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RESEARCH ARTICLE

FINANCIAL RATIO ANAYLSIS OF SOME SELECTED BANKS IN EKITI STATE, NIGERIA

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ABSTRACT

This study was carried out on financial performance evaluation of banks in Ado Ekiti. Its main objective was to compare and examine empirically, the performance of the commercial banks in Ekiti State, Nigeria, in terms of liquidity. The five selected banks are WEMA bank, Zenith bank, UBA, Fidelity Bank and GTBank. The financial ratio analysis was used to determine the performance of each of the banks and also to evaluate the managerial performances. The analysis shows that there are significant differencesin the performances of the banks.

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INTRODUCTION

Before the recent fall in the price of crude oil in the global market which has a direct impact on Nigeria economy, Nigeria economy was categorized as an emerging middle-income economy with growing financial service, communication technology and banking sectors. As a result of the growth of its nominal GDP, it was ranked 26th in the world, 30th in 2013 before reprising, 40th in 2005, 52nd in 2000 (Anyanwu and Kalu 2014). It becamethe largest economy in Africa in 2014, when it rebased its GDP and was also on the track of becoming one of the 20th Largest economies in the world by 2020 (Anyawu and Kalu, 2014). Its manufacturing sector, though presently under, performing is the third largest on the continent and produces to service a huge percentage of the West Africa economy. In the light of the above statistical revision, Nigeria GDP grew by 89%, making it the largest African and accounts for 47% of West Africa. Then the supply of money was controlled, and often, was to generate an interest rate that will facilitate economic growth and stability. A bank is a financial intermediary that accepts deposit and channels deposit to lending activities. A Bank major role is to raise fund largely through deposits and equity and invest them in productive assets. Because deposits are so important to the profitable operation of a bank, most banks tend to compete vigorously for them.The keen and continuously rising competition in the financial market calls for the need to evaluate commercial banks operating in it. This is because, such evaluation is vital to both bank owners and customers who are interested majorly in financial profits (Grazyna, 2008). There are different methods to evaluate banks' performances. The most widely used methods are financial ratio analysis or financial indicators, cross tabulation and correlation. The major strength of these traditional methods is that, it is good for comparative purpose (Gilbert and Wheelock, 2007). The management, bank owners and potential customers can employ it to compare and evaluate the performances of their banks. This accounts for the reason why banks have to pay special attention to the value of the traditional indicators if they want to sell the image of their company to the general public. This study covers only two years (2014-2015) of audited annual financial statements using financial ratio, cross tabulation and correlation of the banks' financial performances. The research concentrates on five banks that operate in Ekiti state, Nigeria. For the purpose of this research work, secondary data were collected from five commercial banks across Nigeria namely; Zenith Bank, Fidelity Bank, UBA, GTbank and Wema Bank. These data comprised two consecutive years (2014 and 2015) balance sheet/ financial statement. This is purely quantitative research and the data used was the audited financial statements. The target population for the study was the audited financial statements of the aforementioned five selected banks. The sampling methodology used was judgmental sampling to reflect the objective of the researchers. Two years (2014-2015) audited financial statements were therefore selected from the

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entire population and it formed the basis of the financial analysis performed. Some banking terminologies will not be defined in the paper but they are available in other literature.

MATERIALS AND METHODS

Cash Flow Analysis

Cash flow reporting is thought of as part of the vital information after the balance sheet and profit and loss statement of an enterprises. The enterprises with inadequate sources of fund will have challenge meeting their short term financial obligations. If this persists, it could lead to insolvency and bankruptcy (Figiri and Ines, 2014). Good cash flow analysis helps to avoid mismatches of monetary means arising from unsound financial projections. Furthermore, "it provides a more complete characterization of those aspects of the business which are not exposed in the basic financial statements, namely the cash efficiency of operating, investing and financing activities, liquidity and solvency" (Jerzemowska, 2004). Cash Flow reporting indicates the inflow and outflow of monetary means that are generated from the basic activities of the enterprise. The primary goals for compiling cash flow ratios are based on the fact thatit helps financial reports users with vital information on the evaluations of:

- Business abilities to generate funds for financing day-to-day operations,
- Business power to pay back the principal and interest on loans, as well as the shareholder's dividend,
- Business capacity for investments, procurement of equipment, and sale of property that generates cash inflow (Figiri and Ines 2014)

The cash flow reports were compared among the banks using the percentage computation formula shown below:

$$\frac{x}{N_q} \text{x } 100,$$

Where 'x' is the variable to be tested for per year in each bank (either for cash in or out flow)
N is the overall sum of x variable tested for in 'q' years, q ranges from 1,…, w

For a clear understanding of the cash flow analysis, Chi-Square test was used to test if there exists a significant difference in cash flow among the banks under study. In addition, all the figures used for the analyses were sourced from the audited 2014 and 2015 financial statements of the selected banks.

Financial Ratio Analysis

This is one of the frequently used methods in the analysis of financial analyses (Gilbert, 2007). It can be used to analyze financial statement and evaluate and assess managerial performance. The analysis of ratios points out problems by recommending corrective actions in time. In other words, financial ratios are calculated and tested to examine different aspects of business operation. According to Varsney (1999), "a ratio can be defined as the indicated quotient of two mathematical expressions or the connection between two or more things. The analysis of ratios is the powerful tool of financial analysis. In order to know the financial position and also the performance of a firm, a ratio or more is used as an index or yardstick". He went further to posit that, though, ratio analysis does not add anything new, but it "makes the statement more meaningful and helps in drawing a conclusion"

Trend analysis

This is a means of examining the operational results and financial situation of an enterprise over a period of time. Given the previous years financial data of an enterprise, trend analysis can be made to trace the percentage changes in it over time. Trend analysis is helpful because, its long run view may reveal the basic changes that have occurred in the nature of the business. By examining a trend in a particular ratio, one may discover whether the ratio is dropping, rising, or remaining comparatively constant. From this, one may either detect a problem or discover a sign of good management. For the purpose of this project, line chart which includes the trend line computation was used to do the linear trend analysis. This follows the regression model, A linear mathematical model of this form is:

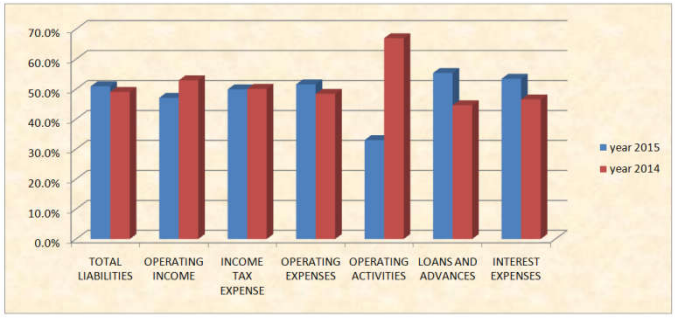
$$\hat{Y} = a + bT$$

Where 'a' is intercept and
'b' is the rate of change per unit time
'Y' is the estimated value also the dependent variable and
'T' is the time period

In this paper, the trends of the financial ratios are represented graphically.

RESULTS AND INTERPRETATIONS

This section presents the data and results of the research carried out. A cross sectional analyses of five selected commercial banks in Nigeria were carried out using SPSS version 20 and excel 2007. Inferences were drawn from the cash inflow analysis, financial ratio and trend analysis and were buttressed with line charts and bar charts.



Source: Constructed by the researchers

Figure 1. A Bar Chart Showing Cash Inflow in the Five Selected Bank from 2014 To 2015

This bar chart shows that operating income and operating activities in all five banks was relatively high in 2014 against 2015, while their operating expense was slightly reduced. The total liabilities of all the five banks slightly rose in the year 2015; this could be due to some factors. Nevertheless, their loan and advances and interest expense were high in 2015 while the bank's income tax expense struggled for stability and balance.

Profitability performances: The following concepts were employed to analyse the performance of the banks in terms of profit.

Table 1. Return On Assets (ROA) = Net Profit after Tax / Total Assets

Group	ROA In million naira	95% Confidence Interval for Mean		Minimum	Maximum	Std. Deviation
		Lower Bound	Upper Bound			
GTBANK	.012	-.116	.141	.002	.022	.014
UBA	.020	-.008	.047	.017	.022	.003
FIDELITY	.123	-.485	.731	.075	.171	.068
WEMA	.006	.004	.008	.006	.006	.000
ZENITH	.026	.026	.027	.026	.026	.000
Overall	.037	.001	.074	.002	.171	.051

The confidence intervals are constructed by assuming a Normal distribution for the ratios.
Source: Researchers' computation using SPSS software

Table 2. Return on Equity (ROE) = Net Profit / Total Equity

Group	Mean	95% Confidence Interval for Mean		Minimum	Maximum	Std. Deviation
		Lower Bound	Upper Bound			
GTBANK	.081	-.773	.935	.014	.148	.095
UBA	.099	-.934	1.132	.018	.181	.115
FIDELITY	50.390	-588.914	689.695	.076	100.704	71.155
WEMA	.052	.029	.076	.051	.054	.003
ZENITH	.179	.165	.193	.178	.180	.002
Overall	10.160	-12.598	32.919	.014	100.704	31.814

Source: Researchers' computation using SPSS software

Table 3. Profit to Expenses Ratio (PER) = Profit before Tax / Operating Expenses

Group	PER in million naira	95% Confidence Interval for Mean		Minimum	Maximum	Std. Deviation
		Lower Bound	Upper Bound			
GTBANK	2.198	.766	3.630	2.085	2.311	.159
UBA	.467	.037	.897	.433	.501	.048
FIDELITY	.221	-2.372	2.814	.017	.425	.289
WEMA	.290	.004	.577	.268	.313	.032
ZENITH	1.433	.976	1.889	1.397	1.469	.051
Overall	.922	.333	1.510	.017	2.311	.822

Source: Researchers' computation using SPSS software

Table 4. Return on Deposit (ROD) = Net Profit after Tax / customers Deposits

BANK NAMES	ROD In million naira	95% Confidence Interval for Mean		Minimum	Maximum	Std. Deviation
		Lower Bound	Upper Bound			
GTBANK	.018	-.174	.211	.003	.034	.021
UBA	.025	-.016	.067	.022	.029	.005
FIDELITY	5.045	-58.823	68.912	.018	10.071	7.109
WEMA	.009	.002	.015	.008	.009	.001
ZENITH	.040	.027	.054	.039	.041	.001
Overall	1.027	-1.246	3.301	.003	10.071	3.178

Source: researchers' computation using SPSS software
Note: The confidence intervals are constructed by assuming a Normal distribution for the ratios.

Table 5. Cash Deposit Ratio (CDR) = CASH / DEPOSIT

BANK NAMES	CDR In million naira	95% Confidence Interval for Mean		Minimum	Maximum	Std. Deviation
		Lower Bound	Upper Bound			
GTBANK	.157	.099	.215	.153	.162	.006
UBA	.180	.011	.350	.167	.194	.019
FIDELITY	15.839	-183.323	215.002	.165	31.514	22.167
WEMA	.200	.182	.218	.199	.201	.002
ZENITH	.329	-.326	.984	.277	.381	.073
Overall	3.341	-3.740	10.422	.153	31.514	9.899

Source: Researchers' computation using SPSS software

Table 6. Loan Deposit Ratio (LDR) = Loans and Advances / Customers Deposits

BANK NAMES	LDR In million naira	95% Confidence Interval for Mean		Minimum	Maximum	Std. Deviation
		Lower Bound	Upper Bound			
GTBANK	.777	.590	.965	.762	.792	.021
UBA	.498	.229	.766	.477	.519	.030
FIDELITY	2.031	-14.229	18.291	.751	3.311	1.810
WEMA	.614	.139	1.089	.577	.651	.053
ZENITH	.730	.119	1.340	.682	.778	.068
Overall	.930	.326	1.534	.477	3.311	.844

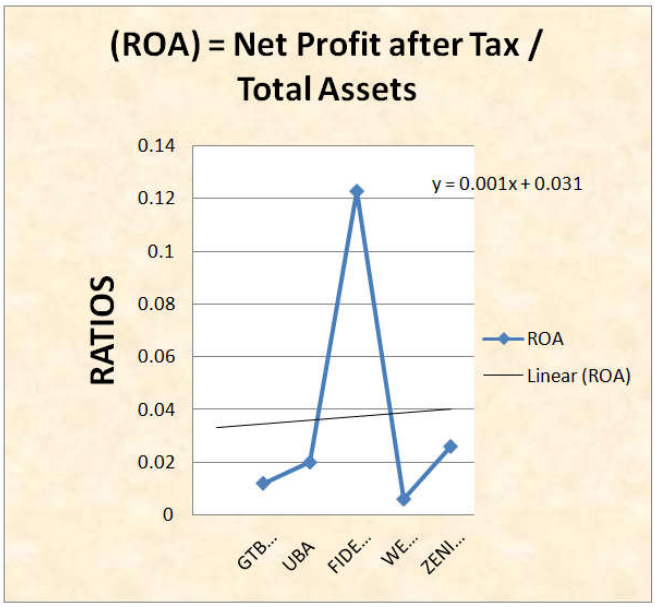
Source : Researchers computation using SPSS software

Table 7. Loan to Asset Ratio (LAR) = Loan and Advances / Total Assets

BANK NAMES	LAR In million naira	95% Confidence Interval for Mean		Minimum	Maximum	Std. Deviation
		Lower Bound	Upper Bound			
GTBANK	.527	.316	.739	.511	.544	.024
UBA	.384	.085	.683	.360	.408	.033
FIDELITY	1.588	-17.876	21.052	.056	3.120	2.166
WEMA	.429	-.064	.922	.390	.468	.055
ZENITH	.479	.250	.707	.461	.496	.025
Overall	.681	.061	1.302	.056	3.120	.868

Source: Researchers' computation using SPSS software.

Graphical Illustration of the Trend Analyses



Source: Source: Constructed by the researchers

Figure 2. ROA

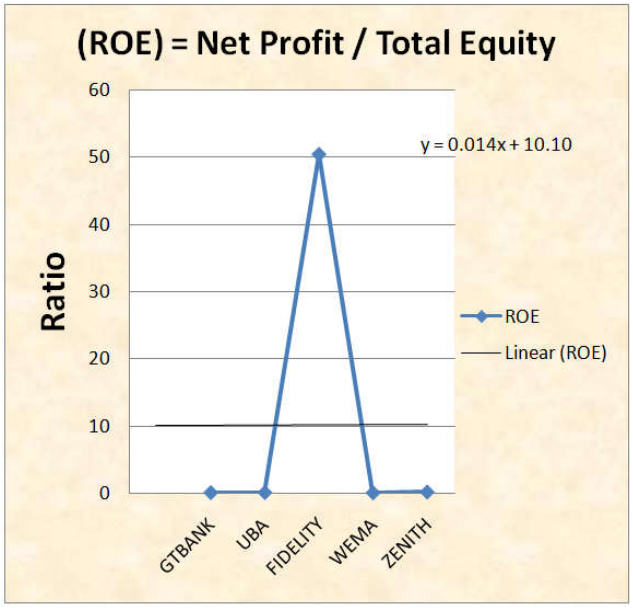
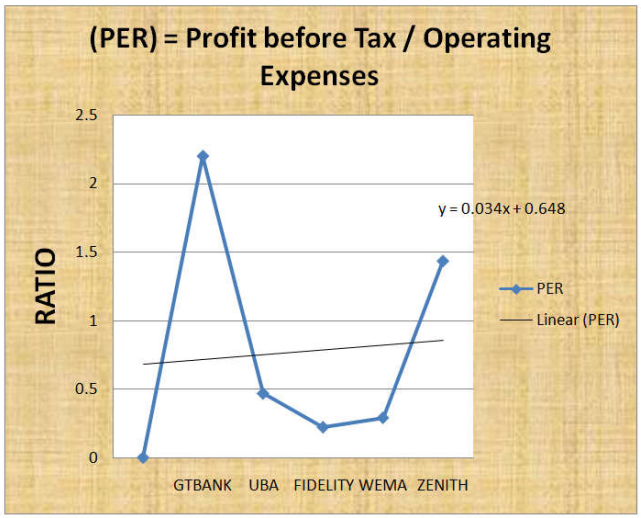
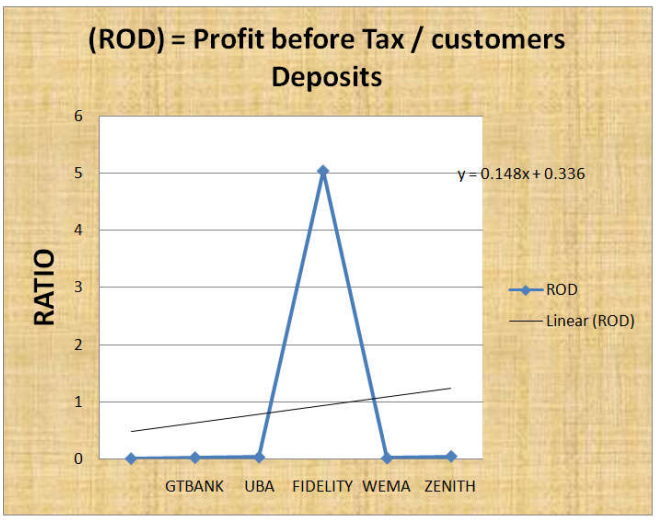


Figure 3. ROE





Source: Constructed by the researchers

Figure 4. PER

Liquidity ratios

The following concepts were employed to analyse the liquidity of the selected banks. The tables below display the bank's behaviors. Table 1 reveals that the return on asset of Fidelity bank was the highest, followed by Zenith bank. This implies a better managerial performance and effective utilization of the asset (Ross, Westerfield, Jaffe 2005). On the other hand, UBA, GTBank and Wemabank had a very low ROA. This could be due to high contest in the market.

Further explanations are shown in the Line charts below. Table 2 reveals that Fidelity bank and Zenith bank had the highest return on equity while UBA, GTBank and Wema bank was low, this could mean better managerial performance (Sabi, 1996; Hassan 1999). However, a higher Return on Equity (ROE) may be due to debt or higher ROA. There is no difference between the ROA of WEMA bank and Zenith bank while the other banks have little difference in the standard deviation and also the standard deviation measure the spread of the asset.

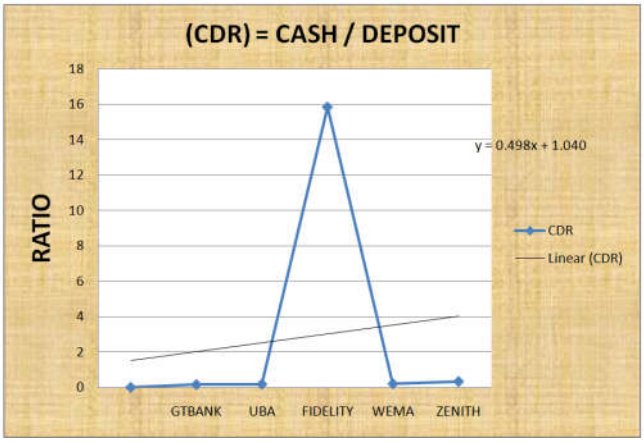
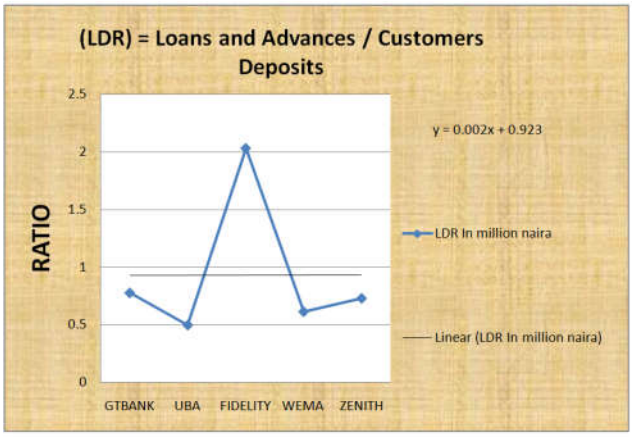
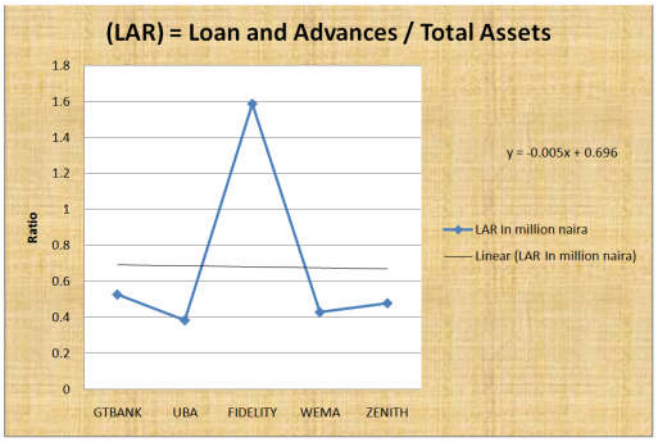


Figure 5. CDR



Source: Constructed by the researchers

Figure 6. LDR



SOURCE: Constructed by the researcher

Figure 7. LAR

Table 3 above shows that GTBank had the highest profit to expenses ratio followed by Zenith bank while UBA, Wema bank and Fidelity bank were low. This ratio indicates how efficient a bank controls her operating expenses. A higher PER means the bank is cost efficient and making higher profits (Samad& Hassan 2000). Table 4 reveals that Fidelity bank had the highest return on Deposit, followed by Zenith bank while UBA, GTBank and Wema bank were respectively low. This ratio reflects the banks' managerial ability to utilize customers' deposits to generate profits. Table 5 reveals that Fidelity bank had the highest cash deposit ratio followed by Zenith bank, while Wema bank, UBA and GTBank were respectively low. A higher CDR indicates that a bank is a comparatively more liquid than a another bank, which has lower CDR, and then depositors can trust a Bank with high CDR. Table 6 reveals that Fidelity bank has the highest loan deposit ratio, followed by GTBank, Zenith bank, Wema bank and UBA bank. Bank with lower loan is said to have excess liquidity, potentially lower profits and less risk as compared with banks with higher LDR (MDAminul 2014). Table 7 above shows that Fidelity bank had the highest Loan to Asset ratio, while GTBank, Zenith bank, Wema bank and UBA were low respectively. High LAR is an index of likely higher profitability and more risk. Also, it was revealed that the return on asset of Fidelity bank (0.123) was high which implies a better managerial performance and effective utilization of the asset while on the other hand UBA (0.020), GTBank (0.012) and WEMA bank (0.006) have a low ROA. This could be due to high competition in the market. Return on Equity (ROE) reveals that Fidelity bank (50.390) and Zenith bank (0.179) had the highest Return on Equity while UBA (0.99), GTBank (0.081) and WEMA bank (0.052) were low.

However, Profit to Expenses Ratio (PER) GTBank (2.198) had the highest profit to expenses ratio followed by Zenith bank (1.433) while UBA (0.467), WEMA bank (0.290) and Fidelity bank (0.221) were low too. This ratio indicates how efficient a bank controls her operating expenses. A higher PER means the bank is cost efficient and making higher profit. To determine the liquidity ratio of each bank then it the resuls also reveals that Fidelity bank with cash deposit ratio of 15.839 had highest liquidity ratio, followed by Zenith bank with 0.329 while WEMA bank, UBA and GTBank0.2, 0.18 and 0.157 respectively, were low. A bank with a higher CDR is relatively more liquid than a bank which has a low CDR.

Gross earning, profit after tax, customer deposit, other reserve were significantly different in each of the bank with P value <0.05 while P value was > 0.05 for foreign exchange income, income from investment and commission income were the same among the banks i.e. there is no significance difference among the banks. Also from the test carried out using chi-square and spearman correlation, it is clear that there is significance difference in each of the banks.The financial ratio analysis of profitability performances of return on assets (ROA) with the slope of 0.001 shows that an increase in the return on asset (ROA) for each banks will bring about 0.001 million naira increase in the following year i.e. 2016. Return on equity (ROE) with the slope of 0.014 shows that an increase in the return on equity for each bank will bring about 0.014 million naira increase in the following year i.e. 2016. Furthermore, return on deposit (ROD) with the slope of 0.0148 shows an increase in the return on deposit for each bank will bring about 0.148 million increase in the following i.e. 2016.

Summary

The Banks performances are usually affected by the cash inflow and outflow of the banks, including the gross earning, profit after tax, foreign exchange income, income from investment, customers' deposits, etc. How much money a bank can create depends on their reserve ratio. Banks increase and decrease the quantity of money in circulation through their actions. The most successful bank will be the one that can provide the needed services at the lowest cost and thereby markets its service at the lowest price and still maintains an adequate profit margin. The most common measure of bank performance is profitability. Generally, accounting profits are differences between revenue and cost. This ratio is used to measure the capacity of the business to generate earnings in comparison with all its expenses. Profitability ratio is often view as the basic financial ratio that helps determine how well the bank is performing in terms of profit. This study has been able to investigate the performances of the selected banks. It has made a successful comparisons of the selected banks' efficiencies and performances using financial ratios analyses of their financial statements. The analyses have shown that there are significant differences in the performances of the selected banks.

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