Adekanye, FCIB (deceased)
1992-1994	Mr. R.K Oluwole osayemeh, FCIB
1994-1996	Mr. femi ekundayo FCIB
1996-1998	Prof. wole Adewunmi FCIB
1998-2000	Chief luke Okafor, FCIB
2000-2002	Prince Kola Odubanjo, FCIB (deased)
2002-2004	Mazi O.C.K unegbu, FCIB
2004-2006	Mr. Samuel Kolawole, FCIB (deceased)
2006-2008	Mrs. Juliet A. Madubueze, OON, FCIB

2008-2010	Dr. Erastus Bankole Akingbola, OON, FCIB
2010-2012	Mr. Joseph Laoye jaiyeola FCIB

Past Registrary of CIBN

(i) Alhaji G.G Olorun-rinu: first administrative secretary of institute 1973-1980

(ii) Mr. A.A Adenuli, mni, FCIB: executive secretary of institute 1980-1988

(iii) Mr. A.A Adenuli, mni, FCIB: first registrar/chief executive 1988-1996

(iv) Chief S.O Dada, FCIB: registrar/chief executive 1996-1999

(v) Mr. Esan Ogunleye FCIB: registar/chief executive 2000-2005

3.11 **Membership services** :

They include:

*registration

*exemption

*completion of subscription and development levy

*liason with branches and CIBN chapter

*franchising license

*disciplining of erring members

*fellowship investiture

*annual general meeting

*ACIB induction/price awards

*honorary senior members induction

There is a department in charge of membership services and they are responsible for the organization of the fellow and associate forum, the ACIB graduates induction/prize award day and bankers conference. The department is also responsible for coordinatin the board of fellows, membership and branch development committee investigation panel and the sub committee and ethics and professionalism.

3.11.1.1 The membership Registration

The institution membership is open to:

*persons employed in banks and other financial institution or engage in anon-banking and/or a non-finance related organization

***self employed and unemployed persons:**

It should also be noted that the registration of members is an online based one with the use of ATM cards

<u>3.11.2 Current membership fees</u>

(1) completion of forms by prospective members is required for full registration as members of the institute.

(2) On completion and submission, the institute would forward the applicant’s unique membership number after consideration and approved has been made.

<u>3.11.3 Membership dues</u>

Particular dues must be paid in bank draft or certified cheque draw in the institute's name before the process of the submitted applicant form

i.	ordinary members	#
	Application form	500.00
	Registration fee	2,000.00
	Annual subscription	1,000.00
	Development levy	–
	Exemption fees	
	Exemption application form	2,000.00
	Fee per subject	2,000.00
ii.	student members.	#
	application form	500.00
	Registration fee	2,000.00
	Annual subscription	2,000.00
	Development levy (once)	2,500.00
	Syllabus fee	500.00
	Exemption fees	
	Exemption form	3,000.00
	Foundation (per subject)	4,500.00
	Intermediate/professional (per subject)	6,000.00

iii.	Honorary senior members	#
	application form	2,000.00
	Registration form	10,000.00
	Annual subscription	12,000.00
	Development levy (once)	100,000.00
	Life membership (option)	180,000.00

iv.	Associate members	#
	annual subscription	5,000.00
	Development levy (once)	7,500.00
	Life membership (option)	75,000.00

v.	Honorary fellows	#
	Application form	2,000.00
	Registration fee	12,000.00
	Annual subscription	12,500.00
	Development levy (once)	300,000.00
	Life membership (optional)	187,000.00

vi.	Fellows	#
	Application form	2,000.00
	Registration fee	12,500.00
	Annual subscription	12,500.00

Development levy (once)	60,000.00
Life membership (optional)	187,500.00

Vii conversion fees for association of other banking institute

	#
Application form	2,000.00
Registration fee	5,000.00
Annual subscription	5,000.00
Development levy (once)	19,000.00
Life membership (optional)	75,000.00

3.11.4 Member strength:

The implement of know CIBN ACT NO5 of 2005 has made membership of institute compulsory for staff of banks in the country and management's intensified effort at membership drive, the membership strength has increased grade by grade as shown in the table below:

Category	
Fellows	636
Honorary senior members	574
Associates	4,556
Student members	83,812

Ordinary members	3,591
Total	93,169

3.11.5 Membership programmes

ACIB GRADUATE INDUCTION/PRIZE AWARD DAY

The institute organizes ACIB induction/prize award ceremony for those members who completed the profession examinations of the institute and are inducted associates. Prize and awards are given to those who excelled at the institutes examination at various levels in the previous year during the program

(a) **Objective of the program**

1. to acquaint graduands with the opportunities associate with their chosen career and to equip the graduands to cope with life after acquisition of ACIB profession qualification.
2. to foster a life-long relationship between the graduands and the institute.
3. to inform the graduands of the conduct expected of them as profession bankers
4. to bring the attention of the public the contribution of the institute and the graduands to the economy
5. certificate presentation to graduands
6. prize awarding to students who excel in the ACIB examinations.

(b) Fellows and associate forum

An annual exclusive forum is organized for its professionally qualified members (fellows and associates) Annually to reflect on issues that after banking and bankers by the institute. Members of the diplomatic corps and distinguish banker who have experience in the subject being received present papers which participants considerate syndicated and plenary sessions with a view to improving banking practices and ethical standard in the banking and finance sector.

(c) Second Annual banking and financial conference

The banking conference is held with the aim of bringing together all stake holders in the banking and finance industry to brainstorm on topical issues. It also provide competitive environment where branch reports are received and evaluated.

Conference objectives

1. Serves as a platform for a yearly assembly of all stake-holders in the banking and finance industry to address current topical issues.
2. To share experiences on national and international economic and developments.
3. To discuss recent developments affecting banking and financial institutions

(d) Annual general meeting

The annual general meeting of the institute is held on the first standard of may of every year at the national secretariat. Election of offices is however held bi-annually during the meeting.

Exemption policy

code for members and professionalism

The code of ethics and professionalism is produced by the sub-committee on ethics and professionalism of the bankers committee. The code contains a list of acts, conducts and a mission classified as un-ethic as well as the frame work for addressing this in business of banking and finance in Nigeria. The code thus provides the procedure for dealing will complaints un-ethical practice and the sanctions for in fractures of the provision

Un-ethical practices/unprofessional conduct in banks include but are not limited to the following:

1. conflict of interest
2. abuse of trust/office
3. misuse of information

4. inside abuse
5. office and acceptance of gratification
6. non-conformation withstands and guide lines
7. associating with people of doubtful character.
8. aiding and abetting.

Sanction

The such committee should apply the following sanctions

1. the fundamental principal of restoration, retribution deterrent and equity will by given in the application of sanction on all cases decided.
2. where offences are clear and contradict existing regulation guidelines e.g CBN guidelines-CBN sanction would apply
3. for offences with no precedent, the subcommittee would use its best judgment based on the principles enunciated above. In such cases, the subcommittee would recommend specific sanctions to the appropriate regulatory body
4. individual maybe warned or advised by the subcommittee where necessary
5. in all cases of sanction, specific time frame shall be for compliance

Chartered institute of bankers of Nigeria ACT, 2007. ACT No5

An act to repeal the chartered institute of bankers in Nigeria act 1990 and to re-enact the institution to provide for the control of membership and practice of the banking profession in Nigeria and related matters.

Enacted by the national assembly of the federal republic of Nigeria

PART1- establishment, ETC of the chartered institute of bankers of Nigeria

1.1 there is established body to be known as chartered institute of Nigeria (in this act referred to as the institute)

2. the institute

a. shall be a body corporate with perpetual succession and a common seal.

b. may sue and be sued in its corporate name; and may acquire hold and dispose of any property, movable and immovable

2.1 subject to the provision of this act, membership of the institute shall be in two categories viz corporation and individual

2.2 all persons employed in the banking institution in nigeria are enable to be in two registered by the institute in any of the following categories

a. Ordinary member

b. student member

c. graduate member

d. associate member

e. honorary member

f. honorary fellow and

g fellow

provided they meet the criteria set by the council of registration in the category from time to time

3. pursuant to subsection (1) of this section, all corporate members shall cause their staff to register with the institute to ethical standard professionalism and self regulation in the banking and financial services industry

4. A person registered under this act shall be enrolled to a higher membership status in any of the following categories.

a) as an ordinary member if he –

(i) satisfies the council that he is eligible to be so registered;

(ii) works in a bank or other financial institutes; and

(iii) does not fall within any of the other categories specified in paragraphs (b)-(g) of this subsection.

(iv) has passed associate-ship examination but has not met other conditions specified in paragraph (d) of this subsection.

c. as an associate members if he-

(i) satisfies the council that he is eligible to be so registered and has passed the associate-ship examination and;

(ii) has to acquired on the practical banking or related experience for such number of years that any be specified by the council;

d. as an honorary senior member if he-

(i) satisfies the council that he is eligible to be so registered,

(ii) has obtain such academic such profession or other qualification(s) as maybe prescribed by the council from time to time

(iii) has held any senior management positions in a bank or other financial institutions and

(iv) is neither a fellow or an associate.

E. as an honorary fellow-

(i) if he satisfies that he is eligible to the awarded the honorary fellowship of the institute.

F. as fellow if he-

(i) satisfies the council that he is eligible to be so registered and has for a number of years (to be specified by the council) been an associate member of a holder of approved academic qualifications and

(ii)satisfy all other criteria as may be specified by the council from time to time

G. As a corporate member if it-

(i) satisfies the council that he is eligible to be so registered

(ii) satisfy all other criteria as maybe specified by the council from time to time

5 as a member or a corporate member of the institution entitled to receive from the council, a letter of registration of membership for the category of membership.

6. a fellow, honorary fellow, honorary senior member or an associate shall be entitled to the use of such letter after his name as maybe authorized by the council from time to time as follows:

(i) A member registered into the category of member of fellow shall be entitled to use the initial “FCIB’,

(ii) A member registered into any of the category of honorary senior member shall be entitled to use the initials “HCIB”, and

(iii) A member registered into the category of membership of associate shall be entitled to be to use the initials “ACIB”

7. No person shall be entitled to be employed or appointed or engage to be head of the technical departments of a bank unless he dully registered as a member of the institute.

PART II-Responsibility of the institute

3. the institute shall have responsibility to

a. determine the standard of knowledge and skills to be attained by the person seeking to become members of the banking profession,

b. secured in accordance the provision of this act, the establishment and maintenance of a register of member of banking profession in the categories of ordinary members, student members, honorary fellow and fellows of the institute and a register of corporate members

c. conduct professional examination leading to awards of the banking profession in Nigeria

PART III-election of the president and the vice president of the institute

4(i) there shall be a president and a vise president of the institute who shall be fellows of the institute

There are other contains in these part III and the act runs part IV

PART IV-membership of governing council of the institute etc

PART V-power of the governing council

PART VI-appoint of a registrar

PART VII-Registration of members.

4.0 Summary :

Since its inception, the Nigeria institution of bankers has withstood the challenges posed by the storage of manpower in the banking industrial in Nigeria. The institute has concentrated its effort on helping members of staff employed in the banking industry to acquire modern banking techniques and prepare for higher responsibilities in various institution. In pursuance of this objectives, the institute has a planned educational program covering the conduct of revision course for its examination and various seminars are held to further educate its members on the law and practice of banking and improve their professional skills. Furthermore, the Institute core values has been promotion of professionalism, excellence, transparency, ethics and putting honesty and integrity at the fore, etc

5.0 Conclusion:

The CIBN,being somewhat a regulatory institution has been performing creditably and has succeeded in enshrining current educational curriculum details in the educational system of our country and the continuous impartation of Banking methodology and practice knowledge to those in the banking profession.

6.0. Revision questions

1. what is the full meaning of CIBN and in what year was the Nigerian institute of bankers chartered and according to what act. The act repeal which other act.

2. what is the principal responsibilities, mission, core values and vision of CIBN and who are the member of CIBN

3. the banking profession in Nigeria is controlled and regulated by what bodies. Mention and briefly explain

4. mention the membership strength of CIBN and the membership programme

5. mention the executive management and office holders in CIBN

7.0. References:

Omolaja, A. A. (1998). The Law and Practice of Banking in Nigeria. Ife: University of Ife presss

(ii) Ekezie, E. S. (1997). Elements of Banking: Money, Finance Institutions and Markets. Onitsha: Africana-Fep publishers

(iii) www.cibn.org

MODULE 6 FINANCIAL STATEMENTS

Unit 1 Income Statement

Unit 2 Statement of Financial Statement

Unit 3 Other Useful Bank Financial Statement

UNIT 1 INCOME STATEMENT

CONTENTS

1.0 Introduction

2.0 Objectives

3.0 Main Content

- 3.1 Bank Financial Statement
- 3.2 Income Statement
  - 3.2.1 Interest Income
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  - 3.2.4 Loan-Loss Expense
  - 3.2.5 Non-Interest Income
  - 3.2.6 Non-Interest Expense
  - 3.2.7 Net Income
  - 3.2.8 Current Earnings

4.0 Summary

5.0 Conclusion

6.0 Tutor-marked Assignment

7.0 References/ further Reading

1.0 INTRODUCTION

It is of utmost importance to a business, that it's financial health be measured from time to time, hence the need for financial statements to be prepared. The income statement is one of such financial statements, it helps decision makers to ascertain the performance of a business for specified period of time.

The Income statement provides user of financial information with information relating to the revenue generated by a business and the expenses incurred in generating those revenues.

2.0. OBJECTIVES

This unit aims at familiarizing the reader with the concept of financial statements, particularly the workings of the income statement. At the end of this unit, the reader should amongst other things be able to

- Discuss the concept of financial Statement
- Define an income statement
- List and explain the components of an income statement

3.0 MAIN CONTENT

3.1 BANK FINANCIAL STATEMENT

A Financial Statement is the record of all financial activities that have taken place in a firm within a given time frame, usually one year. This statement comprises, the income statement (statement of comprehensive income), the balance sheet (statement of receipt position) and the cash flow statement and where necessary by the time of International Financial Reporting Standard (IFRS) we schedule statement of change in equity position of the firm. The income statement and the balance sheet, together ascertain the profitability level of the firm and the value of the firm, because considering the Assets of the firm and how these Assets will actually funded. However, the bank business due to its has a peculiarity has a slightly different format, with respect to its financial statement. The bank financial statement or income budget (loss of financial inputs and outputs), and bank balance sheet (value of the firm report) or report of condition.

Title: Bank financial statement basic component

Income statement (report of income) for the period event December, 2016

Revenue: (delivered the bank's services-output) loans income

Deposit service fees (non-interest services of income) investment income

Expenses: (cost of inputs of released resources) interest paid on deposit

Employee compensation (salaries and wages) provision for loan assets

Other expenses

Income before taxes and securities personnel taxes

Games/losses for operation

Net income offer debts and securities

Bank's report of income should be revenue and expenditure pattern of the bank, only a given time drawn, usually one (current) year,

Evidence suggest that there is a relationship between the level of the principal items and a bank balance sheet and its income report, because balance sheet assets deposits majority of the operating revenues, while liabilities creates the bulk of the bank's operating expenses

The interesting source from loans (L), securities (S) other interesting bearing deposits the cash assets (C) with other banks as well as other miscellaneous assets (M) institute the major source of bank revenue whereas, expenses incurred in the cause of generalizing the revenue include interest paid in deposit (D), interest owing on non-deposit borrowings (NOB), cash of ordinary shaves (COS), salaries, wages and benefit paid to the expenses (SWB) andOverhead expenses relative to physical plants(s), possibly when losses funds, taxes and (TO) and miscellaneous expenses (ME). Though the difference between total revenue and total expenses becomes net income.

i.e Net income = Total revenue items (TRI)- total expenses item(TEI)

where revenue expenses = (cash*average cash + investment securely * average yields on investment security + loan outstanding * average yield on loan outstanding + miscellaneous assets + average yield on miscellaneous assets)

minus

expense items = (Total deposit * average invest cash on deposit + non deposit borrowings * average invest cash on non-deposit borrowings + owners capital * average cash of owner capital + employees salaries, wages and benefits expenses + overhead expenses + provision for possible loss + miscellaneous expenses + taxes owed)

using r to represent average yields on assets and i to represent the interest cost on deposit, non-deposit borrowings, and owners capital, the bank's net income as reported must be the following –

Net Income = (C*rcash+S*rsec+L*rloans+M*rin)-(D*id+woB*inds+EC*iec+SWB+o+PLL+ME+T)

(Robe, 1999:135) it shows that banks that wants to increase their net income have several possible options:

(1) increase the average yield on each assets held;

(2) redistribute their average assets towards those assets with a higher average yield;

(3) reduce their interest or non-interest expenses on deposit, non-deposit borrowings and owners capital,

(4) slight their funding sources toward less-costly deposits and other borrowings.

(5) find ways to reduce their employee (SWB), overhead(s), loan-debts

3.2 INCOME STATEMENT

INCOME STATEMENT FOR AKPAKURURU BANK LTD

	N' M
Interest Income	
Interest and fees on loans (Loan income)	880
Interest on investment securities (security Income)	
Taxable securities Revenue	86
Tax-exempt securities Revenue	50
Other interest income	47
Total interest income	**1063**
Interest Expense	
Deposit interest cost	698
Interest on short term debt	116
Interest on long term debt	60
Total interest expenses	**874**

8.

Net-interest income (Interest margin)	
Total interest income – Total interest expenses	189
Provision for possible loan losses	120
Net income after provision for possible loan losses	**69**
Non interest income:	
Service charges on customer deposit	35
Trust department income	31

Other operating income	90
Total non-interest income	**156**
Non-interest expenses :	
Wages and salaries and other personal expense	116
Net occupancy and equipment expenses	40
Other operating expenses	111
Total non-interest expenses	**267**
Net Non-interest income	111
Non-interest income-non-interest expenses	
Income (or loss) before income taxes	42
Provision for income taxes	8
Net income (loss) after taxes	34

3.2.1 INTEREST INCOME

Most bank revenues (6th of total) are actually accounted for by interest and fees from loans account. In the case of Akpakururubank N880M in loan revenues represent about 72 percent of total interest and non-interest of the bank. Next is investment earnings from taxable and tax exempt securities, and interest from loans and repurchase agreements, and interest received on the deposit in other banks. The important however, the facts from time to time until change in interest rates and loan demand, even though loan income most often dominate the revenue base. In recent time though, it is become clear that fee income is grows faster than interest income on loans.

3.2.2 INTEREST EXPENSE

The fundamental bank expense item is interest on its deposit and as stated above, it amounted to 61 percent of the bank's total expenses. The interest on short-term borrowing in money market

especially borrowing of resources from other banks institute the most rapidly growing interest expense item in record time.

3.2.3 NON-INTEREST INCOME

This is also referred to as the net-interest margin, which is the subtraction of total interest expense from total interest income. It is basically a key determinant of bank profitability. When this margin rises, bank shareholders usually expenses strengthening of the banks bottom line (its after tax earnings and also in the dividend they received on share of stock held)

7.1.1 LOAN-LOSS EXPENSE

Another expense item that bank's debit from current income is the provision of possible loan loss. It is a non-cash expense of a book keeping entry. It does keep a portion of the bank's current earning from taxes in order to help prepare for bad debts. Since it is tax deductible, banks are often tempted to inflate the provision for loan losses so as more of their current earnings from taxes. Normally a bank calculates for the year its provision for loan losses and adds the calculated amount to its allowance for loans on the balance sheet. It must also add to its allowance for loan losses any funds revered (litigation or liquidation of borrow assets, disposable of assets etc) on loans previously changed as losses.

Eg. Suppose Akpekururu bank had an allowance for loan-loss of N1,500,000 cash year and received N250,000 as loan expense (provision) for the current year. However, the cash recovers N100,000 from loans previously written off against the allowance for loan-loss account. It should actually be added back to the loan-loss account to recover a part of what was deducted when the initial trouble was were written off furthermore, suppose the bank management declares N150,000 in current loans as uncollectable and worthless this year, its allowance for loan loss account for this year will appear thus:

RECONCILIATION OF LOAN-LOSS RESOURCE	**N**
Balance in allowance for loan losses as at end of previous year	1,500,000
Recoveries on loans previously charged off	100,000
Change offs of loans declared uncollectable this year	150,000
Current provision for loan loss	250,000

Balance in allowance for loan losses, end of current year
1700,000

Amount of loss is deducted from total gross loans on the balance sheet and also from the loan-loss reserve, when loans are deemed worthless.

E.g suppose a banks gross (total0 loans is N7M and it expense worthless loans of N200,000 this year. Its current loan-loss reserve (allowance) is n1,700,000, without loans, the balance sheet will appear thus:

Assets

Gross Loans
N7,000,000

Allowance for Loan-Loss Resources
1,700,000

Net Loans
5,300,000

Suppose management determines that N200,000 in current loans are actually worthless and should be written off. The bank balance sheet will appear

Assets

Gross Loans
N6,800,000

Allowance for Loan-Loss Resources
1,500,000

Net Loans
5,300,000

Current interest income accrued, but not received from a worthless non-payment loan is deducted from a bank's current income.

3.2.5 NON-INTEREST INCOME: These are income from other sources than loans and securities. They include fees earned from offering trust services, service charges on deposit accounts, and miscellaneous fees and charges for other bank services (security brokers ,

insurance and trust0. It is indeed a key source of potential revenue, it pursued more aggressively and it will equally insulate banks from the effect of interest rates fluctuation from our bank statement the N156Mnon interest income was 13% of total income for the deposit period.

3.2.6 NON-INTEREST EXPENSE: salaries, wages and other defund expenses, happens to be the key non-interest expense item and it has persistently bean rising over the years, partly due to the increase in the search for graduate employees and experienced managers in an attempt to outwit competition. Addition to this is the cost of hiring and monitoring bank properties, rental fees an office equipment and

Many other small expenses items lacking legal fees, paper and office supplies and repair cost.

3.2.7 NET INCOME

The deduction of the non-interest and interest expenses from the sum of the interest and minor interest income, to yield income (LOSS) before state gives the net after tax income often the application of Federal state income takes home been deducted as well.

The trailing in security (Purchase, sell or redeem) during the year might result in gain or loss and this is recorded as ordinary operation income/loss by law. It therefore means that security gains are subject to full corporate tax income. However, most reports securities gains or loss as a compound of non-interest as separation item or as miscellaneous/ income, and they can be used to smooth out its net income from year to year that is if earnings from loans decline, securities gains may offset all or part and the decline.

Another dimension to the issue of stability earnings consists of non-recurring sales of assets. There extraordinary (One Time) income or loss transaction often concern financial assets or real property pledge les collateral on a loan already foreclosed by the bank, which usually carries minimal market value in the books. However, it is sold eventually the price may be substantially higher and by implication a higher effect.

3.2.8 ON CURRENT EARNINGS

Net income after taxes is the major item in the income statement, because it is what is divided into two, a part to shareholders as divided and the regained for future benefits and growth of the firm. This other one is also called undiluted Project in the bank's capital account.

From our Analysis, we note that the bank recorded income loss within the period, due to losses from its foreclosure or delinquent real estate and energy loans, which seriously increased the provision for loans-losses and by extension earnings.

4.0 SUMMARY

The Income statement of a business helps decision makers to ascertain the performance and profitability of a the business, it records the various revenue sources of a business for a specified period of time and matches it against the expenses incurred within the same period. The Income statement provides decision makers with relevant information relating to the gross profit, operational profit and the net profit of the business.

5.0 CONCLUSION

Decision makers rely heavily on information generated from the income statement to take crucial decisions, hence information contained in the income statement must be reliable, faithfully represented and conform to set standard so as not to misguide users who rely on them.

6.0 TUTORED MARKED ASSIGNMENT

What do you understand by the term income statement?

List and Explain the Components of a bank's Income Statement

Why do bank prepare income statements?

7.0 References:

Jombo, O.C. (2003). Elements of Banking. Owerri: Barloz Publishers

Nzotta, S.M. (2004). Money, Banking and Finance: Theory and Practice. Owerri: Hudson-Jude Publishers

Oleka, C.D. (2006). Fundamentals of Money Banking and Financial Markets. Enugu:Academic publishing Company.

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Rose, P. S. (1999). Commercial Bank Management. Boston: Irwin/ McGraw-Hill

UNIT 1 BANK BALANCE SHEET

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1.0 INTRODUCTION

A balance sheet is a financial statement that provides a snap shot of the financial position of a business at a particular at point in time, usually the of a businesses financial year. The balance sheet is another effective financial statement utilized by both internal and external users to financial state of a business. The balance sheet identifies the Assets of a business and the various forms of funding (equity and liabilities) employed in acquiring the assets.

3.0 OBJECTIVES

Given the fact that the student is now familiar with the Income statement, this units introduces another effective financial statement known as the statement of Financial position or the balance sheet. This unit aims at acquainting the reader with the concept of balance sheet, the reader should after perusing this unit be able to:

- Discuss the Term Balance sheet
- Identify the components of a balance sheet
- Differentiate the balance sheet and and income statement
- List the components of the liability section of a bank's balance sheet
- List the components of the assets section of a bank's balance sheet

3.0 MAIN CONTENT

3.1 THE BANK'S BALANCE SHEET (REPORT OF CONDITION)

A Bank's Balance Sheet shows the level of Assets acquired by a firm and the level of funding used in acquiring the Assets, in the form of liabilities and equity inherited on the Bank at a given point in time.

The two key elements therefore, are the financial inputs and output.

THE REPORT OF CONDITION

Financial Output	**Financial Input**
(Uses of Bank Funds Assets)	**(Sources of Bank Fund L+B)**
Loans and Leases securities	Deposits from the public
Cash and deposits in other securities	Non-deposit borrowing Equity capital

from owners

Total Assets most equal Total liabilities + Equity since Bank are engaged in business, selling a special kind of product (funds), the bank balance sheet identity Assets (A) = Capital (C), or Assets (A) = Liabilities (L) + Equity (E)

3.2 BANK ASSETS

For the banking form, assets the balance sheet comprises the following – Cash (in vault and deposits in other banks (C), interest bearing securities (government and Private) purchase in the open market (S), loans and lease financing to customers (L) and Miscellaneous Assets to various customers (D) and Non-deposit borrowings of funds in the financial markets (Money and Capital). Then equity capital, which reports to long term fund as per owners contribution to the bank (EC). The bank's balance sheet identify therefore becomes:

$$C+S+L+MA=ND+EC$$

Cash Assets (C) enables the bank to meet liquidity needs, in order to consider deposit withdrawals, deemed for loans and other agencies. Security handlings (S), is a source of back-up to cash with respect to solving liquidity issues, as they can be easily transformed to cash.

3.2.1 LOANS (L): This one is to basically supply funds (income) to the deficit economic units in need, white miscellaneous assets (MA) are a function of the fixed assets (Property, Plant and equipment) owned by the bank and investments in its subsidiaries.

3.2.2 DEPOSIT (D): These are the main source of bank funds, with non-deposit borrowings (NDB) coming to supplement it, by providing additional liquidity that cash and securities can not provide.

3.2.3 EQUITY CAPITAL (EC): This supplies relatively stable long term funding of financial support for the bank, the bank's growth or courage for extra-ordinary losses, banks liabilities and equity, actually connotes accumulated sources of funds, while a bank assets on the other hand are its accumulated uses if funds; for the purpose of generating income, pay interest to its depositors and compensate the bank employees for their labour and skills.

That is:

Accumulated Uses Funds		Accumulated Sources Of Bank
Of bank funds (Assets)	=	(Liabilities + Equity)

Indicating these each use of funds must be supported by a clear sources of funds, so that both earnings must be equal. However, the principal component of a Bank balance sheet can be deposited thus:

ASSEST	LIABILITY AND EQUITY
Cash (Primary Resources) Liquid Security holdings (Secondary Resources) Marketable security Loans Commercial Agriculture Real Estate Financial institution Miscellaneous assets (Buildings, Plan, Equity)	Deposits: NOW (Negotiating Order of Withstanding) Money Market Sevings Time Non-deposit borrowings Stock Surplus (excess of par retained earnings Resources (capital)

Table: Balance Sheet (Figures)

Bank Assets:

3.2.4 Cash Account: This is the Non liquid of assets and it is often the first item normally listed in a bank's balance sheet, as well as deposits due from other banks. This is the primary resources because it encompassed cash in bank vault, deposits the bank with other banks (corresponding deposit) cash items in the process of allocation (uncollected cheques) and resources held with the Central Bank. It is like bank first lose of defence in terms of deposit withdrawal and like first issuer for unexpected loans request. In all, because this account earns little or no income, bank tries as much as possible to allow this account to be kept low.

Cash and deposit from banks	760	1,200
Marketable securities	2,100	2,300
Service (Trading) securities	50	120
Report (repurchase agreement		
of Rental Bank Funds Sold and		
Securities purchase)	370	540
Loans Gross)	12648	12,100
Allowance for possible loan-losses	(324)	(156)

Unearned document on loans	(89)		(109)	
Loan (Net)		**12,235**		**11,835**
Lease financing receivable		151		100
Bank premises equipment (Net)		243		240
Customer's liability of acceptance		50		90
Miscellaneous Assets		794		950
Total Assets		**16,753**		**17,375**

LIABILITIES AND STOCKHOLDER'S EQUITY (ACCUMULATED SOURCES OF FUNDS)

DEPOSITS

Non-interest bearing demand (chequeing) deposit		2367	2621	
Savings deposit as non account		703	726	
Money market deposit account		1,700	1,750	
Time deposit		7,545	7,780	
Deposit at service branches		574	620	
Total deposit		**12,889**	**13,497**	
Non-deposit borrowing				
Federal funds purchased and securities				
Sold under agreement to repurchase		1,710	1,421	
Other short term debt	700		520	
Mortgage debt	210		240	
Notes and debenture (subordinated)	100		100	
Other liabilities				
Outstanding acceptance		45	55	
Miscellaneous liabilities		170	250	
Total liabilities		**15,824**	**16,113**	
Shareholders' equity				
Common stock		300	300	

Preferred stock	5	5
Excess par value (supply)	402	400
Retained earnings	329	557
Total stockholders equity	1,036	1,262
Total liabilities and equity	**16,860**	**17,375**

3.2.5 MARKETABLE SECURITY: This is the bank security liquid holdings as a second line of defence against demand for cash. It is the secondary resources. They include holdings of very short term government (Federal State and Local) securities and money market instruments, including interest bearing time deposits with other banks and . They earn some income, but are held mainly because of the ability to be connected to cash at the shortest possible time.

3.2.6 INVESTMENT SECURITY: The income generating system. Instruments (Notes, Bonds and other securities) held basically for their expected rate of return or yields are the ones known as investment securities, and are often divided into taxable (Federal Government Boards as interest)and corporate bonds and notes and non-taxable securities make up primarily of state and local government bonds, as they are exempted from Federal income tax.

Investment securities are recovered in banks books mainly at their original cost, however, it may also be recovered at market value, or at the lower of cost or market value.

Furthermore, banks that record their securities on their balance sheet at cost often add parenthetical note given the securities current market value as a result of interest rate vagaries. In recent time the banks prefer the use of current market value.

Also, trading (Federal, State and Local Government) accounts represents securities the bank interest to sell before they reach maturity and also valued at market.

3.2.7 LOANS: This basically is the largest asset item in the bank's balance sheet. Gross loans is the sum of all the outstanding IOU's (debts) owned to the bank in the form of consumer, business mortgage loans and other credits extended by this banks to other financial institutions security dealers. Loans-losses (Present and projected) are deducted from the gross figure. However, based on loan-loss experience, banks are allowed to build a resource for future loan-losses, known as Allowance For Possible Loan Losses (ALL). The ALL, which is a contra-asset account, represents an accumulated resource.

Against which uncollectable loans can be charged off. The idea is to make sure that bad loans ordinarily should not affect bank's current income unless the loans defaults unexpected and no resources had been set aside) in that vein, when a loan is deemed incollectible the bank will charge it off the books by reducing the ALL account by the amount of the uncollectible loan

while simultaneously reducing the asset account for gross loans. The Allowance for possible loan loss is built up annually via deductions from current income. These deductions appear on the bank's income statement as a non-cash expense item called provision for loan losses (PLL)

3.2.8 UNEARNED DISCOUNTS: This is another item deducted from gross loans. They consist of interest income from loan that have been received from customers, but not entered due to the accrued method adopted by banks.

3.2.9 NON-PERFORMING LOANS: Is another loan category on the books of banks , and they are credits that no longer accrue interest income for the bank. This is so, especially when banks restructure loans to accommodate borrowers changed situations.

3.2.10 FEDERAL FUNDS SOLD (POPO): This is federal funds sold and securities purchased under agreement to resale. They include overight bills (Borrowed funds extended overight returned the following day) made to other banks such funds often comes from bank resources.

3.2.11 WITH THE CENTRAL BANK

Customer's liabilities on acceptances. This is a dual pair account, as it is listed as an item when bank liabilities, as well as asset account known as customers' liabilities acceptances outstanding. This bank account increases as a bank decides to stand behind a customer's credit, most to help pay for imported goods. The bank agrees to sign a letter credit which allow a third party to draw a draft against the issuing bank for a specific amount on a determinable future date. However, on or before specified date, the customer that requested the acceptance must pay the bank in full. The issue bank will in turn know the acceptance on its due date, paying in full the amount shown on the face of the draft to the current holder of the draft. Therefore banker's acceptances give rise to an asset item (consumer liability to the bank) and a liability item (the bank's promise to honour the acceptance draft on the date specified). They are extensively used for ,shipment, storage goods, purchase of foreign currencies and agricultural products are in the domestic economy

3.2.12 MISCELLANEOUS ASSETS: This includes the net (adjusted and depreciated) value of the bank buildings and equipments, interest in subsidiary gives, prepared insurance etc. fixed assets generally generates fixed operating cost by way of depreciation expense, property taxes, which operating leverage Which will enables the banks to boost its operating earnings if sales volume increases more. Therefore with few fixed assets relative to other assets, banks can not rely heavily on operating leverage o increase earnings; they must rely mainly upon financial leverage to boost earnings performance and remain competitive.

3.3 BANK LIABILITIES

3.3.1 DEPOSITS: This is the basic or principle liability of any banks, which ofcourse represents financial claims of consumers (household), businesses and government agents the banks. The following types of deposit exist.

A. **NON INTEREST BEARING DEMAND DEPOSITS** (Cheque Account): Here the account holder is permitted to withdraws at will and to the time of his access and do not receive any explicit interest, though there might be room for some implicit interest depending on arrangement.

B. Negotiable order of withdrawal (NOW). This is an interest bearing account operated by individuals and many profit organizations, that permit draft to be written against the account for the payment of third party.

C. **MONET MARKET DEPOSIT ACCOUNT (MMDA):** Allows the payment of competitive interest on the account and have limited chque writing opportunity. A seven days notice is required before any withdrawal is made, even though there is no maximum elimination or maturity requirement .

D. **TIME FIXED DEPOSIT**: This is basically a certificate of deposit (CD), carrying e fixed term and a stipulated interest rate of any denominations, maturity and yield determined by the bank and depositor.

Banks hereby depends on depositors for their services. In the case of the bank we have been analyzing, total deposit (N13,497,000) funded 78 percent of its asset. The average bank has high exposure to failure rise due to the volatile nature of depositors claims. Which is extremely large compared to Other Equity in the bank. In order to contain the twin presence of risk and liquidity, bank must always be confines in their choices of loans and other assets, else they collapse under the weight of depositors claims.

3.3.2NON DEPOSIT SOURCES OF FUNDS: The larger the bank, the larger the potential to get funds from other sources and so a large extend the non-deposit sources becomes imminent. Borrowing in the money market can be of over right circumstance and can be arranged on moments and there are actually no reserve requirement on most of these funds. The interest rates on these sources are somewhat highly volatile. The most important non-deposit funds source is the central bank funds purchased and securities sold under agreement to repurchase other short term borrowings include those from resources from the discount windows of the CBN (OMD) and Eurodollar borrowings from Multi-national banks showed at form the borrowing banks overseas branches. Long term debt are also issues is like form of mortgage loans for the purpose of constructing new office facilities re-arraying plant and equipment. There are also other liabilities accounts, which covers miscellaneous amounts owned by the bank, like duly to pay off investors who hold bankers acceptance and deferred tax liability.

3.4 CAPITAL ACCOUNTS: This represent owners (Equity) contributions to the business. No bank or individual firm starts a business with 100% debt, because there must be the involvement of the real risk takers Equity new bank must begin with a minimum amount of owners contributions and there go ahead to borrow funds public to support its operations. Banks capital account most often represents cash than 10.1% of the total assets because they are the

most levered of all businesses. Inn our own cash the stockholders equity of N1.267 million constituted only 7 percent of the total Assets. Like other firms, bank capital account covers

a. Common stock outstanding (Per) face value, and when it's sold above per value, the excess market value is stated is the capital surplus (excess) account.

   Preferred stock is not very common among banks, because it is expensive to issue as it is not tax deductible and therefore a drain on income that would have been accruable to shareholders. Although some banks issue is another source of fund in the long run.

3.5 RETAINED EARNINGS: This is actually the largest clean in the equity account, as it represents accumulated net income year after year and after payments of shareholders have been effected. There may also be a contingency reserve held as protection against unforeseen losses and freedom stock that has been retrieved.

Furthermore, one item is the capital account of small and medium size banks it subordinated notes and debentures that are long term in nature and carry a claim on the bank's assets and income that come after (subordinate) the claims of depositors. It is viewed as a part of capital base, because the claim of the holders on bank and bank resources has a very low priority than all others and the claim can be based to reinforce the claims of depositors.

4.0 SUMMARY

The balance sheet equation is given by A =C + L were A=Assets, C=Capital and L=Liabilities. The Asset section of the balance sheet comprises both Current and Non-Current Asset, while the Liability section consists of long and short term liabilities the capital section of the balance sheet usually comprise equities and retained earnings.

5.0 CONCLUSION

Like the Income Statement the balance sheet is an effective financial statement used by decision makers in making sound business decisions, it shows a snap shot of a firm's assets, liabilities and capital of a business. Shareholders, investors, lender(creditors) require the information contained within the balance sheet alongside the information contained in the income statement to make sound and balanced economic decisions.

6.0 TUTORED MARKED ASSIGNMENT

1. What do understand by the term balance sheet and how is it different from an income statement?

2. List and explain the items that make up the assets section of a bank's balance sheet
3. List and explain the items that make up liability section of a bank's balance sheet
4. Briefly discuss the concept of bank capital account and retained earnings

7.0 References:

Jombo, O.C. (2003). Elements of Banking. Owerri: Barloz Publishers

Nzotta, S.M. (2004). Money, Banking and Finance: Theory and Practice. Owerri: Hudson-Jude Publishers

Oleka, C.D. (2006). Fundamentals of Money Banking and Financial Markets. Enugu:Academic publishing Company.

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UNIT 3. OTHER USEFUL BANK FINANCIAL STATEMENT

CONTENTS

1.0 Introduction
2.0 Objectives
3.0 Main Content
3.1 Cash Flow (Sources and Uses of Funds) Statement
3.2 The Statement of Stockholders' Equity (Capital Account)
4.0 Summary
5.0 Conclusion
6.0 Tutor-marked Assignment
7.0 References/ further Reading

1.0 INTRODUCTION

Beyond the two statements (income and Balance Sheet), bankers and bank forced analyst reclaim which the cash position of the firm at a given point in time after consideration or operating, financial and activities. Additionally the capital account (statement of change in equity) which sources give changes that banks taken place in all important capital account is made known for proper decision making.

2.0 OBJECTIVES

The objectives of this unit amongst other things includes

- To familiarize the reader with the concept Cashflow statement and its uses
- To acquaint the reader with The Statement of Stockholders' Equity (Capital Account)

3.0 MAIN CONTENT

3.1 CASH FLOW: (SOURCES AND USES OF FUNDS) STATEMENT: This statement considers and answer two questions –

1. Where is the funds utilized come from?
2. How were the funds actually utilized? The relationship is a very simple as it is based on five fact that:

Funds provided to the bank are a specific time period	Funds provided from operation a decrease in bank Assets + increase in bank liabilities
Funds used by banks during a specific time period	Dividends paid out to stock holders in bank assets + increase in bank assets + decrease in bank holder
Funds provided to the bank over a specific period	Funds used by the bank during the same period of time

From our analysis, we note that debentures grow our income statement for non-cash expense-depreciation resources **(N 6M)** and so the loans-loss reserve account **(N 12M)** mean than off set a loss on net income **(-N34M).** when these non-cash expense are above bank to Net income to arrive at the amount of cash actually generated from this bank's operation, the total fund from operations become + **N42M**

Service revenues were covered up in by other sources of bank funds-

1. Heavy drawing down of the cash account **(N440M)**,
2. Sales of investment and trading account securities **(N270M)**
3. Borrowing through short term debt **(N327M)**
4. Recapturing funds earlier loaned to other banks and security debtors **(N170M)**. Showing that the funds raised want to make loans **(N548M)** and to cover for deposit withdrawals **(N658)** and for most banks, they constitute the two basic uses of funds.

BANK CASH FLOW STATEMENT **N' M**

Bank operation	
Net income (Loss)	34
Non cash expense	
Depreciation and non-mobilization expense	6
Provision for possible loan-losses	120
Other items, net	50
Funds provided from operation	42
Decreases on assets on the balance sheet	
Cash and deposit due from banks	440
Investment securities	200
Trading account securities	70
Federal funds sold at securities purchase	170
Non agreement to resell	180
Other assets	
Increase on liabilities on the balance sheet	
Short-term debt	327
Long term debt (Subordinate notes)	0
Other funds sources	1
Total sources of funds	**1406**

USES OF FUNDS

Divided fund to stockholders	15
Increase in assets on the balance sheet	
Investment security	
Gross loans	548
Other Assets (Gross)	
Decreases on liability item on the balance sheet	

Deposit	658
Long term debt (mortgage indebtedness)	30
Other liabilities	120
Other funds uses	35
Total uses of fund	**1406**

3.2 THE STATEMENT OF STOCKHOLDERS' EQUITY (CAPITAL ACCOUNT)

This is the second of the other financial statement, which reveals changes in the capital account. It indicates the balance in the bank's capital account at the beginning of the period and the end of the period balance. All the factors that cause that to differ are listed in this statement. The basic factors for most bank are net income (loss) for the period and the amount of any dividends paid out to bank stockholders.

For the bank analyst, a net loss resulted in a decline in the bank's overall equity capitalization. However, management still paid out dividend to shareholders ( ), possibly to forestall a fall in the bank stock price. The decline of capital account created room for concern, especially to see of the capital remaining can actually cater for expected losses.

Balance On Capital Account at beginning of period	1262
Net income/loss for the period	35
Dividend paid to stockholders	
Preferred stock	5
Common stock	10
New shores of stock issues	2
Purchase of treasury stock	1
Balance in capital account at end of period	**1214**

OUTFLOW

1. What constitute Bank Financial Statement
2. Suppose a bank has N26m as net income and outstanding shares of 2.6m, and pays out N5m as dividend. What is the Earnings per share and dividend yield of the bank; assuming the P/E return is 15.
3. What does the statement of capital account reveal

4.0 SUMMARY

There are other aspects of a businesses financial health that are not covered by the income statement and the balance sheet such as the sources and uses of funds and the changes in stockholder equity, hence the need for other financial statements like Cashflow statement and the statement of stockholder equity.

5.0 CONCLUSION

The analysis of Financial statements is quite indispensable to both internal and external users of accounting information. External users like lenders (creditors) require information about the assets, liabilities and profitability of a business in order to determine the ability of a business to meet up debt obligation. Investors require Information from the Statement of stockholders equity to determine whether or not to invest their resources in a business. Managers are also very much interested in a businesses cash flow statement as it enables them optimize resource allocation and minimize wastage.

6.0 TUTORED MARKED ASSIGNMENT

1. Briefly discuss the concept of cash flow statement
2. Differentiate between a cash flow statement and an income statement
3. What is a statement of stockholder equity
4. Draw up the format of the following
    I. Cash flow statement
    II. Statement of Stockholders equity

7.0 References:

Jombo, O.C. (2003). Elements of Banking. Owerri: Barloz Publishers

Nzotta, S.M. (2004). Money, Banking and Finance: Theory and Practice. Owerri: Hudson-Jude Publishers

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