# ANALYSIS OF FINANCIAL STATEMENTS IN PERFORMANCE ASSESSMENT OF SELECTED BANKS IN NIGERIA

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# DEPARTMENT OF ACCOUNTING AND FINANCE FACULTY OF MANAGEMENT AND SOCIAL SCIENCES BAZE UNIVERSITY, ABUJA

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# A DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELOR OF SCIENCE

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# TO THE

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# SEPTEMBER, 2020

# DECLARATION

I hereby declare that this project entitled **“Analysis of financial statements in performance assessment of selected banks in Nigeria”** has been undertaken by me under the supervision of Mr. Onyilo Francis. I further certify this work has not been previously submitted for the award of a degree or certificate elsewhere. All ideas and views are products of my research. Where the views of others have been expressed, they have been duly acknowledged.

# Audu Joshua Date

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# CERTIFICATION

This is to certify that this research work “**Analysis of financial statements in performance assessment of selected banks in Nigeria**” by Audu Joshua, BU/17C/BS/2724 has been approved by the Department of Accounting and finance, Faculty of Management and Social Sciences, Baze University, Abuja, Nigeria

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# DEDICATION

I dedicate this research work to God almighty who has kept me alive and well throughout the course of this program and for also giving me the wisdom, knowledge and focus to complete it. To God be all the glory.

Also dedicated to my beloved wonderful parents Mr. and Mrs. Audu and my sister Naomi Audu who provide moral support. My parents have equipped me with a strong educational background and I am forever grateful to them for this opportunity.

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I would like to express deepest gratitude to my project supervisor: Mr. Onyilo Francis who took his time to proof read this research project. My appreciation goes out to my head of department Dr. Adamu Garba Zango and all my lecturers, Mr Gordian Amadi, Mr. Nasidi Abubakar, Mr Murtala Ibrahim, Mrs. Josephine Ene, Prof. Emeka Ene and all other members of the faculty, for the support and encouragement to attain this degree. To my institution (Baze university), a big thanks.

Above all, the Most high, Lord God, the source of my strength and knowledge, now and forever.

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# ABSTRACT

*This study investigates the relationship between financial statements and bank performance in Nigeria- A case study of zenith bank, GTbank and UBA over a ten-year period (2010-2019). Banks are a very integral aspect of an economy due to the fundamental role they play as intermediaries, therefore it is important to establish an efficient analysis of the health of the bank as it also reflects the state of the economy. Financial statements are effective sources of information to analyse the state of a bank, which brings about financial ratio analysis. Financial ratios enable useful interpretation and analysis of relevant information from financial statements pertaining to relevant parameters in assessing bank performance such as: liquidity, profitability, efficiency, return on asset and return on equity, etc. The study found that the three banks which are among the top 10 banks in the Nigerian banking industry performed well above industry average and depicted resilience in spite of fluctuations in performance as a result of certain economic factors. It was determined that financial statements were very instrumental in detecting the strengths and weaknesses of the banks as such information helps in determining the performance of banks. Although financial statements alone are not sufficient in determining the overall performance of banks as they do not take into consideration variables such as: customer satisfaction, risk etc. It is still most effective in assessing the core performance of banks. The study recommended the continuous and efficient preparation of financial statements.*

Keywords: financial statements, financial ratios, liquidity, profitability, bank, bank performance

# CHAPTER I INTRODUCTION

## Background to the study

The banking industry plays a vital role as channel through which economic and financial resources flow into the economy. It’s therefore imperative to continually evaluate their performance status with a view to ensuring that banks remain sound, stable and safe in order to continually support sustainable economic growth and development. Financial statements are critical reports used for assessing and evaluating the performance of an organization. These statements are prepared by management to reflect an organization’s health and position over a period of time. Furthermore, financial statements provide a summary of accounts of an organisation, the statement of financial position indicating the liabilities, capital and assets, as well as the statement of comprehensive income depicting the outcome of operations over a timeframe. (Meyer, 2009).

There is a high premium placed on financial statements as a veritable source of information for assessing performance and decision making, the onus therefore is to ensure that the facts obtained from financial statements exhibit the highest level of reliability, accuracy and relevance. Financial statements analysis enables the ascertainment of the soundness, stability and safety of banks using various methodologies and techniques. Banks in Nigeria are statutorily required to obtain the Central Bank of Nigeria approval before publication of their audited financial statements. This is to enable the monetary authority ascertain the soundness, stability and safety of the banks as well as provide assurance on the accuracy and reliability of the statements of financial information.

The objectives of analysing financial statements are largely attributed to examining financial data (past and present) so as to evaluate the financial performance of a company and facilitate efficient

assessment of potential shortcomings (Woelfel, 1988). It was observed that from a study by Saoud, (2020), that Financial statement analysis could be defined as a technique of analysing and reviewing an organisation’s financial statements in an attempt to determine or scale its past, present or projected future performance, which enables more efficient economic decision making.

Financial performance is a monetary assessment of organization’s financial and economic activities. When evaluating financial performance, cash flow statements, income statement, and financial position are relevant reports, as they are reliable sources of useful information concerning the health of an organization. It also provides detailed justification to stakeholders’, owners and analysts on changes in a company’s cash balances over an accounting period. It is pertinent to note that financial ratios are useful in obtaining information for determining financial performance of banks. Furthermore, by analysing financial ratios companies operating efficiency and financial performance could be assessed. Therefore, enabling factors such as solvency and efficiency to be viewed objectively. It is imperative to note that Deposit Money Banks (DMBs) have been inundated by globalization, macroeconomic distortion, new technology, supervisory challenges, stiff competition and highly risky business environment. Banks must continually evolve and adopt new strategies to overcome the onerous challenges and improve. Banks contribute significantly to economic development and greater attention must be placed on their performance. Although, significant progress had been achieved by the Nigeria banking industry, continuous effort is still required to keep pace with domestic and global macroeconomic development, technological innovations and pro-active regulatory and supervisory policy options.

## Statement of Problem

This research work evaluates the extent to which analyses of banks financial statement are used in assessing their performance and the reliance on the result of the analysis for decisions making purpose by the various stakeholders. The cogency of financial statements has attracted diverse opinions from financial analysts, tax authorities, potential investors, the general public shareholders, and creditors. They argue that the financial reports are not an accurate representation of the reflection of business activities, hence meaning that it is not a suitable means of performance evaluation. for example, the idea of stating assets at their historical cost do not take cognizance of the effect of inflation though the real value of such assets might have been eroded or the fact that financial statements do not cover variables that are relevant in determining the overall performance of banks such as: customer satisfaction, risk, etc. This study probes further into the relationship between financial statements and performance evaluation mainly focusing on financial system using selected banks.

## Objectives of the Study

Banks in Nigeria are statutorily required to prepare and present credible financial statement in line with the International Financial Reporting Standard (IFRS) to the various stakeholders at end of each accounting period. Therefore, the objectives of the study are to:

* + 1. Examine how financial statements reflect the performance of financial institutions with focus on banks.
    2. Evaluate the use of financial statements in performance improvement of banks.
    3. Determine the decision-support role of financial statements in banks.

## Research Questions

The above research objectives motivate the following research questions.

* + 1. How do financial statements capture the performance of financial institutions?
    2. Are financial statements useful in supporting performance improvement in banks?
    3. Do financial statements support decision-making in banks?

## Research Hypothesis

Following the research questions and objectives of this study, the following working hypotheses

are formulated:

H o1: Financial statements do not adequately capture the performance of financial institutions H 02: Financial statements are not useful in supporting performance improvement of banks

H 03: Financial statements do not support decision-making in banks

## SCOPE OF THE STUDY

The study analyses the financial statements of Zenith bank, GTB and UBA over a period of ten- year period (2010–2019), This is due to the fact that ten-years is sufficient enough time to raise determine thorough results due to nature of the research undertaken. The choice of banks is as a result of being 3 out of the 5 Tier 1 banks in Nigeria i.e. The largest banks in Nigeria. This was opted for with the purpose of assessing their performance and make observations. The choice of this period is also meant to reflect both pre and post IFRS adoption era, so as to be a dynamic

analysis in terms of the relationship between financial statements and bank performance in Nigeria. The study is focused on financial variables that can be extracted from financial statements in determining bank performance as it does not consider non-financial factors such as: customer satisfaction, etc. that are not found in financial statements.

## Significance of the Study

The relevance of the study is to recognise the need for organization to prepare financial statements in the most transparent and acceptable standard consistent with international best practice. This is to ensure that greater attention is given to the preparation of financial statements as it provides a basis for analysis and performance evaluation of any organization as well as contribute to quality decision making.

In view of the above, it is imperative to periodically carry-out a critical analysis of bank’s financial statements in order to assess their performance with a view to determining their profitability stability and viability. Also, financial analysis helps to recognise changes in financial trends, evaluate progress, identify relationship among financial variables and draw-up logical conclusion on the performance of the organization. Similarly, comparing the performance of the company with its competitors is another major aspect of financial analysis (Laitnen, 2006). Financial analysis also provides basis for making better economic decisions that drives organizational growth and development.

## DEFINITION OF OPERATIONAL TERMS

**BANK:** Banks are financial intermediaries that regulate the economic flow of resources by taking finances from those with surplus (through deposits) and giving it to those with deficits(through loans).

**BANK PERFORMANCE:** Progress made by a bank in the utilization of its resources to achieve its objectives.

**FINANCIAL ANALYSIS:** It is often based on information extracted from financial statements.

**FINANCIAL STATEMENTS:** These are documents that portray recorded accounting information in monetary terms e.g. statement of financial position, statement of changes in equity, cash flow statement, statement of comprehensive income.

**ROA:** The return on assets(ROA) shows the percentage of how profitable a company’s assets are in generating revenue.

**ROE:** a measure of the profitability of a business in relation to equity.

# CHAPTER II: LITERATURE REVIEW

## Introduction

The literature review involves classifying; summarizing and evaluating previous research in order to avoid replication of work done and enable the researcher shed more light on newer perspectives relating to the topic. It also helps in: (i) providing a basis for re-examining the effectiveness of approaches successfully used by previous researchers; (ii) augmenting the overall development and conduct of the research work; (iii) acknowledging well-articulated research problem; (iv) supporting steadier considerations of theoretical inferences of proposed study

Financial statements have been the foundations upon which organization’s performance are assessed in monetary terms. The underlying purpose of financial statements is to present information about the financial position, performance and fluctuations in the financial position of an enterprise (Elliot and Elliot, 2005).

Profit is a prerequisite for ideal financial institutions like banks and the cheapest source of funds at the micro level of the economy. Hence, the basic aim of every bank management is to maximize profit, as a requirement for conducting business. (Aburime, 2009). Ratio analysis acts as a measure of the performance of a company, it could also make indications relating to the company’s financial position. In view of assessing financial efficiency and position of an organisation, performance indicators are essential so to enable comparisons. Usually, inventory turnover ratio, liquidity ratio, debt to net worth ratio, interest coverage ratio, debt equity ratio and return on investment ratio are very relevant in determining and evaluating the financial stability, financial performance and financial position or otherwise of such management (Ginevicius et al, 2011).The Return on Equity

(ROE), Return on Assets (ROA) and Net Interest Margin (NIM) were acknowledged by Ahmed (2003) to be widely employed in the literatures to measure profitability.

## Conceptual framework

The conceptual framework is intended to provide the interrelationship between and among different variables and highlight conceptual distinctions of previous research conducted in order to guide the flow of ideas in this study. The relevance of annual reports is largely attributed to its function of informing stakeholders about the financial health of his organisation, particularly its income and financial position According to (Aroh, Ndu & Aroh 2011). Conversely, financial statements of an organisation should depict information regarding the economic resources of a company, which are the streams of potential cash inflow. It should also fulfil its obligation of transferring economic resources to others which is the source of potential cash outflow from an organisation and its earnings which are the financial results of its operation.

According to Meigs and Meigs (1993), financial statements are the principal means of reporting general-purpose financial information to users. The accounting data presented in the financial statements must be relevant and meaningful to the user (Omolehiwa, 2000). According to Drake (2010), analysis of financial statements is the selection and evaluation of financial data, along with other relevant data, to facilitate financial and investment decision-making. Analysis of financial statements helps in both long-term and short-term forecasting. Through financial performance analysis, growth of a company can be gauge growth rate of a company.

The ability to understand financial statements is assessed based on the transparency and straightforwardness of the information in yearly reports. It must be Comparable, meaning that stakeholders and other users of financial information should be have enough clarity in order to be

able to distinguish similarities and contrast information among various statements. Financial statements must also be timely meaning that information should be assessable to the necessary authorities in an organisation so as to impact decisions before it loses its ability to do so. These are all prerequisite for financial related reports. corporate bodies are obligated to provide information about the financial performance, position and changes in their financial activities due to the relevance of the information to users making economic decisions. To guarantee the desired relevance and reliability on the financial statements, it is the aim of accounting bodies e.g. the International Accounting Standards Board (IASB) to advance acceptable high quality financial reporting standards internationally, which would portray the overall objectives and underlying effectiveness of financial information to all financial information users.

The financial statements of listed companies may consist of two major kinds of accounting information which are financial accounting information and the non-financial accounting information. The financial accounting information are based on historical cost and usually prepared for both internal and external users e.g. statement of financial position, income statement, statement of changes in equity and statement of cash flow. Though investors also use nonfinancial accounting information in making investment decisions, conventional and rational investors rely more on financial accounting information (Malhotra & Tandon, 2013).

In order to effectively evaluate a financial statement in relation to financial performance, certain factors and their relevance have to be determined. This is an attempt by the researcher to effectively highlight the relevant areas and requirements of banks and how they are assessed with a view to enable the reader understand the basis for successfully evaluate the performance of a bank. These factors are but not limited to: capital adequacy, credit risk, bank size, bank efficiency and income

diversification, etc. The measurement of bank performance using financial statements particularly deposit money banks is a well-researched area which has received greater attention over years (Seiford and Zhu, 1999). There have been a large number of empirical studies on commercial bank performance around the world (Yeh, 1996; Webb, 2003; Lacewell, 2003; Halkos and Salamouris, 2004; Tarawneh, 2006). However, diminutive effort has been put in terms of bank comparison using more than the average amount of financial ratios in order to rank and evaluate their performance in Nigeria and evaluating financial statements as a suitable means of performance evaluation. Interestingly, the impact of the recent global financial crisis has generated significant interest among scholars and industry stakeholders on financial statements analysis with a view of evaluating their performance.

## Performance Evaluation in the Banking Industry

Academicians have asserted that profitability is the underlying or optimum performance result showing the net effects of bank policies and activities in a financial year. Factually, factors such as accounting policy inflation, competitiveness, technology, macroeconomic environment, effective risk management practices and good corporate governance have significant impact on the profitability of banks. Bank’s profitability can be measured with the aid of Return on Assets (ROA), Net Interest Margin (NIM), Return on Equity(ROE) as recognised by Ahmed (2003) in view of its efficiency for evaluating profitability. Conversely, due to different observations amongst scholars on the pre-eminence of one indicator over another as the most effective measure of profitability, there is no clear cut stand as to which best fits. However, most studies maintain NIM, ROA, and ROE as the three main measures of profitability.

## Capital Adequacy and Financial Performance

Banks are usually exposed to risks and losses of one form or another it is therefore a normal practice to measure the extent to which they still have sufficient Capital adequacy to assure safety of depositors funds and carry on with their normal operation if such losses occurred. This measurement is usually made as a ratio of qualifying capital to total risk weighted used to indicate the adequacy or otherwise of banks funds. Graham (1989) Therefore, affirmed that the discipline of management impacts capital.

## Bank Efficiency and Financial Performance

Expenses management relates to the idea of efficient management of banks‟ resources. For this study, operating expenses in relation to operating income, can be used for benchmarking banks when reviewing operational efficiency. Hess and Francis (2004), observed that there is an inverse relationship between cost and income ratio and bank’s profitability. As Athanasoglou et al. (2005) observed negative relationship is expected between expenses management and profitability, since improved management of the expenses will increase efficiency and hence raise profits.

## The Need for Financial Reports

Financial reports are relevant due to the fact that they provide sufficiently useful information to shareholders, stakeholders and other relevant parties and when analysed and assessed properly can help direct the course of actions an institution or organization should take. It also guides risk takers to be more knowledgeable in terms of making decisions pertaining to their interests or stakes in companies. Financial reports also aid in providing shareholders and other interested parties consistent information in order to upturn their knowledge of company’s business and financial activities. There is an apparent necessity for consistent and reliable financial information in order

for shareholders and other relevant parties to derive proper understanding of the way in which companies carry out their businesses and other financial activities in relation to the public’s interest. By recognising enterprise behaviour through communication information, interested parties, can use this knowledge to amend or adapt their behaviour vis-à-vis the enterprise concerned.

## The Composition of the Financial Reports

Financial report are essentially historical documents describing the financial results of past company’s activities. Various reports, statement and notes constitute the entirety of company’s financial reports, and each must be clearly understood in order that acquaintance of their impacts on performance can be ensured. The compositions include among others the following:

## Statement of Financial Position:

The Statement helps users to assess the long term solvency of an entity as well as the going concern status.

## Statement of Profit or Loss and Other Comprehensive Income

Profit or loss is a performance statement that provides information on all sources of revenue or income profile over a period of time. While other comprehensive provides a view of income have not been recognised in the profit or loss statements.

## Statement of Changes in Equity

This provide adjustments made to movement in owners' equity over an accounting period resulting in changes in shareholders' equity such as [treasury stock](https://www.accountingtools.com/articles/2017/5/15/treasury-stock) purchase, issue of new shares etc.

## Statement of Cash Flow

This statement reports the use of monetary [assets](https://wikifinancepedia.com/e-learning/definition/accounting-terms/what-is-assets-and-current-assets-definition-with-accounting-examples) generated through operating, investing and financing activities by cash inflow and outflow in an organization. As an analytical tool, it assists in determining the short-term viability of a company, in its ability to generate sufficient liquidity to meet its maturing obligations

## Notes to the Account

These are additional information disclosed in a financial statement explaining hey areas and figures in relation to a company and its operations.

## Users of Financial Statements

The users of financial statements are classified into internal and external users as highlighted below:

## Management

These are the people saddle with the responsibilities of managing the day to day affairs of the organization on behalf of the shareholders**.** They used the financial statements to evaluate their performance and make critical decisions (Saoud, 2020).

## Owners

These are shareholders who invest their capital in order to create value and get appropriate returns on their investment. The financial statements provide them with necessary information regarding the viability and profitability of the organization (Saoud, 2020).

## Investors

These are individuals and corporate organizations that purchased shares in a company and analysed financial statements with a view to assessing the performance of the organization for objective and economic reasons.

## Creditors

These are lenders to the organization and are interested in knowing the solvency status of the organization to discharge its obligation as and when due. The financial statements provide them with the relevant information to assess the organization viability (Saoud, 2020).

## Government

Financial statements provide appropriate inputs to government decision making and form the basis for assessing organization for tax purposes. Financial statements are also a reflection of the performance of the economy (Saoud, 2020).

## Employees

The employees want to be abreast with developments in the company as regards its profitability and going concern. Employees would also be interested in knowing the company’s financial position to their career prospects.

## Regulatory Agencies

Regulatory agencies such as the Central Bank of Nigeria, Securities and Exchange Commission and others are saddle with the responsibilities of ensuring soundness, stability and safety of the banking institutions and therefore requires the financial statements in order to effectively carryout oversight roles.

## Depositors, Customers and General Public

The ability of the company to continue to provide service into the future is very key. This information can be obtained through the financial statement as regards to its operational stability. Depositors must have confidence that their savings arei secured based on their assessment regarding the soundness, stability and safety of the institutions.

## Empirical analysis

Financial statements are a necessity in the banking industry, but in today’s dynamic business environment studies have shown that there is more to analysing a bank’s overall performance than just its financial statements. Nonetheless profitability is still one of the most effective means of assessing bank performance and without the use financial statements (through financial ratio analysis, etc.) it would be difficult to ascertain profitability hence leading to difficulties in determining bank performance. This analysis aims to provide a better understanding of the relevance of financial statements analysis as a yardstick for evaluating financial performance in the banking industry.

Over the years there have been concerns on the performance of banks in view of failures in the banking industry that have led to the loss of deposits by the public. The recent economic crisis has opened the eyes of many to the fact that most banks were not really as healthy as they claimed to have been (Tejuosho, 2012). The report attributed this development largely to lack of focus on corporate governance implementation and reporting as a panacea for efficient risk management practices. Similarly, other institutions also declined due to lack of adequate capital holdings in the form of public funds, which were not readily available which lead to government bailing out these institutions through mergers and acquisitions. (Tejuosho, 2012). Furthermore, Tejuosho (2012)

stated that the business of banking is that of liquidity and asset management and that a bank’s ability to effectively mitigate against the inherent risks it is exposed to will determine the level of performance and stability of the bank.

A study conducted by Hempel and simonspon (1998) on bank’s financial performance and managerial efficiency in Taiwan shown that banks with higher ROA had higher profitability and financial performance. A study by Obamuyi (2013) examining the determinants of Bank’s profitability in Nigeria, evaluated how bank size, bank capital, expense management, economic conditions and interest income impacted the profitability of banks in Nigeria. The results from the fixed effect regression model that was used indicated that improvement in certain parameters such as: expense management, interest income, economic condition and bank capital contributed to increased growth and better performance by banks in Nigeria.

According to an investigation into published financial statements as it correlates to investment decision-making among commercial bank stakeholders in Nigeria carried out by Popoola, Akinsanya, Babarinde, and Farinde, (2014), components of published financial statement significantly predicted good investment decision making for stakeholders of commercial banks, it also found that statement of financial position have a negative effect with decision making, and rather cash flow statement, value added statement, income statement, five-year financial summary and notes on accounts, had a positive relationship with investment decision-making. They recommended that professional bodies and Nigeria banks should make provisions for programs that would familiarize stakeholders with published financial statements.

A study by sufian (2011) in Aisa examined the profitability of 251 Korean banks from 1992 to 2003 using multiple regression models, panel data and SPSS Statistical package. The results

specified that credit risk has a significantly positive impact on profitability whereas capital had an insignificant positive influence on profitability. It was also discovered that overhead expenses negatively affected the return on assets(ROA) of banks in Korea. Sampath (1990) examined factors influencing profitability of commercial banks. He described profitability as the rate of return on working capital and further elaborate that being profitable relied on certain elements such as: non-interest income, interest income, labour expenses, interest expenses, interest expenses and other expenses. The conclusion of a research paper conducted by Padna and Lall (1991) elucidated that the major factors influencing the profitability of banks are: productivity, quality of assets, organisation setup, information systems, branch expansion and deployment of funds. Vong and Chan (2009) revealed in a study that adequate capitalization, and asset quality of a bank plays a significant role in its ability to generate.

Ali, Akhtar and Ahmed (2011), examined the bank specific and macroeconomic indicators of 22 public and private sector commercial banks profitability from 2006 to 2009 in Pakistan. The findings showed that bank size, operating efficiency, asset management and GDP had positive effect on banks profitability. Sinha and Sharma, (2014) assessed the impact of bank specific and macroeconomic parameters affecting bank profitability in India, adopting the Generalises method of moments(GMM) while obtaining the panel data for the study from 42 commercial banks in India ranging from 2000-2013. Return in Asset was found to be indicating significantly adequate levels of tenacity of bank profitability in India. Bank specific variables like diversification, operating efficiency and capital to assets ratio, were discovered to be significantly and positively impacting the profits of the banks. Whereas Credit risk, measured by provisions for bad debts, negatively impacted the profit of the banks.

Hassan et al (2013) evaluated the impact of macroeconomic and bank specific components on the Return on Equity (ROE) of a selected bank in Malaysia over a nine-year period (2004-2012). The findings indicated that the operating efficiency ratio were inversely affecting the bank profitability in Malaysia. Kargi (2011) assessed the impact of credit risk on bank profitability in Nigeria. Financial ratios were employed as measures of bank performance as credit risk were obtained from annual reports of the sampled banks over a five-year period (2004-2008). Data was analysed using correlation, regression and descriptive techniques. The results indicated that financial ratios are an effective measure of bank performance and that there is a significant relationship between credit risk and bank profitability. It also revealed in its conclusion that bank profitability is negatively affected by non-performing loans, deposits and high levels of loan and advances which leads to high risk of illiquidity and instability.

Sufian (2008) investigated bank profitability of Philippine banks, over a 15-year period (1990- 2005). The findings elucidated that all parameters studied had significant impact on the profitability of banks. The study in turn suggested that non-interest income and capitalization had a positive correlation with banks profitability. Research by Ramadan and Thair (2011), examined the determinants of profitability of banks in Jordan. The study sampled 10 banks over a ten-year period (2001-2010) with ROE and ROA as dependent variables, while internal and external factors were established as independent variables. The findings revealed that profitability of the banks in Jordan relied on high loaning activities, lower credit risk, Cost management efficiency and capitalization. Results also indicated that bank size did not significantly increase profitability of banks in Jordan.

A study conducted by Soyemi, Akinpelu and Ogunleye (2013), examined the determinant of profitability of 10 Deposit Money Banks in Nigeria over a five-year period (2006-2010). The result

from the linear regression revealed that capital adequacy and bank size had a significant negative correlation with profitability of banks while deposits and management expenses had insignificant positive correlation with profitability of banks. A study conducted by John and Oke (2013), examined capital adequacy of 6 banks before and after the 2004 banks re capitalization policy in Nigeria. The study covered a five-year period (2003-2007). Results from the ordinary least square estimation technique revealed that bank performance, specifically: Earnings per share and Profit after tax, were influenced by capital adequacy. It was recommended that CBN should not solely depend on bank capitalization as a determinant of bank performance, rather it should focus on risk management, effective and efficient bank supervision.

Bosede et al, (2013) investigated the ROI (return on investment) of 24 DMBs from 1977 to 2010 In Nigeria. The results from the econometric model indicated that profitability and returns of commercial banks were significantly affected by output growth, inflation and lending rate which are macroeconomic variables. Profitability and returns were also affected factors peculiar to characteristics of banks, such as: liquidity. Babalola (2012) investigated the determinants of banks profitability in Nigeria. Due consideration was placed on the significant impact of bank-specific, macroeconomic and financial factors on return on asset (ROA). The results of the short run analysis indicated capital adequacy ratio as the actual determining factor for the profitability of banks. Whereas in the long run tangibility and size of banks were the factors that determine bank performance. In Nigeria, Aminu (2013) investigated the determinants of profitability of 7 banks from 2005-2011. The results arrived at from the regression analysis elucidated that management efficiency was the only driving force when determining (ROA) and (ROE). It was also discovered that asset quality and capital adequacy have insignificant negative impact on profitability while

liquidity had no significant positive impact on profitability while liquidity was not significantly correlated with profitability.

## 2.3 Theoretical Framework

According to various literature, analysis of bank performance started in the late 1980s and/or early 1990s. different theories governed these studies. For Instance, Bankruptcy cost hypothesis, argues that in case where bankruptcy costs are unexpectedly high, a bank holds more equity to avoid period of distress (Berger, 1995). The signalling theory, on the other hand which elaborates the relationship between capital and profitability, suggests that higher capital is a positive signal to the market of the value of bank. (Berger, 1995) By the same token, a lower leverage indicates that banks perform better than their competitors who can’t raise their equity without further deteriorating the profitability (Ommersen, 2011). Hence, both the signalling theory and bankruptcy cost hypothesis support the existence of a positive relationship between capital and profitability. Contrary to the above argument, Modigliani - Miller theorem conclude that no relationship exists between the capital structure (debt or equity financing) and the market value of the bank (Modigliani and Miller, 1958). In other words, no relationship exists between equity to asset ratio and funding costs or profitability under perfect market.

## 2.5 Research Gap

Most similar conducted studies such as: Tejuosho, (2012), Berger and Humphrey, (1997), Jahnan (2012), John and Oke (2013), focus on the use of financial statements for specific types of analyses to obtain specific statistical results. Whereas little to no research has been conducted in determining appropriately if financial statements serve as an adequate measure of overall performance of banks, which is the focus of this study.

# CHAPTER III RESEARCH METHODOLOGY

## Introduction

This chapter describes the methodology adopted in this study. It also presents the population of the study, the chosen sample size, method of data collection and method of data analysis.

## Research design

This study adopts the experimental research design as it establishes a relationship between the cause and effect of a situation. It is a design where one observes the impact caused by the independent variable on the dependent variable.

A study of information over time and focus based on secondary data is opted for.it is a Longitudinal study, where repeated observations are made on the selected banks Financial statements over a ten-year period (2010-2019) so as to make objective observations and achieve significant results. It is retrospective in nature as it makes use of already existent information without a need to acquire new data

## Population of the Study

The population of this study consists all the 22 commercial banks as listed on the Nigerian Stock Exchange. The study was based on the analysis of ten years audited financial statements of the banks.

## Sample of the Study

To ensure an in-depth analysis of the defined population, the researcher considers three (3) commercial banks as the research sample. The chosen banks include Zenith Bank, GTbank and UBA being among the top ten banks in Nigeria. the reason for choosing these days was as a result

of their outstanding performance within the banking sector. In this, the audited financial statements of selected banks in Nigeria from the year 2010-2019 and other publications were obtained from their annual reports, central bank journals and publications by Fitch website.

## Types and Sources of Data Collection

There are two main sources of data which are the primary sources and secondary sources.

## Primary Sources

Primary data is an original and unique data, which is directly collected by the researcher from a source such as observations, surveys, questionnaires, case studies and interviews according to his requirements (Mesly, 2015).

## Secondary Sources

According to Mesly (2015), secondary data could be seen as the data which is collected previously by someone else other than the researcher, Common sources of secondary data for social science include surveys, censuses, research papers etc.

The study was mainly conducted using secondary data in view of the fact that significant information needed are historical in nature and available. In addition to the audited financial statements of Zenith Bank, GTBank and UBA for the last ten years (2010-2019), other important sources such as the journals, magazines, newspapers and websites where found relevant to the study.

## Instrument of Data Collection

In this study, ten years (2010-2019) audited financial statements were selected from the entire population and it formed the basis of the financial analysis performed. The ten years’ financial statement selected was to allow for vertical and horizontal analysis of the financial statements.

## Definition of Variables

**Independent variables** are financial ratios such as: ROA (return on asset) ROE (return on equity), liquidity ratios, net interest margin(NIM), equity multiplier(EM), capital adequacy ratio(CAR), loan-to-asset ratio(LAR), loan-to-deposit ratio(LDR), cash deposit ratio(CDR), profit expense ratio(PER), operating income expense ratio(IER), income statements, statement of financial position

**Dependant variables** are profitability, capital adequacy, solvency or insolvency, risk management and liquidity.

## Model specification:

* + 1. **Financial Indicators**

Ratio analysis is a critical tool for analysing the performance of an organization quantitative financial data. Ratio analysis therefore, is the application of a formula to financial data to calculate a given ratio and the interpretation of the ratio value. The following are some of the ratios and parameters to be used in the analysis of data collected:

**Return on equity (ROE):** this is a measure of the rate of return that goes to the shareholders **Return on assets (ROA):** this is basically an indicator of managerial efficiency; it depicts how management have handled assets in terms of converting to net profit/earnings.

**Equity multiplier (EM):** this is a measure of leverage or financing policies, i.e. debt or equity (the sources chosen to fund the financial institution).

**Capital adequacy ratio(CAR)**: The capital adequacy ratio (CAR) is a measurement of a bank's available capital expressed as a percentage of a bank's risk-weighted credit exposures.

**Non-performing loans(NPL)**: This ratio indicated the proportion of loans and advances that are impaired.

**Liquidity Ratio**: Liquidity Ratio measure the ability of a bank to meet its short-term obligations. **Profit before tax(PBT)**: Profit before tax a measure of an organization income before corporate income tax liability.

**Gross earnings**: Gross earnings refer to the total income earned before the application of operating expenses.

**Total assets**: This refers to the total amount of assets owned by a person or entity, assets are fixed or non-fixed items of value economically.

**Total equity**: Total equity is the value left in the company after subtracting total liabilities from total assets. The formula to calculate total equity is Equity = Assets - Liabilities.

**(EPS)**: Earnings per share is a significant financial measure, which highlights profitability of organizations. It is computed by dividing the company's net income with its total number of outstanding shares.

**Loans**: A loan is a sum of money that financial institution lend to a borrower at a predetermine interest rate over a specify time period. The borrower is at obligation to pay back loan borrowed with interest to the financial institutions. Loan intermediation is a major activities of a bank and provides a significant sources of interest income to the bank.

**Deposits**: A deposit is a liability arising from monies collected for safe keeping by a bank. Similarly, a deposit involves lodgment of money for safekeeping in a financial institution duly licensed by the Central Bank of Nigeria.

The above financial indicators are critical parameters for evaluating performance in any organization

## Method of Data Analysis

For proper understanding of this research work, this study employed One-Sample t-test with the aid of Statistical package for Social Sciences (SPSS) 23.0. This statistical test determines whether the sample mean is statistically different from a known or hypothesized population mean. As a parametric test, this approach involves creating a change score from two variables, and then comparing the mean change score to zero, which will indicate whether any change occurred between the two time points for the original measures. Also, relevant ratios, trend analysis, statistical analysis and graphical representations were computed from statement of financial position and income statements of the selected banks with a view to evaluate their performance in the course of the study.

# CHAPTER IV

**DATA PRESENTATION AND ANALYSIS**

## Introduction

In this chapter, the researcher presents the collated data from the various financial statements of the banks employed in this study. Also, the descriptive analysis and the testing of the formulated hypotheses were also carried out in this chapter.

## Presentation of Descriptive Statistics

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Parameters** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** |
| **EPS** | 0.96667 | 1.1 | 2.63333 | 2.56667 | 2.74667 | 2.88667 | 3.61 | 4.58333 | 4.95 | 5.37667 |
| **ROE** | 9.94 | 12.77 | 30.03 | 21.87 | 21.07 | 20.13 | 21.07 | 22.22 | 23.63 | 22.92 |
| **PROEXPENSE** | 0.4 | 0.36 | 0.9 | 0.8 | 0.8 | 1.1 | 1.1 | 1.2 | 0.9 | 0.99 |

* + 1. **Presentation of Data Table 4.1 Performance Table**

Table 4.1 above shows the computed data gotten from the financial statements of the chosen banks from 2010 to 2019. In the said table, Earnings per Share was employed to measure the performance of the financial institution, return on equity measures the improvements in the said banks whereas Profit Expense Ratio was employed to support decision-making in the banks.

## Descriptive Statistics

**Table 4.2 Descriptive Analysis of the Employed Variables**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | N | Mean | Std. Deviation | Std. Error Mean |
| Earnings per Share | 10 | 3.1420010 | 1.50081918 | .47460070 |
| Return on equity | 10 | 20.5650 | 5.61071 | 1.77426 |
| Profit Expense Ratio | 10 | .8550 | .28273 | .08941 |

Table 4.2 above presents the descriptive analysis of the employed variables of this study. From the table, it could be deduced that with the mean value of Return on Equity of 20.5650, the study shows a better performance of Return on Equity over time. This shows that the said banks had the ability to generate profits from its shareholders’ investments in the company. In the same vein, the study noted that Earnings per Share had a better performance than Profit Expense ratio.

However, this study noted Return on Equity had a more consistent performance within the period under review. This was as a result of its low standard deviation in relation to its corresponding mean value. In summary, table 4.2 above shows that all the variables employed in this study had a positive mean return.

## Analysis of Data

In this section, the researcher tries to analyse the performance of the various ratio employed in this study. To achieve this, the One-Sample t-test was employed.

## Table 4.3: Performance of Earnings per Share

**One-Sample Test**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Test Value = 9.5 | | | | | |
| t | df | Sig. (2-  tailed) | Mean Difference | 95% Confidence Interval of the Difference | |
| Lower | Upper |
| Earnings per Share | - 13.397 | 9 | .000 | -6.35799900 | -7.4316204 | -5.2843776 |

Table 4.3 above explains the performance of Earnings per Share over the period under study. In this analysis, the table shows the portion of a banks’ profit that is allocated to every individual share of the stock. With the importance of this ratio to investors and people who trade in the stock market, one could note that the higher the earnings per share of a company, the better is its profitability.

With the mean difference of -6.36, it means that overall, the intensities of the Mismatch probe cells are higher than the corresponding Perfect Match probe cells. The Mismatch probe cells are designed to account for any cross-hybridization that may occur in the sample. This mean difference as a standard statistic, measures the absolute difference between the mean value in two groups in a clinical trial. It estimates the amount by which the experimental intervention changes the outcome on average compared with the control.

## Table 4.4 Performance of Return on Equity

**One-Sample Test**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Test Value = 9.5 | | | | | |
| t | df | Sig. (2-  tailed) | Mean Difference | 95% Confidence Interval of the Difference | |
| Lower | Upper |
| Return on equity | 6.236 | 9 | .000 | 11.06500 | 7.0513 | 15.0787 |

Table 4.4 above measures the ability of a firm to generate profits from its shareholders’ investments in the bank. In other words, the return on equity ratio shows how much profit each Naira of common stockholders’ equity generates. In this, a return on 1 means that every Naira of common stockholders’ equity generates 1 Naira of net income. This is an important measurement

for potential investors because they would like to see how efficiently a bank will use their money to generate net income.

From the table, a t-value of 6.236 shows that every naira of common stockholders’ equity generates at about 6.236 Naira of net income over the period under study. This shows how effective management is at using equity financing to fund operations and grow the banks under study.

## Table 4.5 Performance of Profit Expense Ratio

**One-Sample Test**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Test Value = 9.5 | | | | | |
| t | df | Sig. (2-  tailed) | Mean Difference | 95% Confidence Interval of the Difference | |
| Lower | Upper |
| Profit Expense Ratio | 96.691 | 9 | .000 | -8.64500 | -8.8473 | -8.4427 |

Profit Expense Ratio (PER)can be explained as a way of quantifying the cost of operating a piece of property compared to the income brought in by that property. Table 4.5 shows a helpful tool in carrying out the comparisons between the expenses of analogous properties, that is, if a particular property piece features a high PER, an investor should take it as a warning signal and look into the matter for why is the PER high. The importance of profit expense ratio lies in the fact of it being an indicator of the efficiency level of managing a property. A lower expense ratio indicates a greater profit for the investors. In simple words, the operating expense ratio reflects the percentage of a property’s income which is being utilized to pay operational and maintenance expenses.

For an average profit expense margin of 96.691, it shows that the employed banks had made greater profit for their corresponding investors within the period under study.

## Test of Hypotheses

In the chapter one part of this study, the following hypotheses were stated in their null forms: **H01:** Financial statements do not adequately capture the performance of financial institutions **H02:** Financial statements are not useful in supporting performance improvement of banks

**H03:** Financial statements do not support decision-making in banks

## Hypothesis One

**H0:** Financial statements do not adequately capture the performance of financial institutions

**H1:** Financial statements adequately capture the performance of financial institutions

From table 4.3 above, the t-statistics of -13.397 and a corresponding probability value of 0.000 for the performance of Earnings per Share proves the ability of the financial statements of the chosen banks within the period under study to capture the performance of the financial institutions.

With the probability value of 0.000 which is found to be less than the 5% Confidence Interval, we accept the alternative hypothesis. This study therefore concludes that within the period under review, the financial statements adequately capture the performance of financial institutions.

## Hypothesis Two

**H0:** Financial statements are not useful in supporting performance improvement of banks

**H1:** Financial statements are useful in supporting performance improvement of banks

From table 4.4 above, the t-statistics of 6.236 and a corresponding probability value of 0.000 for the performance of Return on Equity proves the ability of the financial statements of the chosen banks within the period under study to support the performance improvements of the financial institutions.

With the probability value of 0.000 which is found to be less than the 5% Confidence Interval, we accept the alternative hypothesis. This study therefore concludes that within the period under review, the financial statements are useful in supporting performance improvement of banks.

## Hypothesis Three

**H0:** Financial statements do not support decision-making in banks

**H1:** Financial statements support decision-making in banks

From table 4.5 above, the t-statistics of 96.691 and a corresponding probability value of 0.000 for the performance of Profit Expense Ratio proves the ability of the financial statements of the chosen banks within the period under study to support decision making in banks.

With the probability value of 0.000 which is found to be less than the 5% Confidence Interval, we accept the alternative hypothesis. This study therefore concludes that within the period under review, the financial statements support decision-making in banks.

## Further analysis from appendix:

Appendix 4.1 Gt bank has the highest loan-to-deposit ratio at 71% while UBA had the lowest loan- to-deposit ratio with 50.9% across the period of analysis.

Appendix 4.2 Table 4.2 indicates that UBA has the highest cash deposit ratio with a value of 31.9% meaning it is the most liquid bank across the ten-year period of analysis in this particular parameter, while GTbank has the lowest cash deposit ratio of 19.9%. This ranking is also reflected in the most recent year analysis (2019).

Appendix 4.3 depicts that GTbank has the highest mean loan to asset ratio at 46.8% while UBA has the lowest mean loan to asset ratio at 37.9%. This ratio exhibited volatility over the ten-year

period across the three banks with the lowest value placed by UBA in 2012 at 30.2% and the highest value peaking at 54.3% by GTbank in 2015.

The liquidity ratio analysis depicted in Appendix 4.4 above revealed that zenith bank has a liquidity ratio of 61.36% followed by UBA at 50.17% while GTB recorded 47.21%. It’s important to note that all the three banks were well above the Central bank of Nigeria (CBN) regulatory threshold of 30%.

Appendix 4.5 indicates that GTbank has the highest mean return on asset over the ten-year period of 4.45%, followed by Zenith bank 3.09% while UBA has 1.47%

Appendix 4.6 indicates that the GTbank has an average highest return on equity ratio of 27.34% followed by Zenith bank at 18.36%, while UBA ratio stood at 15.99%. There were fluctuations across the period with 2012 recording the highest average and 2010 recording the lowest.



MEAN PER

1.4

1.2

1

0.8

0.6

0.4

0.2

0

UBA

ZENITH

GT

MEAN

**Figure 4.1** Mean profit expense ratio of selected banks in the year 2010-2019. The above figure shows GTBank has the highest mean PER and UBA is the least mean PER in the study period. Refer to Appendix 4.7

## Figure 4.2

average

10.00%

9.00%

8.00%

7.00%

6.00%

5.00%

4.00%

3.00%

2.00%

1.00%

0.00%

2010 2011 2012 2013 2014 2015 2016 2017 2018 2019

average

**Figure 4.2 The average NIM of selected Private banks in the year 2010 to 2019**

The figure shows fluctuations in terms of the value of the NIM of the selected private banks which depicts resilience with the highest value peaking at 8.81%. Appendix 4.8

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
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## Figure 4.3 Banks mean NIM from the year 2010 to 2019

mean

10.00%

9.00%

8.00%

7.00%

6.00%

5.00%

4.00%

3.00%

2.00%

1.00%

0.00%

UBA

ZENITH

GT

mean

From the figure 4.3 GT has the highest NIM, ZENITH the second highest and UBA is the third highest performer in this specific parameter.

Appendix 4.9 indicates that the UBA has an average ratio of 9.9% followed by Zenith bank at 6.3%, while GTB ratio stood at 6.02% during the period under review.

## EM =Total Asset / Total Shareholders’ Equity.

Appendix 5.0 indicates that Zenith bank had average capital adequacy ratio (CAR) of 25.11% followed by GTbank at 22.26% while UBA had 20.75% for the period under review. Although, there were fluctuations over the period the three bank had consistently maintained capital adequacy ratio over the CBN regulatory threshold of 15% for institutions with international authorisation.

Similarly, the CAR for the three banks for year 2019 stood at 23.43%, 22% and 22.5% for UBA, Zenith Bank and GTBank respectively.

Appendix 5.1 indicates that GTbank had an average Non-Performing Loans (NPL) of 4.82%, followed by UBA at 4.26% while Zenith NPL ratio stood at 3.7%. Similarly, the ratios for the three banks for year 2019 stood at 5.7%, 4.3% and 6.5% for UBA, Zenith Bank and GTBank respectively. The ratios for UBA and GTBank are above the CBN regulatory threshold of 5% for year 2019. A high non-performing asset reduces asset quality and consequently affects profitability. This ratio looks at the proportion of loans and advances that are impaired. The bank’s EPS have been positive all through the analysis period except for UBA that had back-to-back losses in in two consecutive years 2010 and 2011. Although, there were marginal fluctuations in EPS between 2010 and 2015 by both Zenith and GTbank the EPS maintain a stable trajectory from 2016 till 2019. The EPS as per the 2019 financial statements of the three banks showed that UBA had EPS of 252kobo, Zenith bank 665kobo and GTbank 696kobo. (refer to financial highlights appendix).

## Discussion of Findings

The results of the SPSS regression test and financial statements analysis enable the researcher to shed some light on his findings and draw some logical conclusions. Some of the findings of the study include the following:

The findings of this study demonstrated that Earnings per share and effectiveness of financial statements in capturing performance of the banks under view are significantly correlated (i.e. having a strong relationship), this is because the P-value obtained (0.0000) using Ordinary least square regression was lower than the benchmark value of 5% specified in Eviews for this analysis.

This is in agreement with the study Cerf (1963) support that financial reporting has a positive significant relationship with shareholder’s wealth.

The statistical findings also depicted that financial reporting has substantial impact on return on equity and therefore improvement in performance of the financial institutions, due to the fact that the Profitability value .0.0000 obtained using Ordinary least square regression was lower than benchmark value of 5% specified in Eviews statistical software for this analysis. This was also corroborated by the study of Aroh, Ndu. Aroh (2011) who highlighted the main objective of financial reports as keeping shareholders informed about key financial indicators (e.g. return on equity, return on assets, etc.) and also the financial position of the company. The results are also contrary to Saliu (2018) who stated that financial reporting has no impact on return on equity. Lastly, the findings of this study indicated that financial reporting has significant impact on profit expense ratio of the selected financial institutions, because of the probability value of 0.000 obtained using Ordinary least square regression was lower than the ordinary benchmark value of 5% specified in Eviews statistical software for this analysis. This is in agreement with the study of Cerf (as cited in Fremgen 1963) which supported that financial reporting has a positive significant relationship with profitability.

## Further Findings from descriptive statistics (Appendix):

The researcher’s findings from the liquidity ratio analysis indicated that the three banks under study consistently performed above the CBN regulatory threshold of 30% during the ten-year period surveyed. Furthermore, the analysis revealed that Zenith bank was more liquid compared with UBA and GTbank. Although, higher liquidity ratios were observed regularly among the three banks, this was attributed to the significant holdings of government securities such as: treasury

bills, federal government bonds. This affected credits in the economy thereby crowding out private sector borrowing.

Analysis of loan-to-asset ratio showed that GTbank is most vulnerable to default risk and also had the lowest liquidity ratio of 47% compared with UBA and Zenith bank liquidity ratio of 50.17% and 61.36% respectively. Similarly, mean Loan to Deposit Ratio (LDR) of UBA, Zenith bank and GTbank for the year 2019 stood at 60.1%, 57.8% and 59.3% respectively. These ratios were within the CBN prudential requirements of a maximum of 80% during the reviewed period. However, the observed swing in the loan to deposit ratio between 2015, 2016 and 2018 was due to macroeconomic distortion occasion by inflationary pressure and rising interest rates leading to decline in loans intermediation. The financial statement analysis of Zenith bank revealed that gross earnings grew on Average by 14.24% year-on-year, helping to deliver a 24.2% year-on-year PBT. While UBA and GTBank had moderate growth in Gross earnings and PBT. The observed growth was attributed to significant increase non-interest income arising from investments in government securities.

There was relatively consistent growth in loans and Advances of the banks however there were slight fluctuations, with both Zenith and GTbank having a dip in loan in the year 2018 most likely due to higher interest rates that came with the harsh economic period. This could explain why deposits outpaced loans, accounting for the higher liquidity in the banks which is healthy for the institutions. It’s quite imperative to state that financial statements analysis provides stewardship reporting to the various stakeholders and adequate effort must be geared towards preparing financial statements in line with high ethical standard and international best practice. Finally, it was necessary that financial reports meet requirements of all stakeholder’s and

potential investors. This is with a view to assisting stakeholders in the evaluation of performance and making objective decisions.

# CHAPTER V:

**SUMMARY, CONCLUSION AND RECOMMENDATION**

## Introduction:

The performance of any economy is to largest extent dependent on the stability of the banking sector. It is therefore important to allude to the fact that banks play a key role in the efficient allocation of financial resources among economic agents. At this point, the study revealed that analysis of financial statement is important to performance evaluation of banks and also support decision making regarding the operations of an organization as observed in the ten years’ financial statements of the selected. The analysis of the financial statement has helped to address the objectives of the study as it revealed the impact of financial statements on bank performance. It was discovered that financial statements of banks influenced most investment decisions. Categorically a large percentage of the sampled population relied on the ten-year summary of banks in their performance evaluation.

Furthermore, there as a consensus opinion that financial statements were prepared to satisfy the needs above facts that the major items of financial statement, i.e. statement of comprehensive income, statement of financial position, statement of cash flow, statement of changes in equity, had positive influence on major decisions regarding the operations of the banks and also a veritable tool in performance analysis. There is definitely a need for the preparation of financial statements by banks, due to the fact that financial statements show the position of bank in terms of effective performance. The financial statement provides insight on how a bank is faring in an economy and also its resilience in recuperating and maintaining a strong positon. Financial statements also help

in decision making by the bank, regulating authorities, potential investors and other relevant information users. Financial statements are crucial for the development of policies and other steps put in place to help improve and maintain successful ideal financial performance as a bank. Financial statements shed light on areas that thrive and areas that require improvement in a bank or any organization, however that is the limitation of it. It only indicates, it does not give detailed steps on what to do to rectify an issue or what may have caused an issue. That is why investors typically rely on interpretations by experts.

## Summary

The study shows how financial statements are used in assessing bank performance, and identified role financial statements play in evaluating the performance of selected banks in Nigeria (i.e. GTB, ZENITH, UBA). The statistical SPSS t-test regression analysis was conducted to establish the relationship between financial statements and banks performance. The result showed that all the selected banks performance indicators had positive mean value. The findings from this test support the fact that financial statements have significant relationship with performance evaluation of the banks under review. Furthermore, this was revealed in the earnings per share; a p-value of 0.000 which was less than the 5% benchmark set by the SPSS t-test regression model. The foregoing, indicates that the banks deployed their resources efficiently to achieve optimum return and support that the financial statements effectively captures the performance of the banks. This facilitates comparison between banks leading to better economic decisions. The model also revealed that the financial statements helps to identify profit expense ratio (PER) as a critical indicator in assessing profitability as it showed the p-value at 0.000 which was less than the 5% benchmark set by the model. This indicated that the selected banks under study were profitable. Similarly, the return on equity was observed to have a significant relationship with the financial statements. The test

revealed a positive return on shareholders’ investment. This is an important measurement for potential investors because they would like to see how efficiently a bank will use their money to generate net income.

After taking into context the analysis of the above findings and results of the ratio analysis, it was obvious that financial statements improve bank performance and are efficient measures of performance evaluation, through the analysing of the financial statements using ratio analysis to identify areas risk and vulnerabilities with a view to mitigating them in a timely manner. Although, there are other factors that could come into play at this stage such as good corporate governance practices, customer satisfaction and macroeconomic environment, these factors do not undermine the relevance of financial statements in improving bank performance, it serves as a literal tell tale of how the bank is performing.

## Conclusion

The research was carried out to ascertain the use of the financial statement for evaluating performance in the bank, with particular reference to UBA, ZENITH AND GTB over a ten-year period (2010-2019). The analysis supported the fact that financial statement support performance evaluation of banks, and decision making in an organization. The analysis revealed that the three banks are sound, stable and safe based on the results of the findings. It is also important to note that the financial statements are a strong tool through which the performance of the institutions can be assessed. Although, the reliability of financial reports has been challenged by stakeholders and scholars due to the impact of inflation arising from the used of historical cost as a basis for asset valuation as well as failure to recognize customer satisfaction, risk etc. Nevertheless, empirical evidence suggest that financial statements are still the most efficient means of evaluating

the performance of a bank. As the economy continues to evolve and new policies are formulated greater importance would continue to be placed on the preparation of financial statements.

## Recommendations

Based on the result of the research findings, I wish to recommend the following:

1. Greater emphasis should continue to be placed on the preparation of financial statements by banks
2. Banks should continue to provide adequate supporting information to their financial statements for ease of analysis and interpretation by the relevant stakeholders.
3. The continuous and efficient preparation of financial statements in line with applicable accounting standards and regulatory requirements.
4. The banks should continue to use financial statements as a yard-stick in regulating their activities.

## Limitation of the study

Due to the global COVID-19 pandemic the researcher was unable to conduct interviews with key staff of the of the relevant banks under study, hence hindering analysis and results that would have been beneficial in enhancing the overall quality of the research.

## Suggestions for further studies

It is the view of the researcher that further research can be undertaken in the subject area in the future, perhaps in the capital market or insurance subsectors.

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## APPENDIX

**LIQUIDITY RATIOS**

## Appendix 4.1 Loan to deposit ratio of selected banks over a ten-year period

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **BANK** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | mean |
| UBA | 49.6% | 47.7% | 38.6% | 43.4% | 50.2% | 49% | 60.8% | 60.3% | 50.1% | 60.1% | 50.9% |
| ZENITH | 57% | 44.8% | 49.6% | 54.1% | 69.7% | 77.7% | 76.73% | 54.5% | 44.2% | 57.8% | 58.6% |
| GTB | 77.5% | 68.5% | 67.8% | 70.2% | 78.8% | 85.2% | 80% | 70.2% | 55.4% | 59.3% | 71.3% |
| Average | 60% | 53.8% | 52% | 55.9% | 66.2% | 70.6% | 72.5% | 61.7% | 49.9% | 59% | 60.3% |

**Source: researcher analysis**

## Appendix 4.2 Cash deposit ratio over a ten-year period

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **BANK** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **mean** |
| UBA | 5.4% | 12.3% | 40% | 32.3% | 36.4% | 36.3% | 35% | 38.4% | 41.3% | 41.4% | 31.9% |
| ZENITH | 10.1% | 13.4% | 17.4% | 28.3% | 32.2% | 31.5% | 24.6% | 33.1% | 31.9% | 25.2% | 24.8% |
| GTB | 3.8% | 34.6% | 27.6% | 21.3% | 14.9% | 12.1% | 13.9% | 26.8% | 24.5% | 19% | 19.9% |
| Average | 6.4% | 20.1% | 28.3% | 27.3% | 27.8% | 26.6% | 24.50% | 32.8% | 32.6% | 28.5% | 25.5% |

**Source: researcher analysis**

## Appendix 4.3 Loan to asset ratio over a ten-year period

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **BANK** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **MEAN** |
| UBA | 38.9% | 35.4% | 30.2% | 36.5% | 40.5% | 37.6% | 42.9% | 40.5% | 35.2% | 41.6% | 37.9% |
| ZENITH | 38.3% | 34.5% | 36.7% | 39.1% | 46.2% | 49.6% | 48.3% | 42.5% | 30.6% | 36.3% | 40.2% |
| GT | 51.4% | 43.9% | 44.9% | 47.6% | 54.1% | 54.3% | 51% | 43.1% | 38.2% | 40% | 46.8% |
| AVERAGE | 42.9% | 37.9% | 37.3% | 41.1% | 46.9% | 47.2% | 47.4% | 42.1% | 34.6% | 39.3% | 41.6% |

**Source: researcher analysis**

## Appendix 4.4 Liquidity ratio over a ten-year period

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Bank** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **mean** |
| UBA | 39.0% | 60% | 69.8% | 55% | 48.9% | 53% | 39% | 40% | 50% | 47% | 50.17% |
| ZENITH | 63.74% | 60% | 61% | 63% | 47% | 51.4% | 59.60% | 69.70% | 80.91% | 57.25% | 61.36% |
| GTBANK | 56.12% | 55.88% | 47.62% | 49.67% | 40.07% | 42.21% | 42.19% | 47.56% | 41.44% | 49.33% | 47.21% |
| Average | 52.95% | 58.63% | 59.47% | 55.89% | 45.32% | 48.87% | 46.93% | 52.42% | 57.45% | 51.19% | 52.91% |

**Source: researcher analysis**

## PROFITABILITY RATIOS

**Appendix 4.5 Return on asset over a ten-year period**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| bank | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | mean |
| UBA | 0.04% | -0.5% | 2.4% | 1.7% | 1.7% | 2.2% | 2.1% | 1.9 % | 1.6% | 1.6% | 1.47% |
| ZENITH | 2.1% | 2.4% | 4.1% | 3.3% | 2.9% | 2.6% | 3.5% | 3.2% | 3.35% | 3.4% | 3.09% |
| GTBANK | 3.3% | 3.1% | 4.9% | 4.3% | 4.2% | 3.9% | 4.7% | 5.3% | 5.61% | 5.23% | 4.45% |
| Average | 1.81% | 1.67% | 3.80% | 3.10% | 2.93% | 2.90% | 3.43% | 3.47% | 3.52% | 3.41% | 3.00% |

## Source: researcher analysis

**Appendix 4.6 Return on equity of selected banks over a ten-year period**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Bank** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **mean** |
| UBA | 0.4% | 6.3% | 32.5% | 20.5% | 18.4% | 18.3% | 16.6% | 15.2% | 16.3% | 15.4% | 15.99% |
| ZENITH | 10.71% | 11.1% | 23.5% | 17.6% | 18% | 17.7% | 17.8% | 21.3% | 23.7% | 22.2% | 18.36% |
| GTB | 18.7% | 20.9% | 34.1% | 27.5% | 26.8% | 24.4% | 28.8% | 30.17% | 30.9% | 31.16% | 27.34% |
| Average | 9.94% | 12.77% | 30.03% | 21.87% | 21.07% | 20.13% | 21.07% | 22.22% | 23.63% | 22.92% | 20.56% |

## Source: researcher analysis

**Appendix 4.7 profit expense ratio of selected banks over a ten-year period**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **BANK** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **mean** |
| UBA | 0.03 | -0.3 | 0.5 | 0.5 | 0.4 | 0.5 | 0.6 | 0.5 | 0.5 | 0.6 | 0.4 |
| ZENITH | 0.5 | 0.5 | 0.8 | 0.7 | 0.7 | 1.7 | 1.4 | 1.4 | 0.6 | 0.6 | 0.9 |
| GTB | 0.8 | 0.9 | 1.3 | 1.3 | 1.2 | 1.3 | 1.4 | 1.6 | 1.7 | 1.8 | 1.3 |
| Average | 0.4 | 0.36 | 0.9 | 0.8 | 0.8 | 1.1 | 1.1 | 1.2 | 0.9 | 0.99 | 0.9 |

## Source: researcher analysis

**Appendix 4.8 Net interest margin table of selected banks over a ten-year period**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **BANK** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **mean** |
| UBA | 6.0% | 4.8% | 5.8% | 5.9% | 6.0% | 6.3% | 7.1% | 7% | 6.2% | 6.1% | 6.12% |
| ZENITH | 5.95% | 7.75% | 8.19% | 8.7% | 8.4% | 8.1% | 7.7% | 9.0% | 8.9% | 8.23% | 8.09% |
| GT | 8.9% | 8.87% | 9.46% | 8.87% | 8.10% | 8.26% | 9.01% | 10.42% | 9.23% | 9.28% | 9.04% |
| Average | 6.95% | 7.14% | 7.82% | 7.82% | 7.50% | 7.55% | 7.94% | 8.81% | 8.11% | 7.87% | 7.75% |

## Source: researcher analysis

**RISK AND SOLVENCY RATIOS**

## Appendix 4.9 Equity multiplier of selected banks over a ten-year period

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Bank** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **mean** |
| UBA | 9.2 | 11.7 | 12.02 | 11.6 | 10.6 | 8.4 | 8.1 | 7.9 | 10.1 | 9.7 | 9.9 |
| ZENITH | 4.9 | 5.5 | 5.6 | 6.1 | 6.7 | 6.7 | 6.8 | 6.9 | 7.3 | 6.7 | 6.3 |
| GTB | 5.6 | 6.8 | 6.2 | 6.4 | 6.4 | 5.6 | 6.3 | 5.5 | 5.8 | 5.6 | 6.02 |
| Average | 6.6 | 8 | 7.94 | 8.0 | 7.9 | 6.9 | 7.7 | 6.7 | 7.7 | 7.3 | 7.4 |

**Source: researcher analysis**

## Appendix 5.0 Capital adequacy ratio of selected banks across a ten-year period

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **BANK** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **mean** |
| UBA | 17% | 21% | 23.5% | 22.6% | 16% | 20% | 20% | 20% | 24% | 23.43% | 20.75% |
| ZENITH | 33% | 29% | 31%. | 26% | 20% | 21% | 23% | 27% | 25% | 22% | 25.11% |
| GTB | 23.4% | 20.4% | 24.2% | 23.91% | 21.4% | 18.11% | 19.79% | 25.5% | 23.4% | 22.5% | 22.26% |
| Average | 24.47% | 23.47% | 23.85% | 24.17% | 19.13% | 19.70% | 20.93% | 24.17% | 24.13% | 22.64% | 22.71% |

**Source: researcher analysis**

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## Appendix 5.1 Non-performing loan ratio of selected banks across a ten-year period

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **BANK** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **mean** |
| UBA | 8.79% | 3.7% | 1.9% | 1.2% | 1.6% | 1.7% | 4.8% | 6.7% | 6.5% | 5.7% | 4.26% |
| ZENITH | 5.9% | 3.51% | 3.15%. | 2.91% | 1.80% | 2.18% | 3.02% | 4.70% | 4.98% | 4.30% | 3.70% |
| GTB | 6.76% | 3.14% | 3.19% | 3.58% | 3.15% | 3.21% | 3.66% | 7.66% | 7.3% | 6.5% | 4.82% |
| Average | 7.15% | 3.45% | 2.55% | 2.56% | 2.18% | 2.36% | 3.83% | 6.35% | 6.26% | 5.50% | 4.26% |

**Source: researcher analysis**

## INFORMATION FROM FINANCIAL STATEMENTS

**UBA FINANCIAL HIGHLIGHTS**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| parameters | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| Actual  (N’BN) | Actual  (N’BN) | Actual  (N’BN) | Actual  (N’BN) | Actual  (N’BN) | Actual  (N’BN) | Actual  (N’BN) | Actual  (N’BN) | Actual  (N’BN) | Actual  (N’BN) |
| PBT | 3 | (28) | 52 | 56 | 56 | 68 | 90 | 105 | 79 | 98 |
| Total  assets | 1,650 | 1,940 | 2,273 | 2,642 | 2,762 | 2,753 | 3,504 | 4,069 | 4,869 | 4,960 |
| Loans | 628 | 689 | 687 | 963 | 1,071 | 1,037 | 1,503 | 1,650 | 1,764 | 2,197 |
| Deposits | 1,267 | 1,450 | 1,778 | 2,223 | 2,169 | 2,081 | 2,486 | 2,733 | 3,524 | 3,540 |
| Gross  earnings | 177 | 185.2 | 220 | 265 | 287 | 315 | 384 | 462 | 375 | 428 |
| Total  equity | 177 | 166 | 192 | 235 | 265 | 332.6 | 448 | 529 | 503 | 555.5 |
| EPS | -N0.08 | -N0.21 | N1.66 | N1.52 | N1.56 | N1.79 | N2.04 | N2.19 | N2.20 | N2.52 |

## Source: UBA financial statements

**ZENITH BANK FINANCIAL HIGHLIGHTS**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| parameters | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| Actual  (N’BN) | Actual  (N’BN) | Actual  (N’BN) | Actual  (N’BN) | Actual  (N’BN) | Actual  (N’BN) | Actual  (N’BN) | Actual  (N’BN) | Actual  (N’BN) | Actual  (N’BN) |
| PBT | 50 | 60.7 | 102 | 110 | 119.7 | 126 | 157 | 203 | 231 | 243 |
| Total  assets | 1,895 | 2,309 | 2,604 | 3,143 | 3,755 | 4,007 | 4,739.8 | 5,595 | 5,955 | 6,347 |
| Loans | 713.2 | 833 | 1,014 | 1,276 | 1,730 | 1,989 | 2,252 | 2,360 | 1,823 | 2,305 |
| Deposits | 1,318 | 1,654 | 1,929 | 2,278 | 2,537 | 2,557 | 2,984 | 3,438 | 3,690 | 4,262 |
| Gross  earnings | 192.4 | 244 | 307 | 351 | 403 | 433 | 508 | 745 | 630 | 662.3 |
| Total  equity | 361 | 377 | 463 | 509 | 553 | 595 | 704 | 823 | 815 | 942 |
| EPS | N1.19 | N1.40 | N3.19 | N3.01 | N3.16 | N3.36 | N4.12 | N5.66 | N6.15 | N6.65 |

## Source: zenith bank financial statement

**GTBANK FINANCIAL HIGHLIGHTS**

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|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| parameters | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| Actual  (N’BN) | Actual  (N’BN) | Actual  (N’BN) | Actual  (N’BN) | Actual  (N’BN) | Actual  (N’BN) | Actual  (N’BN) | Actual  (N’BN) | Actual  (N’BN) | Actual  (N’BN) |
| PBT | 48.6 | 65.60 | 103 | 107 | 116.3 | 120 | 165.1 | 200.2 | 215.6 | 231.7 |
| Total  assets | 1,152 | 1,611 | 1,735 | 2,102 | 2,355 | 2,524.5 | 3,116 | 3,351 | 3,287.3 | 3,758 |
| Loans | 593 | 715.9 | 783.9 | 1,007.9 | 1,281 | 1,372 | 1,590 | 1,450 | 1,362 | 1,569 |
| Deposits | 761 | 1,033 | 1,170 | 1,440 | 1,650 | 1,636 | 2,111 | 2,147 | 2,356.7 | 2,640.1 |
| Gross  earnings | 153 | 182.4 | 221.9 | 242.7 | 278.5 | 301.8 | 414.6 | 419.2 | 434.7 | 435.3 |
| Total  equity | 220 | 234 | 282 | 332.4 | 359 | 407 | 496 | 613.6 | 673 | 563.8 |
| EPS | N1.63 | N1.69 | N3.05 | N3.17 | N3.52 | N3.51 | N4.67 | N5.9 | N6.5 | N6.96 |

## Source: GTbank financial statements

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