

# **TITLE PAGE**

**FINANCIAL REPORTING AND BANK**

**PERFORMANCE:**

**AN ASSESSMENT OF UNION BANK OF NIGERIA PLC**

**BY**

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**APPROVAL PAGE**

This Research work has been read and approved by undersigned persons as meeting the requirements for the award of a Masters degree in Business Administration (MBA) of Usman Dan Fodio University, Sokoto

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## **DEDICATION**

This Project is dedicated to God Almighty for the wisdom, knowledge, understanding, strength and perseverance He gave me for the successful completion of this research work.

## **ACKNOWLEDGEMENT**

First and foremost my gratitude goes to the almighty God who has been my strength and given me the perseverance, ability and showed me favour throughout my academic career and most especially this project.

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## **ABSTRACT**

The purpose of this study was to examine banks, on investments and performance appraisal. It was also to ascertain the problems of using financial reports to access performance of banks and finally to determine if there's a relationship between financial reporting and performance evaluation of a bank.

The inductive research method was adopted and the statistical analysts, particularly the chi-square and t-distribution test were used in the analysis of the data collected from the bank.

Although investors and performance evaluation analyst relied on financial statement in their decisions and appraisal, the reliability of financial report especially during inflation cannot be assured owing to the historical cost convention used as a basis for asset valuation by banks. This is because; the profits of an accounting year would not usually show a true figure owing to the courage effect of inflation. Therefore, managerial decision of banks based entirely on financial reports will lend to poor and inadequate decisions.

The recommendations and suggestion made were based wholly on the outcome of the study, for example, on the problem of inflation, it was recommended that the bank should adopt the current cost accounting basis for its financial reporting ensure credibility and reliability of information, by the various users, given the inflationary relatives.

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## **CHAPTER ONE : BACKGROUND OF STUDY**

### **1.1 INTRODUCTION**

A farmer, who plants crops, expects result, similarly to student who sits for an examination expects results. The same is also true of an investor.

For the farmer, the result might be communicated to him in the form of a bumper harvest. The result sheet or a report card would usually suffice for a student. However, in the case of an investor, the result is communicated through the financial reports.

Financial reports are law to be prepared by every limited liability company; these limited liability companies abound in virtually all sector of the economy.

Every company shall cause accounting records to be kept. The accounting records shall be sufficient to show and explain the transactions of the company and shall be such as to disclose with reasonable accuracy, at anytime the financial position of the company.

In the banking industry, financial reports are of great interest to the general public because the banks directly or indirectly interact with people.

This public interest has caused companies (including banks) to accept social as well as economic, financial and legal responsibilities and has created a consequence, a growing need for the communication of information to account for

the results which are of considerable interest a wide range of individuals and organizations.

So, it becomes very important for reliable information to be circulated to interested parties which can enable them to acquire an essential knowledge of the ways in which companies particularly the bank are performing in relation to the public interest. This fact is further educated by the recommendation of the working party set up in Britain by the Accounting standard committee in October 1974 under the chairmanship of Derek Boothman which took a study of the scope and aims of publishing financial statements.

The committee recommended that:

“The fundamental objectives of corporate reports are to communicate economic measurement of the reporting entity useful to those having reasonable right to such information”.

It is not an over statement when one says that the banking industry is the flume on which the national economy rotates. This huge impact upon a country economy therefore makes it a public affair as everybody has a right to know what such organization is doing, more so all information necessary to explain the organization's activities should be fully provided in the annual reports.

One of the most significant aspects of the information system of business enterprises in an economy is that it deals with the communication of financial data,

especially in describing business profitability and financial position. This information is important because it attempts to communicate the economic resources of the enterprises and the financial results, which have been achieved by its management when those resources have been put to use. It attempts to reveal how effective management has been in resources utilization as well as the financial reward available to compensate for risk taken by various suppliers of capital.

## **1.2 STATEMENT OF THE PROBLEM**

The genuineness of financial reports attracts diverse opinions from different quarters, such opinions can come from the general public, tax authorities, shareholders, creditors with long or short term interest, financial analyst and potential investors.

They argue that the financial reports do not usually give an accurate data about the financial capability of the business concern, for example, the idea of stating assets at their historical cost do not favour most investors as they argue that inflation is not usually taken care of, though the real value of such assets might have been eroded or wind swept.

Again since the financial reports are prepared by managements, the shareholders and others argue that there would usually be some elements of bias on

the part of management in the disclosure of management's financial mismanagement.

But in any case the management claims that some inherent/natural problems would usually affect the accuracy of such reports. It is therefore my intention to delve into the matter to enable me establish a relationship between financial reporting and performance evaluation in bank.

### **1.3 OBJECTIVES OF THE STUDY**

Companies including those in the banking industry have had to face the difficult task of presenting a credible and generally acceptable financial statement in their annual reports to the various people to whom they own such obligations.

The purpose of the study is:

- a. To determine the various financial reports used by banks.
- b. To ascertain the problems of using financial reports to assess performance of banks.
- c. To examine the use of historical cost convention adopted by banks in stating this balance sheet items on investors.
- d. To determine if there's a relationship between financial reporting and performance evaluation of a bank.

- e. To offer recommendations and solutions on the best way financial reports could be used in assessing bank performance.

#### **1.4 RESEARCH QUESTIONS**

- a. What impact has financial reporting on bank performance with respect to the financial position of the bank?
- b. How does financial statement assess the bank performance?
- c. Does financial reports disclose financial standard inefficiency of bank managers to the shareholders?
- d. What are the problems associated in using financial reports to assess bank performance?
- e. How do we know a reliable financial report?
- f. Has financial statement of banks influence your investment decision?

#### **1.5 RESEARCH HYPOTHESIS**

Base on the statement of problem and objections of this research work the following general hypothesis are formulated:

Ho Investment decision, base entirely on the financial statement will not lead to poor and lazy decisions.

Hi Investment decision based entirely on the financial statements will lead to poor and lazy decisions.

Ho The efficiency of financial reports is greatly affected by inflationary trends in the economy.

Hi The efficiency of financial reports is not greatly affected by inflationary trends in the economy.

Ho Financial reports are true indicator of banks performance.

Hi financial reports are not true indicator of banks performance.

## **1.6 SIGNIFICANCE OF THE STUDY**

The banking industry is a very important sector of the economy. This is because banks can determine the direction of growth or development of the economy through the financial service rendered by banks. The financial services which includes, funds mobilization, safekeeping and custodianship, funds transfer, foreign exchange transactions, equipment leasing, extension of loans and advances, investment in securities, bill discounting etc.

An investment key sector of the national economy of which the banking industry is one, becomes a goal-getters priority. Owing to this, it becomes necessary that financial reports presented by banks satisfy the need of the users which are the general public, investors, competitors etc.

Especially at the end of this study, we would be able to establish:

1. Whether or not the financial reports affects investment in the banking industry.
2. Whether or not the annual financial report currently reflect the inflationary effects.
3. Whether or not banks follow rigid accounting practices.

The emphasis of this research is not to discuss the determinants of performance, but to establish a relationship between financial reporting and performance so that potential investors in banking industry may clearly define their stand.



## **1.7 SCOPE AND LIMITATIONS OF THE STUDY**

The aim of the study is to examine, the use of financial reporting in assessing banks performance, however it will be restricted to investigations carried out on Union bank of Nigerian Plc.

To enable the research have a broad view, the study will not be based on one branch. A study of some selected branches of the bank will also be carried out. But in any case, the following among others are the numerous constraint;

The dearth/scarcity of related books and journals will no doubt affect the quality of the research. The greatest employer of man, which is time was not in my favour through I manage it considering the time allocated to my studies, fellowship and the project.

The research work generally involves money but considering my stand as a student, I was limited by finance in achieving my aim of having a population rather a sample size used. Information received from questionnaire shared is to be used for this Research but there was little response to the questionnaire delivered to the respondents.

At the course of my research I come to release that many banks does not have any form inter-relationships which make things difficult for me in using one set of information generated as touching planning and control in UBN to generalize issues. That leads me into more research, which will continue even after this profit.

## **1.8            DEFINITION OF TERMS**

**AUDITING:**    The objective examination carried out by a qualified independent audit firm on the financial statements initially prepared by management with the goal of establishing the fairness of representations made therein and reporting on same as a guide to interested users.

**ATTEST:**    To assume responsibility by confirmation of the financial report, for the fairness and dependability of financial statements.

**BANKRUPT:**    Inability of person or company to meet his/its liabilities as they mature.

**FRAUD:**    Deliberate misrepresentation of information by a person which tends to be untrue or made with reckless indifference as whether the fact is true with the

intention of deceiving the other party and with the result that the other party is injured.

**FINANCIAL STATEMENTS:** This covers balance sheets, income statement or profit and loss accounts notes and other statement and explanatory materials.

**GOING CONCERN:** Continuing in operation for the foreseeable future with the assumption that the enterprise has neither the intention of closing down

**LIQUIDATION:** Process of winding up of a company thereby brings to an end its corporate existence.

**TRUE AND FAIR VIEW:** The confirmation of a financial report by an independent auditor, which depicts compliance with the generally accepted accounting principles and full of fair disclosure of facts.

## **CHAPTER TWO : REVIEW OF RELATED LITERATURE**

### **2.1 HISTORICAL BRCKROUND OF UNION BANK OF NIGERIA PLC.**

This bank can be traced back to the colonial years as one of the expatriate commercial banks that got instituted in Nigeria. The genesis of the bank can be traced back to the free banking legislating in Nigeria, where anybody could set up a banking company provided he register under the companies ordinance.

This bank was called Barclays bank Dominion, colonial and overseas and was established in the year 1992 by the amalgamation of the colonial bank, the National Bank of South African and Anglo-Egyptian Bank. The rafters, in 1925, it became part of the Barclays group of banks.

During the free banking era, the Barclays bank had various experience and a wide regional distribution of resources. As a result of its association with concerned families of diverse conditions and through its staff strength in various countries in Africa and West Indies, the bank was able to place itself financially

ahead of other expatriate banks like the bank of British West African and the British and French bank.

In 1952, the government enacted the first ever-banking legislation in the Banking ordinance. On this note the Patton commission Report get effectual as the years passed by, in 1957, the bank change its name to Barclays bank D.C.O, and maintained its head office in London. In Nigerian it concentrated in Lagos.

This bank and the other expatriate banks dominated the banking scene in Nigeria and to check their excesses, the federal government in 1973 came up with indigenization decree. As a result the federal government acquired a 40% equity interest in the Barclays bank.

In 1979, the Barclays banks changed its name to Union bank of Nigeria Ltd and thereafter went public in 1992. The bank has its head offices in Lagos, London and South Africa, with Regional offices in Lagos, Abuja, Ibadan, Kaduna and Port Harcourt. It has area official in Bauchi, Benin, Enugu and Jos.

The board of directors is made up of 12 members with Udoma Udo Udoma as chairman, Emeka Emuwa Group Managing Director while Executives Directors are Lucky Jayaratne, Kondolo Kosongo, Adekunle Adeosun, Ibrahim Kwargana. The non executives are Dick Kramer, Onikepo Akande, Adeyemi Osindero, Dickie Agumba, John Botts, Cyril Odu, Douglas Munatsi, James Macarthur.

## **2.2 THE NEED FOR FINANCIAL REPORTS**

The need to render financial report is to acquaint the shareholders with reports to assess sufficient financial information and decide upon the companies' courses of action. Such information will enable the risk takers become much better informed to make decision and take actions concerning their interests in the enterprises.

The need for financial report to shareholders and other interested parties is also to provide them with regular information intended to increase their knowledge companies business and financial affairs.

There is obvious need for reliable information, which shareholders and other users of financial reports can acquire an essential knowledge of the way in which business enterprises are behaving in relation to public interest. By perceiving enterprise behavior through communication information, interested parties, can use this knowledge to amend or adapt their behavior vis-à-vis the enterprise concerned.

## **2.3 THE COMPOSITION OF THE FINANCIAL REPORTS**

ACCORDING TO LEE (1989) In company financial reporting, financial report are essentially historical documents describing the financial results of past company's activities owing to inevitable delays in gathering the necessary

accounting data, the information contained in a financial report are often much out of data when compared with the present situation of the company concerned.

Various reports, statement and notes constitute the totality of company's financial reports, and each must be clearly understood for the acquaintance of their impacts on performance can be ensured. Such statements and reports are:

### **2.3.1 CHAIRMAN'S REPORT**

The chairman's report is usually included in the financial report of most companies. This is rather as convention not as a rule, as it is not legally required to be presents. Its contents are mainly non-quantitative and formally include a review of the year's operation and financial results, comments on important projects, information about new development, and the progress of the company within the economic, social and political environments that prevailed during the financial year.

According to Slater (1994): "We always read the chairman's report over several years in considerable department. it is often a good way on knowing the caliber of management as the hopes expressed in earlier years guide, often do not come to fractions and can get a good idea from the chairman's statement as to how the individual sectors of the business are performing or have performed over a

period''. The chairman's remarks on the company's future profit and prospects are studied very closely as these are sometimes the only guide to the present and future.

The contents of the chairman's report are not subject to verification or attestation by the company's independent auditors. The quality and quantity of the information contained in the report therefore depends on the chairman's expertise and judgment.

### **2.3.2 THE DIRECTOR'S REPORT**

Unlike the chairman's report, the director is a grandly required statement that gives information to their information users on such matters as principle activities of the company.

- (a) Principle activities of the company and any significant change.
- (b) A fair review of the financial year and its position at the end of year.
- (c) Names of person who were director at any time during the year.
- (d) Significant changes in the fixed assets of the company during the year.
- (e) The difference, as principally and practicable between the market



value and the book value of land and building, where such difference is important.

- (f) Directives interest in shares and or debentures of the company or any other company within the group, both at the beginning of the financial year (or) date of appointment as director at the end of the financial year.
- (g) Particularly, likely future development in the business of the company.
- (h) An indication of the activities of any of the company in the field of research and development.
- (i) Amount recommended to be paid by way of dividend.
- (j) Amount to be carried to reserve.
- (k) Charitable and political donations

### **2.3.3 THE AUDITOR'S REPORT**

All companies are required to have their accounts audited by independent persons holding accountancy qualifications acceptable to the federal ministry of trade and industries. The auditors are appointed by the company in a general meeting and may be reappointed at each annual general meeting as long as both the auditors and the company agree and the auditors remain qualified.

The auditors' duty in relation to an audit report was clearly spelt out in an English case *Re-London and General Bank* (1895). According to the ruling in that case, the auditor is expected to refer expressly in his report to the following:

- a Whether the accounts (financial statements) have been audited in accordance with the approved auditing standards.
- b Whether in the auditor's opinion the financial statements give a true and fair view of the state of affairs of the profit and loss account and statement of source and application of funds (where applicable).
- c Any other matter prescribed by relevant legal and other requirements.

Similarly, the Companies and Allied Matters Decree 1990 states in sections 359 (1) that the auditors of the company shall make a report to its member on the accounts examined by them, and on every balance sheet and profit and loss account and on all group financial statements, copies of which are to be laid before the company in a general meeting during the auditors tenure of office. The auditor's report shall state other matters set out in the sixth schedule to CAMD 1990 which are summarized below:

- a Whether they have obtained all to the best of their knowledge and belief where necessary for the purpose of the audit.
- b Whether in the opinion, proper books of account have been kept by the company, and proper returns adequate for the purpose of their audit have been received from branched not visited by them.
- c Whether the company's balance sheet and profit and loss account dealt with by the report are in agreement with the books and returns.
- d Whether in their opinion and to the best of their information and according to the explanations given to them, the said statements give a true and fair view.
- e In the case of a holding company submitting group financial statements, whether, in their opinion, the group financial statements have been properly prepared in accordance with the provision of their decree so to give a true and fair view of the state of affairs and profit or loss of the company and its subsidiaries and associate dealt with.

### **2.3.2 THE FINANCIAL STATEMENT**

A firm communicate financial information to the user through financial statements which contains summarized information of the firm's financial affairs, organized systematically. They are means to present the financial situation of the

firm to users. Preparation of the financial statement is the responsibility of top management as these statements are used by investors and financial users in order to make investment decision. Therefore, it must be carefully prepared and should also contain as much information as possible.

OKECHUKWU (1998) Points out the basic objectives of financial statement as following:

- a To provide reliable financial information about the economic resources and obligations of a business enterprise.
- b To assist in decision-making.
- c To provide reliable information about changes in net{resources minus obligations } of an enterprise that result from the profit directed action ties.
- d To provide financial information that assist in estimating the earnings potential of the enterprise.
- e To provide other needed information about changes in economic resource and obligations.
- f To disclose to the extent possible other information related to the financial statement that is relevant to users.

The financial statement are legally required to be presented by the director to the shareholder in the Statement of Accounting Standard of Nigeria (SAS) which states that financial statement should include the following:

- a. Statement of accounting policies
- b. Balance sheet
- c. Profit and loss or income statement
- d. Notes on the accounts
- e. Statement of sources and application of fund.
- f. Value added statement
- g. Five years financial summary.

However, for the purpose of this research, attention would be paid to the most familiar statements. They are:

- a) The balance sheet statement.
- b) Profit and loss statement
- c) The statement of source and application of funds.

**THE BALANCE SHEET:** This is one of the most significant financial statements. It indicates the financial condition or the state of affairs of a business at a particular moment in time. Specially, this contains information about resources and obligations of a business entity and about its monies interest in the business at a particular point in time. It communicates information about assets, liabilities and owners equity for a business firm as at a specific data. In a nutshell, it provides a snapshot of the financial position of the firm at the close of the firms accounting period. Certain items under statutory requirement must be shown either on the face value of the balance sheet or by additional notes attached to it.

### **THE PROFIT AND LOSS ACCOUNT**

This is the scoreboard of the firm's performance during a particular time. It reflects the earning capacity and potential of the firm. The general accepted convention is to show one years event in the profit and loss account. The profit and loss reflects the results of operations for a period of time.

Certain regulations in the second schedule of the companies and allied matters Decree 1990 and statement accounting standard (SAS) required the following information to be disclosed.

- a. Turnover\sales and other operating reverses
- b. Other earnings; distinguishing between interest income, income from investment and other sources.
- c. Interest charges
- d. Taxes on income
- e. Usual charges
- f. Unusual charges
- g. Depreciation
- h. Auditor remuneration
- i. Director emoluments
- j. Net income

#### **2.3.4 THE FUND STATEMENT**

In analyzing the performance of a business, it is a useful exercise to compare its financial structure at two different dates and to relate the structural changes to the profit and loss in the interest period. The results of such are set out in classified format on a statement of sources and application of funds.

## 2.4 VARIOUS USERS OF FINANCIAL REPORTS AND THEIR INFORMATIONAL NEEDS.

### 2.4.1 SHAREHOLDERS

Shareholders or owners provide the risks capital for business operations and consequently they own the resources remaining after payment of all debts, all profit remain after payment of taxes and interests, accrue to them. They take no part in the management of the company; rather they delegate responsibilities through the board of directors who may hire the services of professional manager. In law, the directors have a relationship with shareholders on the stewardship of the fund entrusted to them. The accounting to shareholders is done through the published financial report of the company.

These information about the risk involved in the business, risks involve in alternative investment, and the reward for their sacrifice of funds, are required. Some of the appropriate tolls required to ascertain the above information are:

1. **Dividend yield** =  $\frac{\text{Dividend per share}}{\text{Market value per share}}$



2. **Earning yield**=  $\frac{\text{Earning per share}}{\text{Market value per share}}$ .

## 2.4.2 LONG-TERM CREDITORS

Business often borrow for a long period of time {usually greater than one year } and they must pay interest on such loan and repay the principal amount when it falls due. Common firms of long-term loans include debentures, mortgages, notes and straight loans; in money cases the loans are secured on assets.

Long-term creditors requires information above long-term worthiness of the business i.e. its stability. The most suitable tool to measure and satisfy the needs of the group is long-term stability ratios. They contain:

1. Debt\Equity Ratio =  $\frac{\text{Total external liabilities}}{\text{shareholders Equity}}$

This ratio indicates whether the business is solvent and the extent of coder for the external liabilities. It is therefore a test of financial stability per naira of shareholders fund.

2. Gearing Ratio =  $\frac{\text{Fixed interest invest pre. Share Cap. Ordinary share}}{\text{Capital}}$

Capital this indicates the degree of innumerability of earnings available for ordinary shareholder per naira.

### 2.4.3 SHORT-TERM CREDITORS

Short-term creditors include those creditors whose claims are due for payment within one year. Short-term creditors are concerned with the ability of the business to repay the loan in the near future and the interests thereof, the 'they want information about short-term solvency and liquidity of the business.

The techniques used to measure and satisfy these information users are short-term liquidity and solvency ratios: they include:

1. Current Ratio =  $\frac{\text{current Assets}}{\text{Current liabilities}}$ .
2. Quick Ratio =  $\frac{\text{Current liabilities}}{\text{Current liabilities}}$

#### **2.4.4. TAX AUTHORITIES AND GOVERNMENT**

Taxation is a major source of government revenues, the firms and rate to be applied are usually embedded in the annual budget. Accounting information forms the basis of any taxation assessment for personal income tax, company payroll, sales tax etc. The information needs of tax authorities particularly the information about consistence, assessment and method of depreciation of fixed assets and that of inventory valuation are asset and that of inventory valuation are always specified by the government.

#### **2.4.5 EMPLOYEES AND TRADE UNIONS**

Many a time, employees work for one business concern for a great part of their lives and as such have a long interest on the prosperity of such business. It has been demonstrated by Barton (1999), that the success of any business depends substantially on the liability of its employees. Employees and labour income are concerned with the operating results of a business and its financial position because it indicates the scope for possible wage and fringe benefit increase, security of employment, retirement benefits and scope of promotion.

The requested techniques for measuring the operating results of a company are the profitability and efficacy ratios. They include:

a. Net profit margin =  $\frac{\text{Profit after tax}}{\text{Sales}}$

b. Sales to total assets ratio =  $\frac{\text{Sales}}{\text{Total Assets}}$

c. Net profit to Capital employed ratio  
=  $\frac{\text{Net Profit before tax}}{\text{Capital employed}}$

#### **2.4.6 MANAGEMENT**

The information needed by management are more pervasive than those of their users, and this is particularly true for the large companies with diversified activities like the banks.

The functions of management may be described as planning, organizing, directing, controlling, evaluating, reporting etc. owing to these tasks, therefore, accounting information must be provided to facilitate these information. It is a saying that the primary concern of management is to ensure a formidable growth of their company.

## **2.4.7 ANALYST\ADVISERS**

Investments analysts, merchant banks and other professional advisers make use of financial reports to advise business management, and or other interested parties. Financial reports are therefore pre-requisite documents before any assessment of business can be carried out. It is also a major source of information a business to outside.

## **2.5 FINACIAL REPORTING BY BANKS**

### **2.5.1 INTRODUCTION**

The banks and other financial institutions decree 1991 {BOFID} is the latest law governing the operation of the banking industry in Nigeria. This degree however transferred the controlling of banks to Central Bank of Nigeria (CBN). As such banks are now bound by the circulars and guidelines issued by CBN. The most important directive from the CBN to bank is that issued on circular no BSD|OD|23|Vol.1|11 of 7<sup>th</sup> November 1990, otherwise known as the prudential guidelines.

Banks are companies and as such are governed by the disclosed requirements of the Companies and Allied Matters Decree, 1990 (CAMD) in addition to the provision of the Banks and other Financial Institutions Decree, 1991 {BOFID}.

Being that as it many, the subsequent subhead shall address some important areas of the law government banks.

### **2.5.2 THE PRUDENTIAL GUIDELINES**

The Prudential Guidelines dwells on provision for bad and doubtful debts charge is the revenue account, the circular classified bank assets, especially loans and advances into:

- i Performing accounts and
- ii Non-performing accounts

### **OTHER CENTRAL BANK OF NIGERIA (CBN) POLICY GUIDELINE**

The CBN has directed all banks to allocate 10 percent of their pre-tax profit for financing small and medium scale industries Banks are required under the policy to issue long-terms loans, undertake equity participating, project monitoring and advisory services. Pending the effective take of the scheme. The CBN has directed all banks to deposit 1 percent of their provisions year pre-tax profit with the CBN. Also the CBN has given approval for banks to buy banks and their shares.

**MINIMUM PAID UP CAPITAL:** In pursuance of its rate the controller of banking activities in Nigeria, the CBN in July 6,2004 increased the minimum paid capital requirement for new bank from two million naira {N2,,000.000.00} and for existing

banks from five hundred million naira {N500,000.000.00} to twenty-five billion naira (N25,000,000,000.00) for both new and existing banks by the CBN governor Charles Soludo (2004).. The new guidelines signed by the succeeding CBN Governor Sanusi Lamido stipulated the scope, conditions and minimum standards for the operation of commercial banks in the country as well as offshores which took effect October 4, 2010. The minimum Paid up capital for each category was released with N10billion fixed as minimum financial outlay for regional banks. National and international banks are required to have minimum paid up capital of N25billion and N50billion respectively.

## **2.6 PERFORMANCE EVALUATION IN THE BANKING INDUSTRY.**

For the purpose of the work, the evaluate of performance will be considered from three perspectives, namely: efficiency and profitability, potential and actual growth and the banks ability to give loans and advances.

### **2.6.1 EFFICIENCY AND PROFITABILITY**

A company should earn profit to survive and grow over a long period of time. Profits are essential but it would be wrong to assume that every action initiated by management of a company should be aimed at maximizing profit irrespective of social considerations.

The profitability ratios are calculated to measure the operating efficiency of the company. The operating efficiency, shareholders and other concerned parties are all interested in the profitability of the firm.

According to UCHENDU (1995) the most common measures are return of assets {ROA} and return on investment {ROI}.

## **2.6.2 POTENTIAL AND ACTUAL GROWTH**

In assessing the performance of a bank or any other company, the potential and actual growth indicator will influence the choice of discerning investor. In the same view, previous performances will also influence such investor. The dividend yield and earning yield evaluate the shareholders .

The information on the market value per share is not generally available from the financial statement. Management is also interested in the market appraisal of the firms performance, and will like to find causes if the price earning declines.



### **2.6.3 LOANS AND ADVANCES**

The ability of a bank to grant loans and advances is also a measure of performance. This is true even from common sense as individual or co-operate bodies grant loans only when they are financial stable. Thus, for a banks to give loans and advances; they must have enough for its business operations which is always true.

Since we are using Union Bank of Nigeria Plc {not as a group} as our case study, it will be necessary to have an overview of its major balance sheet item. To buttress our claim. In the annual report of 2013 (which ends 31 March 2013), the bank (as a company not the group) gave loans and advances totaling N578.3 billion in 2013 as against N246 billion in the previous year 2012. This shows an increase of 44.8%, which is enough growth indicator in particular and performance.

## **CHAPTER THREE : RESEARCH METHODOLOGY**

This chapter is mainly to explain the research design and method employed to ascertain the required information that lead to accepting the hypothesis stipulated in chapter one; otherwise its rejection; this however make the rejection or acceptance of such hypothesis more objective. It will also discuss the various steps adopted in the research work.

### **3.1 RESEARCH DESIGN**

According to Ndaji (1998), important of research design is used as a guide in collecting and analyzing the data for a study. This research is essentially on exploratory study to inquire into the use of financial reports in assessment of bank performance.

The data collecting and analyzing in made of proof that allow the research to draw inference casual relations among the variable under investigation.

The research outlines the methods used in collect and analysis of data. And how the use of these of method lead to appropriate solution of the research question and text of hypothesis formulated.

## **3.2 SOURCES OF DATA**

For the purpose of this research, two main classes of data were collected and used, namely;

- a. Primary sources
- b. Secondary sources.

### **3.2.1 PRIMARY SOURCES**

The primary sources were mainly questionnaires and interviews. Interviews are necessary to limit the level of bias that may occur in the answers supplied in responses to questions asked in the questionnaire.

This is meant to achieve a more balanced research result and inference.

### **QUESTIONNAIRE**

The questionnaires are well structured with the aim of gathering information from the Public, users of Financial reports on their perception on how Financial report can be used to measure bank performance. The questionnaire was also directed at finding out if the bank performance determines the customers' patronage and investment. Questionnaires were directed to bank employees,

Stockbrockers, Businessmen, Shareholders, and retail customers who maintain relationship with the banking industry.

It is intended to ensure improved analysis through result from information given by the respondents. Finally, to avoid distortion of facts, the questionnaires were retrieved personally too.

## **INTERVIEW**

The interview carried out was held with three (3) professionally qualified senior staff of Union Bank Nigeria PLC with 20years and above experience and also maintain a managerial position in their branches. However, in order to get an objective view/response from these staff for the purpose of this research interviews were carried out separately. The interview was aimed at gathering information on the true and fair view of Financial report been published at the end of the financial year. Also, to know the aim of management in publishing this Financial report whether they are basically for the Shareholders, or the general public in order to encourage investment.

### 3.2.2 SECONDARY SOURCES

Information gotten from the secondary sources come mainly from Libraries. These libraries were both public and private.

They include:

- a. Institute of management and technology (IMT) Enugu Library.
- b. University of Nigeria Enugu Campus Library.
- c. National Library Enugu.

Information gotten from libraries have helped to give more information on the view of scholars as to the banking industry and how it is been run by the Management. Information from books read reveals that sometimes, Management tend to manipulate figure to soothe Shareholders. In view of this an independent qualified auditor is been employed to make an independent view and statement on the financial report published by Management. The following are the aims of management of banking industries when publishing Financial report at the end of the year

- a To attract investors into the bank
- b To impress shareholders and assure them that their funds are properly managed
- c To show to the public and competitors that the bank is healthy

### 3.3 POPULATION OF THE STUDY

Base on the information generated from the record of Union bank of Nigeria, the population size of branches of Union bank of Nigeria is 322.

#### DETERMINATION OF SAMPLE SIZE

To determine sample size, given a population of 322 and within an error estimate of 10% formular:

$$n = \frac{N}{1 + N(e)^2}$$

Where  $n$  = Sample size

$N$  = Total number/population size

$E$  = Error Estimate

$I$  = Constant

Therefore, The substitute for the values will thus be:

$$n = \frac{322}{1 + 322(0.12)^2}$$

$$\frac{322}{1+322 \times 0.01}$$

$$\frac{322}{1 \times 3.22}$$

$$\frac{322}{4.22} = 77.3033$$

Therefore sample size = 77

### **3.4 METHOD OF DATA PRESENTATION**

In presenting the data collected, tables were used to present the response of the respondents to the questionnaire distributed. The use of percentage were also employed to analyse the data collected into numerical which simplified the problem of comparison of variables.

Non-numerical data obtained from the study were also presented and conclusions were made from all these.

### 3.5 METHODS OF DATA ANALYSIS

The researcher adopted two statistical tolls in the analysis of data collected. These tolls are chi-square test and T-distribution test for data analysis.

#### 3.5.1 THE CHI-SQUARE TEST

This is applied especially were the value are not continuous but are expressed in a two categories of “Yes or No” provided it is relatively easy to apply. The test consists of comparing each category of observed data or frequency (o) against the expected frequency (E) derived from an external formular.

$$\text{Chi-Square } (X^2) = \frac{\sum(O-E)^2}{E}$$

Where:

$X^2$  = Chi-square

O = Observed frequency

E = Expected frequency

**DECISION RULE:** This is to decide whether the observed sequence computable to warrant the conclusion that the null hypothesis (Ho) is accepted or not.

If under this hypothesis, the computed value of chi-square ( $X^2$ ) is greater than the critical value of  $X^2$  at the selected level of significance, one would therefore



conclude that the observed frequencies and would reject  $H_0$  at that level of significance. Otherwise, we would accept it or not reject it.

In summary therefore,

- a. Reject  $H_0$  if the calculated  $X^2$  is greater than the critical  $X^2$ .
- b. Accept  $H_0$ , if the calculated  $X^2$  is lesser than the  $X^2$  critical.

### 3.5.2 THE T. TEST DISTRIBUTION

T. Test will also be used. The value is computed

$$\text{As: } T = \frac{X - N}{\frac{SD}{\sqrt{N}}}$$

Where:

T = The Calculated T – test value

N = The Sample

X = The population mean

SD = Standard Deviation

SD = Standard Error

$$\sqrt{N}$$

### DECISION RULE

- a. Reject  $H_0$  if computed value of T is greater than critical value<sup>2</sup>
- b. Accept  $H_0$  if computed value of T is less than the critical value<sup>2</sup>

## **CHAPTER FOUR: DATA PRESENTATION AND ANALYSIS**

### **4.1 INTRODUCTION:**

This chapter presents the data collected by the researcher while carrying out this study through sets of questionnaire administered to sampled respondents.

Also included is the computation and analysis of the presented data are tables and other common statistical tools used in presenting and analyzing the data generated. Brief explanatory discussion were also attached to table for clarity purposes.

It must however be not noted that the data presented and subsequently analysed and discussed in this chapter are only those which bear directly to the problems and objectives of this study and which particularly relevant to the testing of the hypothesis formulated

### **4.2 DATA ANALYSIS TECHNIQUES**

The researcher adopted a systematic approach to analyse the data after collecting them. The researcher examined the questions collected in the questionnaires that were distributed among the officials of Union Bank of Nigeria Plc Sokoto Main and Market branch to evaluate the frequency of the response and what they reveal concerning the use of financial reporting in assessing bank performance.

## QUESTION 1

Does financial reports disclosed financial inefficiency of bank management to the shareholders?

RESPONSE	NUMBER	PERCENTAGE
YES	50	100%
NO	-	-
NUTRAL	-	-
TOTAL	50	100%

The table above shows that the report presented to the shareholder by the bank management would show if the resources provided by shareholder are being utilized efficiently or inefficiently. Since the essence of the shareholders' investment is for resources provided to be properly utilized for profit maximization.

## QUESTION 2

Has Financial statements of banks influenced your investment decisions?

RESPONSE	NUMBER	PERCENTAGE
Yes	17	85
No	3	15
Neutral	0	0
Total	20	100%

The above shows that the financial statement of banks determine the investment by their customer which means banks must make consistent profit to woo their customers to invest with them.

## QUESTION 3

If yes in question 2 above, do you rely on the five-year summary?

RESPONSES	NUMBER	PERCENTAGE
YES	16	94
NO	1	6
NEUTRAL	-	-

TOTAL	17	100%
-------	----	------

Since summary of banks' financial report are used by most customers in determining their investment it is expected that bank make consistent profit to win the loyalty of their customers.

#### QUESTION 4

To what extend has financial report help in assessing bank performance:

RESPONSES	NUMBER	PERCENTAGE
A GREAT EXTENT	40	80%
AN EXTENT	10	20%
NO EFFECT	-	
TOTAL	50	100%

From the table above it means that performance of banks can be assessed by the published financial report, where the bank has consistent loss making report shows that the bank isn't doing well with the available resources. However, if the banks make consistent profit, it means that resources are well managed and management are profit making focused.

## QUESTION 5

Does financial report prepared reflect inflation.

RESPONSES	NUMBER	PERCENTAGE
YES	35	70%
NO	15	30%
NEUTRAL		
	50	100%

In preparation of financial report it is expected that inflation should reflect to have a focused plan for the future and give a true picture of the financial position of the bank.

## QUESTION 6

Does financial report indicate banks performance?

RESPONSES	NUMBER	PERCENTAGE
YES	12	60%
NO	2	10%
NEUTRAL	6	30%
TOTAL	20	100%

The banks report indicate performance of the bank, where a bank makes profit it is seen as a performing bank and where it is a loss making bank they are seen as failures. This persistent loss reduces investment in such bank.

#### 4.3 TEST OF HYPOTHESES USING CHI-SQUARE METHOD.

Chi-square ( $X^2$ )

Formula for test technique

$$X^2 = \frac{\sum(O-E)^2}{E}$$

Where  $X^2$  = Chi-square

Where  $O$  = Observed frequency

$E$  = Expected frequency

#### ASSUMPTIONS

Level of Significance 5% is 0.05.

#### DECISION RULE

Accept  $H_0$  if the calculated value of  $X^2$  is less than the critical value otherwise reject  $H_0$ .

Degree of Freedom

$$DF = (R-1) (C-1)$$

Where  $R$  = Rows

$C$  = Columns

## STATEMENT OF HYPOTHESIS I

Ho Investment decision, based entirely on the financial statement will not  
Lead to poor and lazy decisions.

Hi Investment decision based entirely on the financial statements will lead to  
poor and lazy decisions.

## TEST STATISTIC

(X<sup>2</sup>) = Chi-square

$$\text{Formula} = X^2 = \frac{\sum(O-E)^2}{E}$$

Where X<sup>2</sup> = chi-square

O = Observed frequency

E = Expected frequency

## ASSUMPTION

Level of significance = 5% ie 0.05

## Decision Rule:

Accept ho if the calculated value of X<sup>2</sup> is less than the critical value  
otherwise reject Ho.



Degree of Freedom

$$DF = (R-1)(C-1)$$
$$(3-1)(2) = 2$$

Chi-square table

TABLE 4.2

RESPONSE	O	E	O-E	(O-E) <sup>2</sup>	$\frac{(O-E)^2}{E}$
YES	17	10	7	49	4.9
NO	3	10	-7	49	4.9
NEUTRAL	-	-	-	-	-
TOTAL	20	20			9.8

$$\text{Calculated value} = 9.8$$

$$\text{Calculated value} = 5.991$$

Compare the  $X^2$  Critical and  $X^2$  computed

Compare the  $Z^2$  Critical and  $X^2$  computed

$$Z^2 \text{ Calculated value} = 9.8$$

$$Z^2 \text{ Critical value} = 5.991$$

## DECISION

Since calculated value is greater than critical value accept  $H_1$  which state that investment decision, base entirely on the financial statements will lead to poor and lazy decisions.

## STATEMENT OF HYPOTHESIS

$H_0$ : The efficiency of Financial Reports is greatly affected by inflationary trends in the economy.

$H_1$ : The efficiency of financial reports is not greatly affected by inflationary trends in the economy.

## TEST STATEMENT

(X<sup>2</sup>) = Chi-square

$$\text{Formula} = Z^2 = \frac{\sum(O-E)^2}{E}$$

Where X<sup>2</sup> = Chi-square

O = Observed frequency

E = Expected frequency

### ASSUMPTION

Level of Significance 5% ie 0.05

### DECISION RULE

Accept  $H_0$  if the calculated value of  $X^2$  is less than the critical value otherwise reject  $H_0$ .

### CHI-SQUARE TABLE

TABLE 4.5

RESPONSE	O	E	O-E	(O-E)	(O-E) <sup>2</sup> E
YES	35	25	10	100	4
NO	15	25	-10	100	4
NEUTRAL	-	-	-	-	-
TOTAL	50	50			8

Degree of freedom

$$DF = (R-1) (C-1)$$
$$(3-1) (2-1) DF = 2$$

Compare:

$$\text{Calculated value} = 8$$

$$\text{Table value} = 5.991$$

The  $X^2$  Calculated  $8 > Z^2$  Table 5.991

Decision:

Since calculated value is greater than table value, reject  $H_0$ , this means that the efficiency of financial reports is not greatly affected by inflationary trends in the economy.

### STATEMENT OF HYPOTHESIS 111 USING T. TEST

#### DISTRIBUTION:

$H_0$ : Financial reports are a true indicator of banks performance.

$H_1$ : Financial reports are not a true indicator of banks performance.

Applying the t – distribution test

$$T = \frac{\bar{X} - U}{\frac{SD}{\sqrt{N}}}$$

Where:

T = Distribution test value calculated

N = The sample

X = the sample size

U = sample mean

SD = Standard deviation.

DETERMINE THE MEAN FOR THE SAMPLE (U)

$$U = \frac{\sum X}{N} = \frac{20}{3} = 6.67$$

DETERMINE STANDARD DEVIATION SD

$$U = \sqrt{\frac{\sum (X - \bar{X})^2}{N-1}}$$

## COMPUTATION OF STANDARD DEVIATION

X	X	X-X	(X-X) <sup>2</sup>
12	6.67	5.33	28.41
2	6.67	-4.67	21.81
6	6.67	-0.67	0.45
<b>TOTAL</b>			<b>50.67</b>

$$SD = \sqrt{\frac{50.67}{3-1}}$$

$$= \sqrt{25.34}$$

$$= 5.03$$

Determine standard error (SE)

$$SE = \frac{SD}{\sqrt{N}} = \frac{5.03}{\sqrt{3}}$$

$$\frac{5.03}{1.73}$$

$$SE = 2.91$$

Determine t

$$T = \frac{\bar{X} - \mu}{\frac{SD}{\sqrt{N}}}$$
$$= \frac{20 - 6.67}{2.91} = 4.58$$

Determine critical value t at 0.01

Level of significance

$$DF = 20 - 1 = 19$$

$$\text{Computed } t - \text{distribution} = 4.58$$

$$\text{Critical value} = 2.861$$

Decision Rule: Accept  $H_0$  if computed value of T is less than the critical value, otherwise reject  $H_0$ .

DECISION:

Hence the calculated value of T is greater than that of critical value, then we reject  $H_0$  and accept  $H_1$  which means that financial reports are true indicators of banks performance.

## **CHAPTER FIVE: FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

This sector deals with the findings and personal opinions of the research bases on data collected from the bank and interview held with some senior officers in Accountancy.

It has to be stated here that the respondents to the questionnaire were qualified people with the necessary accounting background and experience; therefore data collected can be relied upon for the formation of opinions.

### **5.1 FINDINGS**

The analyses of question 2-4 were aimed at revealing the impact of financial statements on investment in banks and the performance appraisal in such banks. It was discovered that financial statement of banks influenced most investment decisions. Categorically a mammoth percentage relied on the five-year summary of banks in their performance evaluation.

Furthermore, there is a consensus opinion that financial statements were prepared to satisfy the needs above facts that the major items of financial statement, i.e. profit and loss account, the five-year summary have positive influence on investments and are veritable tools in performance appraisal.



The analysis of question No 5 revealed that, the annual financial reports do not reflect the inflationary effect in the country today; also it is found that the historical cost convention has been adopted for the valuation of assets of the bank. Historical cost with its associated disadvantages of under valuation of assets and the overstatement of profit during a period of inflation could have serious implications on financial reported data in the financial reports which could be misleading because of erring value at each transaction. This therefore confirms that annual financial reports do not reflect the inflationary effect in the country today.

Finally, it was found that financial reports meet the requirements of potential investors. This shows that potential investors would definitely have no problem in satisfying its need to make further investments in the bank. Such information as contained in the bank's annual reports to satisfy these potential investors to decide on their investments and performance evaluation of the bank include.

- a. Information on earning per share (ESP).
- b. Information on divided per share (DPS)
- c. Information on source and application

## 5.2 CONCLUSION

The research was carried out to ascertain the use of the financial statement on evaluating performance in the bank, with particular reference to Union Bank of Nigeria Plc.

The analysis of financial report disclosed that although investors and performance evaluation analyst rely on financial statement in the decision and appraisal. The reliability of financial reports especially during inflation as in currently prevalent is not assured as a result of the historical cost convention as a basis for asset valuation; consequently, the use of these reports now in decision-making may lead to inadequate decisions.

## 5.3 RECOMMENDATIONS

In the light of the need to make financial statement credible and completely reliable, the research makes the following recommendations.

- a) The adaption of the current cost accounting as a basic for the valuation of assets and other monetary items such as debtors, creditors, overdraft, taxation etc is recommended for banks. Under this convention, the beating of price charges during the accounting periods is removed, and this would

enable the financial statements depict a more creditable information for the various users of the statement where historical cost convention is used.

- b) It is the resolve of the research to recommend that profits should only be recognized when made, to make for objectivity as this has had a negative influence on investors and performance evaluation analysts.
- c) Finally, the use of the five-year summary may not be able to stand the test of time. It is therefore recommended that a ten-year summary be used. This is to reduce the effect of inflation to the barest minimum.

#### 5.4 SUGGESTIONS FOR FURTHER RESEARCH

It is the view of the researcher that further research can be undertaken in the same area of study in the future. However, he suggests that this should be carried out in another area perhaps in a manufacturing industry or insurance industry with a larger sample size. If this is carried out it would probably expose greater findings.

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## QUESTIONNAIRE

Tick whichever is chosen.

1. What position do you hold?
  - a. Clerk (b) Supervisor (c) Above Supervisor
  - b. Management.
2. Do you have any knowledge of Accounting?  
Yes  No
3. How long have you been in this bank?
  - a. 0-5yrs (b) 6-10yrs and above.
4. Do you have interest in other sectors of the economy?  
Yes  No
5. If yes state where  
-----
6. Are you a shareholder of a bank?

Yes  No

7. If "No" would you want to invest in a bank?

Yes  No

8. Has financial statements of banks influence your investment decision?

Yes  No

9. If yes, do you rely on the five-year summary of banks in your investment decisions?

Yes  No

10. Are the financial statements prepared with the aim of satisfying potential investors?

Yes  No

11. Does high dividend means that a bank is prosperous?

Yes  No

12. Recognizing profit that are yet to be realized in the income statements means that financial statements are deceptive?

Yes  No

13. Are your financial report prepared to reflect inflationary effect or realities of the economy?

Yes  No

14. Has a qualified reports ever been issued by external auditors of your bank?

Yes

No

15. If yes, do you think it has marred investment in your bank?

Yes

No

16. Do you think financial statements are the same is all companies?

Yes

No