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ANALYSIS OF BANK'S FINANCIAL STATEMENTS FOR INVESTMENT DECISION

Idowu, Akinyele Akinwumi[1]

[1]Department of Banking and Finance,
Federal Polytechnic Ede,
Nigeria

ABSTRACT

The annual financial reports provided by the accounting system, is considered the main source for information for decision-makers especially the investors. Corporate organizations owe a duty to fully disclose matters concerning their operations. Therefore, the validity and accuracy of the decisions depend on the proper analysis of financial statements. Investment decision makers rely on information obtained from financial statements to predict future rates of return. Without the financial statement, there will be a problem of how to determine the profit of a company, and evaluation of performance of a company. This study aims to identify the role of financial indicators in the rationalization of investors' decisions in the Nigerian stock exchange. The specific objective is to ascertain the role of Banks' financial statement in investment decision making. The study was based on survey design method and questionnaire was used to gather information. The study target population was 375 staff of Federal Polytechnic Ede, Nigeria. Out of this was 175 chosen as sample size Mugenda's formula. The methods used in analysing this study were simple percentage and chi-square. We discovered from the test of hypothesis that financial statement is relied upon in investment decision making and financial statements are useful for forecasting company's performance. Despite, the fact that there are other factors affecting investment decisions, such as, economic, political and the reputation of the commercial bank, but still the financial analysis factors constitute the main tool in attracting investment. Conclusion based on the findings was that financial statement plays a vital role in investment decision making and recommends that no investment decision should be taken without the consideration of a company's financial statements.

KEYWORDS: *Stock Exchange, E-Products, Central Bank, Economic Activities, Financial Meltdown.*

INTRODUCTION

Money is the trading stock of banks all over the world. Even in this day of advance technology and the proliferation of e-products, the position of money has been found to be very unique as medium of exchange, unit of account and store of value. The relevance even in modern economy is incontrovertible but only increase the variety of types of money and monetary instrument. Even with this the relevance of money and banks are not diminished but widen the essence of banks and the regulatory and supervisory roles of the Central Banks.

Bank is the pivot around which economic activities revolve. An economy is only as stable and solid as the strength and dynamism of its financial system, spear headed by banks. The relationship between banks and

economic growth and development is dual-carriage-causitive. Where ever there is commercial growth you will find banks, and where ever there is bank, economic activities will bubble. They are like Siamese twins.

Banks therefore become so central and important in economic and commercial activities that it is constantly and continually under the surveillance Central bank and other government financial and economic development agencies and it is almost over regulated as the national wealth repository, re-allocator of resources and stimulator of economic activities.

For these reasons almost all citizenry of any nation is concerned about what happens in and to its national banking system. The consequence of this is that if a bank sneeze almost everybody in that country directly or indirectly especially the banking sector investors catch cold. People have developed the habit of scrambling for banking sector IPOs often resulting in over subscription of all quoted issues and dealing in the secondary market is unparalleled by any other sector on the stock exchange. This is responsible for the volatility of banks share prices on the Nigerian Stock Exchange and contributed majorly to the input and growth of most Share-index, a major indicator of Stock Exchange performance.

One would have expected that with the recent financial meltdown, failure of many banks and consequent sanitization of banking system in Nigeria, which lead to another set of merger and acquisitions, suspension of few banks license and placement of some banks under close supervision, investors will have been cautioned, but this seems to be far from reality on ground. Banking stocks have rebounced to its leading position to the extent that one may ask: Does investors learn anything from past events at all? Do they understand the hand writing when the bubble is about to burst? Do they follow any strategy or technique in their investment decisions? One marvels at billions of Naira, annually going down the drains in Nigeria as a result of poor, careless and unmethodical investment decisions. Truly there is a place for sentiments and herding in investment decisions, but the time is now ripe for people to know about the need for financial analysis in investment decisions, its relevance and techniques.

BANK PERFORMANCE

Performance means the degree or level of skill or effort made in implementation and intended output or objectives system seeks to achieve (Salam, 2008). We can define performance evaluation as comparing results (Jomaa, 2000). This definition clarifies two matters: (1) Measures the achievement or planned goals, means evaluate goals; (2) the extent of appropriate and efficient method used to achieve goals (efficient performance) (Zayoud, 2005).

For banking performance, financial performance is one of the important indicators that measure the company's ability to achieve its goals (Aqil, 2000). Banking performance means comparing the targets with the achieved results (Taha, 2003). The necessary tools and various activities run by the banks to meet the goals (Salam, 2008). So the banking performance is vivid portraits reflecting the bank's ability to achieve objectives according to suitable standards. The commercial banks are considered as one of the important financial institutions.

Financial performance will stay as the only measure for banks success (Walther et al., 1997). Eccles (1991) considers the trends towards measuring the performance of banks in accordance with the financial perspective in more sophisticated approaches. The development in financial performance field guarantees a competitive advantage to the bank towards strengthening and development of the banks. There are various fields which bank seeks to measure and every one of them reflects the target a bank seeks to achieve

Financial analysis assists in identifying the major strengths and weaknesses of a business enterprise. It indicates whether a firm has enough cash to meet obligations; a reasonable accounts receivable collection period; an efficient inventory management policy; sufficient plant, property, and equipment; and an adequate capital structure (Moyer, McGuigan, Kretlow, 2005).

The economic climate calls for investors to apply vigorous financial analysis as they evaluate business performance, weigh potential investments, and assess global competition. In response, strategic financial analysis for business evaluation focuses on the frameworks required to monitor performance, forecast capital utilization, value strategic assets, and review restructuring opportunities.

Investment is putting money into an asset with the expectation of capital appreciation, dividend or interest earnings. Financially, investment is the purchase of an asset or item with the hope that it will generate income, appreciate or both in the future and be sold at the higher price. (Wikipedia, 2014)

Financial analysis serves as key to measure performance, creditworthiness, investment returns and effects of financial performance on pre and post mergers and acquisitions. All which are explained as follows:

1) Performance analysis - this analysis is important for internal users of a company's management. They use financial information available in the financial statements and financial data to make analysis for control, planning and performance evaluation purposes. Ratios

include turnover rates, investments, inventory and turnover of net working capital and assets (Matar, 2003).

2) Credit analysis - this analysis seeks to identify potential risks or dangers faced by lenders in their relationships with borrowers. Short and long-term credits are assessed to obtain information on a unit's ability to meet the debt and benefit payment when due, financial policies, the effects on the capital structure of the unit, the objectivity of evaluating assets provided as collateral and debt/bankruptcy risk if the unit went into liquidation or financial distress (Saeed, 1982). Useful indicators in this analysis are short-term liquidity indicators, financial leverage indicators or long-time solvency and long and short term cash flow.

3) Investment analysis - this analysis is important for investors (current and potential shareholders) who are interested in current and future company's resources and their ability to continue, investment growth rates, market risks and the efficiency of unit management in terms of financial policies and exploitation of economic resources (Matar, 2003). Quantitative indicators are useful in this analysis such as profitability ratios, market risk and other indicators.

4) Mergers and acquisition analysis – this serves to evaluate a unit's business performance intending to merge with or purchase other business units. It is based on an appropriate method, followed by the merging company to pay for shares of the merged companies (subsidiaries) and explore the potential effects of the merger at pre and post merger/acquisition (Qyasa, 2006).

Ratio analysis is one of the main financial indicators extracted from financial statement analysis that is used to obtain a quick indication of a firm's financial performance in several key areas. Ratio Analysis as a tool possesses several important features. The data, which are provided by financial statements, are readily available. The computation of ratios facilitates the comparison of firms which differ in size. Ratios can be used to compare a firm's financial performance with industry averages. In addition, ratios can be used in a form of trend analysis to identify areas where performance has improved or deteriorated over time.

Making big investment decisions means that, we must allocate substantial amounts of major resources of people, time, technology, intellectual capital, and money. A high quality decision process requires that our choices are précised and the consequences are understood and well explored.

ANALYSIS OF FINANCIAL STATEMENTS

Users of financial statements can get further insight about financial strength and weakness of a company if they properly analyze information reported in these statements. Therefore, financial analysis is the process of identifying financial strength and weakness of a company by properly establishing relationships between the items in the balance sheet or statement of financial position and income statement. Financial analysis can be undertaken by the management of the company or by parties outside the company e.g. shareholders, creditors, investors and others. The nature of the analysis will differ depending on the purpose of the analyst.

In carrying out analysis to identifying the strengths and weaknesses of bank's performance, diagnosing the causes and effects of financial situations and extrapolating future trends , one must have good knowledge about the internal and external conditions of the bank before doing data analysis and disclose the basis of their interpretations from the important factors and data that being studied. Analysts must avoid bias in the interpretations of their report analysis and present suitable indicators, recommendations and better alternatives to decision makers (Matar, 2003).

TYPES OF FINANCIAL STATEMENT

Financial statement is an accounting statement which shows the state of an organization. According to Companies and Allied Matters Decree (CAMA, 1990) and International Financial Reporting Standard (IFRS), the financial statements of any organization include;

a) Statement of accounting policies
b) Statement of the financial position
c) Income statement
d) Cash flow statement
e) Statement of retained earnings
f) Note to the account
g) The auditor's report
h) The director's report
i) A statement of source and application of fund
j) A value added statement for the year
k) A five year financial summary
l) In the case of holding company, the group financial statement.

OBJECTIVES OF FINANCIAL STATEMENT

The basic objective of financial statement is to assist in decision making. The other objectives are;

i To provide reliable financial information about economic resources and obligations of a business enterprise.

ii To provide reliable information about changes in the net reserves (resource obligation) of the business.

iii To provide information that assist in estimating the earning potential of enterprise.

iv. To disclose to the extent possible, other information related to the financial statements that are relevant to the statement users.

As the roles of accounting and finance evolve, the scope or objectives of financial analysis have also increased as follows:

1) To identify the strengths and weaknesses of unit performance and serve information from various perspectives for deep insights to users who have financial interest in the unit.
2) To assess the profitability and credit risk in the financial statements to check the adequacy of funding, managing the assets and liabilities, financial position of the unit, and the ability to continue operations.
3) To develop some indicators that point to suitable management tools for planning, monitoring and evaluation of performance (Matar, 2003).
4) To examine unit's ability to repay obligations through the studies of relationship between assets and liabilities and the ability of those assets to cover liabilities during a certain period (Hayali, 2004).
5) To provide information to financial institutions and lenders on the possibility of granting loans to a unit or an organisation, through economic indicators related to the unit's ability to fulfill its economic obligations towards them (Melicher and Norton, 2005).

Results from the analysis are used as a means to correct possible deviations and evaluate unit performance (Salam, 2008). Financial analysis is helpful in assessing corporate excellence, judging credit worthiness, forecasting bond ratings, predicting bankruptcy and assessing market risk.

Practitioners and Academics identify two approaches of financial analysis: Qualitative - traditional and Quantitative- modern methods. In a quantitative method, financial analysts use financial ratios for the purpose of analysis and judgment on a company's activities (Alsayah and Ameri, 2007). They use a comparative analysis that is a complement to the traditional method, to compare between current and previous data or with standard or industry indicators (Hayali, 2004). Modern method (quantitative) helps to achieve more accurate results. It is time and cost savings approach for analysts as the work can be computerized. Matar (2003) highlights the importance of qualitative approach in financial analysis. The author argued that evaluating the numbers on the published financial statements alone are not adequate to arrive at conclusions because quantitative data are not the only outcome of accounting policies that determine the type and nature of the accounting principles and methods. Financial analysts must extend their range of study from examining the quantitative data to qualitative explanations of the published data. This includes specific features of unit profitability and financial position.

Qualitative approach is valuable in banking sector or industry for two reasons. Firstly, the largest part of the bank's assets and liabilities falls within cash category. There is a need to assess risks associated with it including the risk of volatility, purchasing power of cash unit that arises in periods dominated by high rates of inflation and exchange price risks arising from volatility in foreign exchange rates. Secondly, the largest part of banks' assets is financed by other sources which make liquidity and solvency influential indicators than other types of economic indicators. Positive capital adequacy is important to attain favourable capital structure leverage.

Qualitative indicators found in banks' financial statement analysis are comprised of the following.

1) The type and nature of accounting policies used in the recognition of income and expenses, especially those elated to commissions and interest received as the main source of revenues. The type and nature of credit policies adopted in granting loans, facilities and the impact of these policies on the classification of loans portfolio. Non- performing loans proportion in the portfolio and policies in dealing with these loans.
2) Strategy in the management of the investment portfolio of the bank and the nature of risks surround them. The type and nature of assets provided as collateral for loans and facilities and the fair values of those assets.
3) The accuracy and objectivity of the methods used in assets and liabilities evaluation. Its compatibility and compliance with the rules laid down in the principles or accepted accounting standards in general, also the extent and nature of contingent liabilities, pledges made by the bank

to customers and others. Hayali (2004) mentioned that qualitative analysis is a way to convert data to get structured information for decision making.

The financial analysis does not stop at just reading and explaining the existing relations between numbers in the financial statements. In banks the purpose of the qualitative analysis is to get complete knowledge to ensure that investment process is stable and strengthened.

The financial analysis can be performed by analysts who work for the firm or by outsiders like investors, creditors, lenders, suppliers, customers, security analysts, academics, researchers, environmental protection organizations, government and other regulatory bodies, special interest lobbying groups and so on. So the financial analysis, which aims at measuring the performance of an organization is intended for both (a) for internal use by management and (b) for external use by external parties.

OBJECTIVE OF STUDY

However the objective of this study is to identify the role of financial indicators in the rationalization of investors' decisions in the Nigerian stock exchange, specifically to ascertain the role of Banks' financial statement in investment decision making.

RESEARCH QUESTIONS AND HYPOTHESIS

a) What informed investor decision in banking stocks on the Nigerian Stock Exchange
b) What is the investor level of understanding of financial statements and its' constituent
c) What is the role or contributions of the stock exchange in banking sector performance
d) What is the level of familiarity and discerniability of relevant economic issues and information.

These will help in testing the formulated hypothesis: whether thorough analysis of financial statements is sufficient to determine future performance of a bank.

SIGNIFICANCE OF STUDY

This study is significant to the shareholders and to the investing public because proper investigation of the information contents of financial statements of companies would undoubtedly enhance efficient and effective investment decisions. The study is beneficial both to existing shareholders and potential ones because it reveals what actually should form the basis of shareholders' investment decisions–that is, whether the information contents of financial statements, or other factors like market price of shares. The study will also help to reveal the predicaments of investor to institutional investor and assist the investment practitioners in formulating policies and packaging portfolio for their clients.

EMPIRICAL LITERATURE REVIEW

There are various methods for evaluating banks performance and perhaps the most important and most frequently used is quantitative method. Ratios are popular in the second half of the last century as a result of evolution in financial functions in financial decision-making. Quantitative method is a technique that uses quantitative phenomena analysis. It studies the relationships between variables in the activities of companies and decision-making such as investment and loan portfolios (Hanawi et al., 2009).

There is also accounting information system designed to provide information from published financial and non-financial statements to help beneficiaries to make economic decisions (Khanfar and Matarna, 2006). The bank credit is used as a measurement to assess the financial performance of banks customers who seeks credit facilities (Taha, 2007). Under this approach the scope of the financial analysis will be limited in the quantitative aspect of the phenomenon under study and analysis (Matar, 2003).

The financial ratios is considered the most important tools and most prevalent among financial analysts. It is one of the oldest tools which appeared in the mid-nineteenth century used to make economic decisions. Khanfar and Matarna (2006) argued that financial ratios as the most important tools in financial analysis to help to know (1) the liquidity of the bank; (2) the position of available money for lending; (3) the suitability of property rights and profitability of the bank (Ziad and Mahfouz, 2003).

We can express financial ratios in various forms; as a percentage break rate and in a way which the ratio depends on the specific needs of those who will use the available information. Many of the ratios can be calculated from the financial statements. Therefore, financial analysis using percentage aims to determine the criteria to evaluate performance of the bank, does not mean anything to the reader unless it is compared to standard values or other ratios (Al Shamai and Khalid, 1990).To determine the optimal financial ratios that can be used in banks financial analysis, we must understand their differences. Al-Hindi (1990) identifies most commonly used financial ratios in measuring financial performance of the bank as follows:

1) Profitability: include (the rate of return on property right, the rate of return on investment, profit margin, and return on total money employment for lending).

2) Growth: include (asset growth rate, multiple property right, and property retention rate).

3) Liquidity: measuring the ratio of cash to average demand deposits, and cash ratio to average total deposits, and the average cash and short-term investments to total deposits and demand deposits.

4) Durability or capital property adequacy (capital adequacy): the ratio is measured equity to total assets and the ratio of capital to deposits or to total assets and risky assets or loans and commitment.

Ratios can be divided into five major categories:

a) Liquidity ratios
b) Profitability Ratios
c) Debt or Solvency Ratios
d) Cash Flow Adequacy ratios
e) Market Value ratios

a) - Liquidity Ratios:-

Liquidity ratios measure a firm's ability to pay its bills as they come due. Two commonly used liquidity ratios are the current ratio, and the quick ratio.

Current Ratio: The current ratio is found by dividing current assets by current liabilities. A ratio of 1 means the business has just enough current assets to pay current liabilities. Ratios above 1 mean a firm has more current assets than current liabilities; ratios below 1 mean more current liabilities than current assets. Investors typically prefer a lower current ratio because it shows that a firm's assets are working to grow the business.

Quick Ratio: The quick ratio, also called the acid test, subtracts inventory from current assets before dividing them by current liabilities. The acid test gives a more accurate view of the firm's short-term liquidity than the current ratio because it removes inventory that the firm may not be able to sell from the equation.

$$\textbf{Quick Ratio} = \frac{\text{Current Assets - Inventory}}{\text{Current Liabilities}}$$

Accounts Receivable Turnover Ratio: It measures the number of times trade receivables turnover during the year. The higher the turnover, the shorter the time between sales and collecting of cash. This ratio tells the investor what are the customer payment habits compared to firm's payment terms. Accordingly the firm may need to step up the collection policies or tighten the credit policies. These ratios are only useful if majority of sales are credit sales.

$$\textbf{Accounts Receivable Turnover} = \frac{\text{Net Sales}}{\text{Average Accounts Receivable}}$$

Inventory Turnover Ratio: It measures the number of times inventory turns over into sales during the year or how many days it takes to sell inventory. This is a good indication of production and purchasing efficiency. A high ratio indicates inventory is selling quickly and that little unused inventory is being stored (or could also mean inventory shortage). If the ratio is low, it suggests overstocking, obsolete inventory or selling issues.

$$\textbf{Inventory Turnover} = \frac{\text{Cost of Sales}}{\text{Average Inventory}}$$

b) - Profitability and Activity Ratios:-

Profitability ratios measure a firm's ability to generate profits. It consist four main ratios; net profit margin, assets turnover ratio, return on assets and return on equity. Activity ratios are also known as efficiency ratios. These ratios measure how efficiently the firm is using its resources like turnover o f working capital and turnover of fixed assets etc. (Gupta, R.K. 1990).

Profit Ratio : Measure of net income produced by each dollar of sales.

$$\textbf{Profit ratio} = \frac{\text{Net Income}}{\text{Net Sales}}$$

Assets Turnover Ratio: It measures how efficiently the business generates sales on each dollar of assets. An increasing ratio indicates that the firm is using assets more productively.

$$\textbf{Asset Turnover Ratio} = \frac{\text{Net Income}}{\text{Average Total Assets}}$$

Return on Assets: (ROA) Measure of overall earning power of profitability.

$$\textbf{ROA} = \frac{\text{Net Income}}{\text{Average Total Assets}}$$

Return on Equity: (ROE) Measure of profitability of stock holders' investment.

$$\textbf{ROE} = \frac{\text{Net Income}}{\text{Average Total Equity}}$$

It is important to remember that ROA and ROE ratios are based on accounting book values and not on market values. Thus, it is not appropriate to compare these ratios with market rates of return such as the interest rate on Treasury bonds or the return earned on an investment in a stock (Ahsan, 2013)

c) - Debt Ratios:-

Debt Ratios attempt to measure the firm's use of Financial Leverage and ability to avoid financial distress in the long run. These ratios are also known as Long-Term Solvency Ratios.

Debt is called Financial Leverage because the use of debt can improve returns to stockholders in good years and increase their losses in bad years. Debt generally represents a fixed cost of financing to a firm. Thus, if the firm can earn more on assets which are financed with debt than the cost of servicing the debt then these additional earnings will flow through to the stockholders. Moreover, our tax law favors debt as a source of financing since interest expense is tax deductible (Akintoye, 2004).

With the use of debt also comes the possibility of financial distress and bankruptcy. The amount of debt that a firm can utilize is dictated to a great extent by the characteristics of the firm's industry. Firms which are in industries with volatile sales and cash flows cannot utilize debt to the same extent as firms in industries with stable sales and cash flows. Thus, the optimal mix of debt for a firm involves a tradeoff between the benefits of leverage and possibility of financial distress.

Debt to Equity Ratio: Measure of Capital Structure and leverage

Debt to Equity Ratio = Total Liabilities / Total Equity

Debt to Assets Ratio: Measure of assets debt structure

Debt to Assets Ratio = Total Assets / Total Equity

Interest Coverage Ratio: Measure of Creditors' protection from default on interest payment before Income Taxes+ Interest Expenses

Interest Coverage Ratio = Income / Interest Expenses

d) - Cash Flow Adequacy Ratios:-

Cash Flow Yield Ratio: Measure of a company's Ability to generate operating cash flows in relation to net income

Cash Flow Yield Ratio = Net Cash Flow from Operating Activities / Net Income

Cash Flow to Sales Ratio: Measure of the ability of sales to generate operating cash flow

Cash Flow to Sales Ratio = Net Cash Flow from Operating Activities / Net Sales

Cash Flow to Assets Ratio: Measure of the ability of assets to generate operating cash flow

Cash Flow to Assets Ratio = Net Cash Flow from Operating Activities / Average Total Assets

e) - Market Value Ratios:-

Market Value Ratios relate an observable market value, the stock price, to book values obtained from the firm's financial statements.

Price-Earnings Ratio (P/E Ratio): The Price-Earnings Ratio is calculated by dividing the current market price per share of the stock by earnings per share (EPS). (Earnings per share are calculated by dividing net income by the number of shares outstanding.) The P/E Ratio indicates how much investors are willing to pay per dollar of current earnings. As such, high P/E Ratios are associated with growth stocks. (Investors who are willing to pay a high price for a dollar of current earnings obviously expect high earnings in the future.) In this manner, the P/E Ratio also indicates how expensive a particular stock is. This ratio is not meaningful, however, if the firm has very little or negative earnings.

P/E Ratio = Price Per Share / Earnings per Share

Where: Earnings per Share = Net Income / Number of Shares Outstanding

Market-to-Book Ratio: The Market-to-Book Ratio relates the firm's market value per share to its book value per share. Since a firm's book value reflects historical cost accounting, this ratio indicates management's success in creating value for its stockholders. This ratio is used by "value-based investors" to help to identify undervalued stocks.

Market-to-Book Ratio = Price Per Share / Book Value per Share

Where: Book Value per Share = Total Owners' Equity / Number of Shares Outstanding

P/E ratio is a widely used ratio which helps the investors to decide whether to buy shares of a particular company. It is calculated to estimate the appreciation in the market value of equity shares. The average P/E ratio is normally from 12 to 15 however it depends on market and economic conditions. P/E ratio may also vary among different industries and companies. P/E ratio indicates what amount an investor is paying against every dollar of earnings. A higher P/E ratio indicates that an investor is paying more for each unit of net income. So P/E ratio between 12 to 15 is acceptable. A higher P/E ratio may not always be a positive indicator because a higher P/E ratio may also result from overpricing of the shares. Similarly, a lower P/E ratio may not always be a negative indicator because it may mean that the share is a sleeper that has been overlooked by the market. Therefore, P/E ratio should be used cautiously. Investment decisions should not be based solely on the P/E ratio. It is better to use it in

conjunction with other ratios and measures (Ready Ratio, 2014).

ADDITIONAL REQUIREMENT FOR THE BANKS

For banking performance, financial performance is one of the important indicators that measure the company's ability to achieve its goals (Aqil, 2000). Banking performance means comparing the targets with the achieved results (Taha, 2003). The necessary tools and various activities run by the banks to meet the goals (Salam, 2008). So the banking performance is vivid portraits reflecting the bank's ability to achieve objectives according to suitable standards. The commercial banks are considered as one of the important financial institutions.

There are various fields which bank seeks to measure and every one of them reflects the target a bank seeks to achieve also there are various methods for evaluating banks performance and perhaps the most important and most frequently used is quantitative method.

Liquidity rating of banks is based on: (a) the volatility of deposits; (b) reliance on interest sensitive funds and level of borrowings; (c) technical competence relative to structure of liabilities; (d) availability of assets readily convertible into cash and (e) access to money market and other sources of funds. Liquidity is evaluated on the basis o f the bank's capacity to promptly meet the demand payment of its obligations and to readily satisfy the reasonable credit needs o f the community it serves. Consideration is given to the overall asset - liability management strategies and compliance with the laid down policies. The main liquidity ratios applied are Cash Reserve Ratio (CRR), Liquid Assets to total Deposits Ratio, Demand deposits to aggregate deposits etc. (Patheja, 1994).

CAPITAL ADEQUACY / LEVERAGE RATIO

Capital adequacy is a reflection of the inner strength of a bank, which would stand it in good stead during times of crisis. Capital adequacy may have a bearing on the overall performance of a bank, like opening of new branches, fresh lending in high risk but profitable areas, manpower recruitment and diversification of business through subsidiaries or through specially designated branches. In Nigeria each banks is required to meet the capital adequacy standard of 8% the norm fixed on the basis of the recommendations of Basel Committee.

As a sequel to this direction almost all banks in Nigeria try to adhere to this norm, thus compute the ratios of capital adequacy. The computation of capital adequacy ratio is done by taking ratio of equitv capital and loan loss provisions minus non-performing loans to total assets. Expressed as a percentage* the ratio shows the ability of a bank to withstand losses in the value of its assets.

For a longtime, the ratio of capital to deposits was conceived as an ideal measure of capital adequacy. However, over-the years, the capital adequacy norms in terms of capital deposit ratio was found to be inadequate in as much as it did not truly reflect the shock absorption capacity of capital. Even this proved to be an ineffective indicator as it did not take into account the composition of the assets classified in terms of risk associated with each category of assets. These basic inadequacies of the system gave rise to the present concept o f capital adequacy of the banks in terms of "Risk-Asset Ratio" approach. The modified concept of capital adequacy ratio became a key parameter for assessing a bank's intrinsic strength. In the current decade because of the importance of capital adequacy ratio, on the basis of modified concept, has remained potent subject of research for banking economists world over (Joo, 1996).

Capital is rated in relation to (1) the volume of risk assets; (2) the volume of marginal and inferior quality assets; (3) bank growth experience, plans and prospects and (4) the strength of the management in terms of 1 to 3 above. Consideration is also given to the bank's capital ratios compared to its peer group, its earnings retention and its access to capital markets or its other appropriate sources of financial assistance (Godse, 1996). Capital adequacy, an indicator of long-term solvency, is measured by capital adequacy ratio, leverage ratio (shareholder's equity to total capital) net worth protection rate (Shareholder's equity to non-performing loan) (Purohit and Mazumdar, 2003).

CAMEL PARAMETRES

The recent innovation in the area of financial performance evaluation of banks is Camel Rating. An efficient way to evaluate banks' performance, determine the strength, weakness, and the durability of its financial position. Although the system was evolved by US regulating agencies in 1979, but in recent years it became widely applicable tool in the hands of all regulators worldwide including Nigeria. Under this system, the rating of individual banks is done along five key parameters-capital adequacy, Asset quality, Management Capacity, Earnings analysis, and liquidity-yielding the rating system's acronym, CAMEL (Cole and Gunther, 1996) and then added a sixth element in 1997 which is sensitivity of market risks (Sinkey 1998). Each of the six dimensions of performance is rated on a scale of 1 to 5. Rating 1 denotes that the bank

is fundamentally sound, while the Rating 2 signifies that lie bank is fundamentally sound, but may show modest weaknesses. Rating 3 indicates that the bank has a combination of weaknesses fair to moderately severe. The bank with marginal performance that is significantly below average is rated as 4. The worst rating is 5, meaning thereby that the institution has serious weaknesses that render the probability of failure extremely high in the near future. The aggregate rating is the sum total of the ratings under all five components. These ratings 1 to 5 are described as strong, satisfactory, fair, marginal and unsatisfactory in that order (Godse, 1996). For banks CAMEL parameters have often been used to test their performance.

Though, many of the banks are not doing this qualitative analysis, therefore risks sanction by the regulatory and supervisory authority (CBN). They stopped at analyzing the financial ratios and added assessment of banks' performance. Central banks confirm that qualitative indicators can add value to the results obtained from the financial ratios analysis

RESEARCH METHODOLOGY

The study followed a survey design method using descriptive analysis and inferential statistics for result. Primary data through questionnaire were collected. Target population was 375 staff of Federal Polytechnic Ede, Nigeria. Out of this, 175 were chosen as sample size using Mugenda's formula. The methods used in analysing this study and testing the hypothesis were simple percentage and chi-square

FINDINGS AND DISCUSSION

Out of the 175 respondents, 112 questionnaires were adequately completed and useful for the study, a return rate of 64%. 73 of the respondents said financial analysis (ratios) and understanding of financial statement is essential for investment decisions. However, 82 of them do not know anything about financial statement. We discovered from the survey that financial statement is essential in investment decision making and financial statements are useful for forecasting company's performance. Despite, the fact that there are other factors affecting investment decisions, such as, economic, political and the reputation of the organization, but still the financial analysis factors constitute the main tool in attracting investment. Unfortunately more than 65% of the respondents do not understand or have a shallow understanding of the content of the financial statement and over 75% do not understand it rudiments yet this is an academic environment, one can only imagine what happens among general public. Conclusion based on the findings was that financial statement plays a vital role in investment decision making and recommends that no investment decision should be taken without the consideration of a company's financial statements.

CONCLUSIONS AND RECOMMENDATION

According to Data Analysis the study had concluded the following:

a. The use of financial indicators has a significant positive effect on investment taken by investors.
b. Financial indicators represented in ratio analysis plays a vital role in a business forecasting and figuring out the strength, weaknesses, and opportunities of a business enterprise.
c. High significance to individual ratios doesn't always result in a good decision. Sometimes higher profitability may be accompanied with low liquidity.

However, results of the study show that: investors are more concerned about returns – dividend, with a little or no understanding of how it came about or the underlying financial statement. To them companies with higher profitability attract more shareholders, Investors are more attracted to companies who pay dividend than those who do not pay dividend as they are uncertain about the state of such companies, Investors show less interest in companies' Earnings per Share while making their investment decisions in the Nigerian Stock market, Shareholders are after their own return on their investment in the company, and not how the management of the company settles its obligation to creditors and lenders.

Finally the extent which information content of financial statement affects shareholders' investment decision is low; that is if they understand it and its underlying fundamentals at all. This imply that there are other factors that have stronger impression on investment decisions by shareholders.

From the outcome of the study, the researcher recommends the following:

a. Financial indicators should be used wisely after complete check of the past history of the bank, and understanding of facts behind the figures.
b. Other tools than financial indicators has significant effect on decision making which should be taken into consideration.
c. Financial indicators will not say why something is going wrong, or what to do about a particular situation, they only pinpoint area of the problem.

d. Management policies and action could lead to high profit readings but comparison of such company with another could be misleading.

e. Investor who are not conversant with stock market games, should use financial expert or unit trust or investment funds at least to start with or investment clubs for the safety of their capital

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