

## **Lecture Notes on BAF 111 Introduction to Finance I.**

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### **LECTURE 3**

#### **FUNCTIONS OF COMMERCIAL BANKS**

Commercial banks are retail banks because they attend to small-time and big-time savers whether as individuals, unregistered associations or as corporate bodies.

They are known worldwide for the following functions:

1. Acceptance of cash into accounts and cheques for clearing before crediting the account of the saver.
2. To honour funded drawings on demand. In the new world of electronic banking, this can be done in any branch of a bank. Agreed and approved credit must also be honoured in accordance with terms.
3. Banks grant advances in the following ways:
  - Overdrafts
  - Loans
  - Discounting of tenor bills.

The huge credit facilities are sourced through banks by loan syndication.

4. To pay interest on accounts as stated in the “Revised Guide to Bank Charges” issued by CBN.
5. To help customers to obtain foreign exchange through the instrumentality of bi-weekly foreign currency auction system called Retail Dutch Auction System (RDAS). They also sell foreign exchange in travellers’ cheques to travellers.
6. To serve as international agents in the handling of letters of credit and documentary collections. Proceeds from foreign trade are converted to naira or retained in domiciliary account for the exporters.
7. They provide expert investment advice to customers because they are very familiar with the developments in money and capital markets.
8. They provide the following support services directly:
  - Standing orders
  - Safe-custody service
  - Credit and debit cards
  - Electronic money transfer
  - Status inquiry
  - ATM card service.
9. They provide the following services through their subsidiaries or nominee companies:
  - Issuing house and underwriting services as well as business in the buying and selling of shares
  - Insurance business
  - Equipment leasing
  - Micro-finance services.

