UTTARA UNIVERSITY

Project Report

On

Ratio Analysis as a Bank Lending Tool

Submitted to:

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Program BBA

Major: Finance

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Date of Submission: 30 August 2020

Letter of Transmittal

Md. Anisuzzaman

Assistant Professor in Finance & Banking

Department of Business Administration

School of Business

Uttara University

Subject: Submission of project report on "Ratio Analysis As a Bank Lending Tool".

Dear Sir
In accordance to your advice to prepare project on "**Ratio Analysis as a Bank Lending Tool**". I have done prepare the project with the best. I have followed all of the standard methodology and your advice given in the instruction to prepare an project. I have also taken help from different sources to prepare project properly and accurately. Your acceptance and appreciation would surely inspire me. For any further explanation about the project, I will be gladly available to clarify all the things.

I will be responsible for any shortcoming or mistake in the project. If there is any point that requires further communication, please feel free to call me at your convenience.
I would be delighted if you kindly accept the dissertation paper and oblige me thereby.
Sincerely Yours,

....

Anik Roy

ID: 2162011043
Program BBA
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Student's Declaration

03 April 2020

I declare that the project report on "**Ratio Analysis As a Bank Lending Tool**" Embodies the results of my own research works, pursued under the arrangement. I prepared this project under the supervision and guidance of **Md. Anisuzzaman, Assistant Professor**, **Department of Business Administration, Uttara University**.

I further affirm that the work Projected in this project is original and no part or whole of the project has been submitted to, any other university or institution for any degree or award for any other purpose.

………………….

Anik Roy

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Supervisors Declaration

I am pleased to certify that the project report on "**Ratio Analysis As a Bank Lending Tool**" has been successfully completed by **Anik Roy** his bearing ID: 2162011043, Department of Business Administration has been approved for presentation and viva voce. Under my Supervision Anik Roy.

I am pleased to hereby certify that data and findings presented are the authentic work of Anik Roy. I strongly recommend the Project presented for further academic commendation and viva voce.

It has indeed been a great pleasure working with him. I wish him all success in life.

Internship supervisor

………………………………..

Md. Anisuzzaman

Assistant Professor in Finance & Banking

Department of Business Administration

School of Business

Uttara University

Acknowledgement

I am very much grateful to the almighty Allah for giving me strength and opportunity and sound mind and health to complete the internship project. A lot of thank to my Honorable teacher, **Md. Anisuzzaman** , who always gave me guidelines and suggestion during the period of completing my project paper.

Preparing the project report on "**Ratio Analysis as a Bank Lending Tool**" is not an easiest assignment where the information should be analyzed properly and some data yet to be disclosed on the project to operate such research work. This descriptive paper is the outcome of my practical working experience. For successful completion of this project, I have been fortunate to have the support, assistance and encouragement of a number of individuals. Many of them played a decisive role in helping me making this project, although I honestly accept full responsibility for all the errors and omission.

Annual project, financial statements, brochure etc have helped me for preparing this project. I would like to convey my appreciation and thanks for those who have guided me generously with the right knowledge for this project. Last, but not the least show thanks to those respondents who responds who responds each and every time in collecting necessary data.

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Executive Summary

In the questions section of the module there is a case study where you can practice all the knowledge gained in this unit so far. The case study is called Start ford Yachts and it also has the answers for you to see how you got on.

Ratios are a powerful tool in the interpretation of the accounts and can discover issues and problems not immediately evident from the accounts and financial information provided in the annual project. The can provide the basis for inter-firm comparisons allowing managers to benchmark the performance and efficiency of the firm against its competitors. Trends can then be examined and analysis. Stakeholders may use ratios to support their decision making. Employees, for example may use profit ratios to support pay claims and creditors can use liquidity ratios to evaluate whether debts will be repaid.

<u>Justification of the Study</u>

This study is unique in that it addresses the relationship **Ratio Analysis As a Bank Lending Tool.** That's the reason I am highly motivated in doing research about this topic.

Every country has a bank. Bank gives loans to common people. Earn money by investing loan money. The country is developed through lending. Lending improve people's quality of life. Different countries use different instruments for lending. That's why I am very much curious about this topic.

Moreover, this is study is going to help me in finding the current status of Lending tool and how affects in Business. It will also serve as a Future refers for researchers on the subject **Ratio Analysis As a Bank Lending Tool.** It will create an awareness of Lending and improve our country.

Finally, as a student of business studies it will also help me in finding a lucrative job and my future research. The finding of this study will redound to the benefit of society considering that the impact of Lending tool and will help our business.

Objectives of the study

1. I want to learn more about Ratio analysis.
2. I want to describe ratio analysis
3. I want to tell my readers that the importance of Ratio analysis in the life of a bank or common man is immense.

Method

Research methodology refers to the various sequential steps (along with the rationale of each step) to he adopted by a researcher in studying a problem with certain objective in view. It is a way to systematic solve the research problem it may be understood as a science of studying how search is done scientifically. Includes the various steps that are generally adopted by a researcher studying his/ her research problem along with the logic behind them, it would be appropriate to mention here that research project is not meaningful to any one unless they are in sequential order which will be determined by the particular problem at hand therefore, this study aims at analyzing and interpreting the purpose of comparative financial performance or appraisal of two commercial banks (Foreign & Local). This chapter focuses and deals with the following aspects or methodology.

- Research design
- Population and sample
- Source of data
- Data collection procedure
- Method of data analysis

3.1 Research design
Research design is the task of defining the research problem. In other words, "A research design is the arrangement of conditions, for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. In fact, the research design is the conceptual structure within which the research is conduct. General objective; of this research study is to examine and evaluate the financial performance of HBL and EBL in order to achieve the objective, both quantitative and comparative research design has been followed. The study focuses on the examination of relationship between those variables that influence-financial decisions of the sampled banks.

3.2 Population and sample
The population for this study comprises 60 banks currently operating in the country.

3.3 Nature and sources of data
Basically the research is based on secondary data. The annual report of HBL and EBL will be used as the major sources of data and other sources of data are as follows:
- Different publications of bank.
- Financial and Economic journals.
- Various research papers.
- Various articles published in journal and financial magazines.
- Books written by the various authors.
- Official website of HBL and EBL.

Although present study is on secondary data however, necessary suggestions are also taken from various experts both inside the bank whenever required the necessary data is obtained from the official website such as, published balance sheet, profit and loss account and other related statement of accounts as well as the annual reports of the respectively banks.

3.4 Data processing
Data obtained from the, various sources cannot be directly used in their original form, further they need to be verified and simplified for the purpose of analysis. Data information, figure and facts so obtained need to be checked, rechecked edited and tabulated for computation. According to the nature of data, they have been inserted in meaningful tables, which have been shown in annexes. Homogenous data have been sorted in one table and similarly various tables have been prepared in understandable manner.

3.5 Method of data analysis
Various types of financial tools and ratio analysis will be used for the analysis of data. With these tools, the result processing will be more accurate and simple.

3.5.1 Financial Tools
Financial tools are those, which are used for the analysis and interpretation of financial data. These tools can be used to get the precise knowledge of a business, which in turn, are fruitful in exploring the strengths and weaknesses of the financial policies and strategies. Following ratios are used as financial tools in order to meet the purpose of the study.

3.5.1.1 Ratio Analysis

Ratio analysis helps to summarize the large quantities of financial data and to make quantitative judgments about the firm's financial performance. Ratio is the expression of one figure in terms of another. It is the expression of relationship between the mutually independent figures, in financial analysis; ratio is used as an index of yardstick for evaluating the financial position and performance of firm. Ratio analysis is very much powerful & widely used tool of financial analysis. It is defining as the systematic use of ratio to interpret the financial statements so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined. It helps the analysis to make qualitative judgment in about the financial position and performance of the firm. Therefore, it is helps to establish relationship among various ratios and interpret there on specially, based on comparison between two or more firms or inters firm comparison and comparison between present and past ratios for the same firm give enormous and fruitful results to examine the financial performance. The obsolete accounting figure reported in the financial statement does not provide a meaningful standing of the performance and financial position of the firm. An accounting figure conveys meaning when it is related to some other relevant information. Therefore, the ratio is the relationship between two accounting figures expressed mathematically. It helps to summarize large quantitative relationship helps to form a quality judgment. However, " A single ratio itself does not is indicate favorable or unfavorable conditions. It should be compared with some standard.

A ratio is simply a number expressed in terms of another number and it expresses the quantitative relation between any two variables. Ratio can be calculated between any two items of financial statements. It means there may be as many ratios as there are the numbers of items. However, under the ratio analysis technique, it is not practical to work out all the ratios. Hence, only the required ratios have been worked out. There are numerous ratios to analyze and interpret the financial form once of the enterprise or firm. However, for our purpose, only important and relevant ratios are used to check the financial health of two commercial banks in Bangladesh, which are as below:

A. Liquidity Ratios

Liquidity ratios are used to judge the firm's ability to moot short-term obligation. These ratios give insights into the present cash solvency of the firms and its ability to remain solvent in the event of adversities. It is the comparison between short-term obligation and the short –term resources available to meet these obligations. These ratios are calculated to find the ability of banks to meet their short-term obligation, which are likely to mature in the short period. The following ratios are developed and used for our purpose to find the liquidity positions of the two commercial banks.

Under this group following ratios were used for liquid position of the banks:

- Current Ratio
- Cash and Bank Balance to Total Deposit Ratio
- Fixed Deposit to Total Deposit Ratio

i. Current Ratio

This ratio indicated the current short-term solvency position of a current ratio is the relationship between current assets and current liabilities. It is calculated by dividing the current liabilities by current assets, which is expressed as follows:

$$= \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Current assets refer in those assets, which are convertible in cash within a year or so. They include, cash and Bank Balance, investment in treasury bills, money at short call, or placement, loans and advances, bills purchased and discounted, overdrafts, other short-term loans, foreign currency loans, bills for collection, customer's acceptance liabilities, pre-payment expenses, and other receivable. Similarly, current- liabilities refer to those obligations maturing within a year. It includes, current account deposits, saving account deposits, margin deposits, call deposits, interbank reconciliation A/c, bills payable, bank over-draft, provisions, accrued expenses, bill for collection, and customer's acceptance liabilities etc. A higher ratio indicates better liquidity position. However, "A very high ratio of current assets to current liabilities may be indicative of slack management practice, as it might signal excessive inventories for the current requirement and poor credit management in terms of over-expanded account receivable.
Current ratio is a measure of firm's solvency. It indicates the availability of the current assets in tk for every one tk of current liability. As a conventional rule, a current ratio of 2 to 1 in considered satisfactory. However, these rules should not be blindly followed, as it is the test of quantity not quality. In spite of its shortcoming, it is a crude and quick measure of the firm's liquidity.

ii. Cash and Bank Balance to Total Deposit Ratio

The ratio is calculated using following formula,

$$= \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

Total deposit consists of current deposit, saving deposit, fixed deposit, money at call and short notice and other deposits. The ratio shows the proportion of total deposits held as most liquid assets. High ratio shows the strong liquidity position of the bank. Too high ratio is not favorable for the bank because it produces adverse effect on profitability due to idleness of high-interest bearing fund.

iii. Fixed Deposit to Total Deposit Ratio

It is calculated as follow:

$$= \frac{\text{Fixed Deposit}}{\text{Total Deposit}}$$

The ratio shows what percentage of total deposit has been collected in form of fixed deposit. High ratio indicates better opportunity available to the bank to invest in sufficient profit generating long-term loans. Low ratio means bank should invest the fund of low cost in short term loans.

B. Leverage Ratios

Leverage or capital structure ratios are used to judge the long-term financial position of the firm. It evaluates the financial risk of long-term creditors greater the proportion of the owner's capital structure, lesser will be the financial risk borne by supplier of credit funds. Debt is riskier from the firm's point of view. The firm has legal obligation to pay interest to deft holders irrespective of the profit made or losses incurred by the firm. However, use of debt is advantageous to shareholders in two ways:

- They can retain control on the firm with a limited stake
- Their earning in magnified when rate of return of the firm on total capital is higher than the cost of debt.

However, the earning of shareholders reduces if the cost of debt becomes more than the overall rate of return. In case, there is the threat of insolvency. Thus, the debt has two folded impact increases shareholder earning-increase risk. Therefore, a firm should maintain optimal mix of investors and outsiders fund for the benefit owners and its stability.

Under this group, following ratios are calculated to test the optimality capital structure;

- Debt-Equity ratio
- Debt-Asset ratio

i. Debt –Equity Ratio

It is the most widely used leverage ratio to evaluate the long-term solvency of the firm. This ratio expresses the relationship between debt capital and equity capital. The ratio is calculated by dividing total debt by shareholder's equity. It is calculated as,

$$= \frac{\text{Total Debt}}{\text{Shareholder's equity}}$$

Total debt consists of all interest bearing long-term and short-term debts. These include loans and advances taken from other financial institutions, deposits, carrying interest etc. Shareholder's equity includes paid-up capital, reserves and surplus and undistributed profit. The ratio shows the mix of debt and equity in capital. It measures creditors' claims against owners. A high ratio shows that the creditors' claims are greater than those of owners are. Such a situation introduces inflexibility in the firm’s operation due to the increasing interference and pressures from creditors' low ratio imply a greater claim of owners than creditors. In such a situation, shareholders are less benefited if economic activities are good enough. Therefore, the ratio should be neither too high nor too low.

ii. Debt-Asset Ratio

It represents the relationships between the debt and total assets of the firm. It is calculated as:

$$= \frac{\text{Total Debt}}{\text{Total Assets}}$$

The ratio shows the contribution of creditors in financing the assets of the bank. High ratio indicates that the greater portion of the bank's assets has been financed through outsider's fund. The ratio should be too high per too low.

C. Turnover Ratio

Turnover ratios, also known as utilization ratios or activity ratios are employed to evaluate the efficiency with which the firm manages and utilizes its assets. They measure how effectively the firm uses investment and economic resources at its command. Investments are made in order to produce profitable sales. Unlike other manufacturing concerns, the bank produces loans, advance and other innovation. So, high ratio depicts the managerial efficiency in utilizing the resources which shows the sound and profitability position of the bank and the low ratio is the result of insufficient utilization of resources. However, too high ratio is also not good enough as it may be due to the insufficient liquidity. Depending upon special nature of assets and sales made by the bank, following ratios are tested;

- Loans and advances total deposits ratio
- Investment to total deposit ratio
- Performing assets to total assets ratio

i. Loans and Advances to Total Deposit Ratio

The ratio is computed by dividing total loans and advances by total deposit liabilities.

$$= \frac{\text{Loans and advances}}{\text{Total deposit}}$$

Loan and advances consist of loans, advances, cash credit overdraft, foreign bills purchased and discounted. The ratio indicates the proportion of total deposits invested in loans and advances. High ratio means the greater use of deposits for investing in loans and advances. However, very high ratio shows poor liquidity position and risk in loans on the contrary; too low ratio may be the causes of idle cash or use of fund in less productive sector.

ii. Investment to Total Deposit Ratio

The ratio obtained by dividing investment by total deposits collection in the bank.

$$= \frac{\text{Investment}}{\text{Total Deposit}}$$

Investment comprises investment in treasury bills, development bonds, company shares and other type of investment. The ratio shows how efficiently the major resources of the bank have been mobilized. High ratio indicates managerial efficiency regarding the utilization of deposits. Low ratio is the result of less efficiency in use of funds.

iii. Performing Assets to Total Assets Rat

It is calculated by dividing performing assets by total assets.

$$= \frac{\text{Performing Assets}}{\text{Total Assets}}$$

Performing assets to total assets include those assets, which are invested for income generating purpose. These consist of loans and advances, bills purchased and discounted investment and money at call or short notice. The ratio measures what percentage of the assets has been funded for income generation. High ratio indicates greater utilization of assets and hence sound profitability position.

D. Profitability Ratio

Profitability ratios are designed to highlight the end-result of the business activities, which in the imperfect world of ours, is the sole criterion of cover all efficiency of business unit. A company should earn profit to survive and grow over a long period. It is a fact that sufficient profit must be earned to sustain the operations of the business, to able to obtain funds from investors for expansion and growth; and to contribute towards the social overheads for the welfare of society. The profitability ratios are calculated to measure the operating efficiency of the company. Management of the company, creditors and owners are interested in the profitability of the firm. Creditors want to get interest and repayment of principal regularly. Owners want to get a reasonable return from their investment.

To meet the objective of study, following ratios are calculated in this group;

• Return on total assets
• Return on total equity
• Return on net worth
• Total interest expenses to total interest income ratio

i. Return on Total Asset

The ratio is calculated by dividing net profit after tax by total on asset of the bank.

$$= \frac{\text{Net profit after tax}}{\text{Total assets}}$$

Net profit refers to the profit deduction of interest and tax. A total asset means the assets that appear in asset of balance sheet. It measures the efficiency of bank in utilization of the overall assets. High ratio indicates the success of management in overall operation. Lower ratio means insufficient operation of the bank.

ii. Return on Equity

The ratio is calculated by dividing net profit after tax by total equity of the bank.

$$= \frac{\text{Net profit after tax}}{\text{Total Equity}}$$

Total equity refers to the sum of equity which is gained from common shareholders as well as the paid up capital which is used for formation of capital. Higher ratio means the effective utilization of the resources and it is better for the investor.

iii. Return on Net Worth

The ratio is computed by dividing net profit after tax by net worth.

Net profit after tax

$$= \frac{\quad}{\text{Net Worth}}$$

The ratio is tested to see the profitability of the owner's investment "reflects the extent to which the objective of business is accomplished". The ratio is of great interest to present as well as prospective shareholders and of great significance to management, which has the responsibility of maximizing the owner's welfare, so higher ratio is desirable.

iv. Total Interest Expenses to Total Interest Income Ratio

The ratio is obtained by dividing total interest expenses by total interest income.

$$= \frac{\text{Total Interest Expenses}}{\text{Total Interest Income}}$$

Total interest expenses consist of interest expense incurred for deposit, borrowing and loans taken by the bank. Total interest income includes interest income received from loans, advance, cash credit, overdrafts and government securities, interbank and other investment. The ratio shows the percentage of interest expenses incurred in relation to the interest income realized. Lower ratio is favorable from profitability point of view.

3.5.2 Other Indicators

Above stated ratios, throw light on various aspects of bank. Management investors and creditors can get information regarding their interests. Some indicators are dealt here which provide more knowledge about the performance of the bank. They are listed below.

- Earnings per share(EPS)
- Dividing per share(DPS)
- Price-Earnings ratio (P/E Ratio)

1. Earnings Per Share(EPS)

It is obtained by dividing earning available to common shareholders by number of equity shares out-standing.

$$= \frac{\text{Earnings Available to Common Shareholders}}{\text{Number of Equity Shares Out-Standing}}$$

Earnings per share refers to the income available to the common shareholders on per share basis, it enables us to compare whether the earning based on per share basis has changed over past period or not. The investors favor high EPS. It reflects the sound profitability of the bank.

2. Divided Per Share (DPS)

It is obtained by dividing earning paid to shareholder by number of equity shares outstanding.

$$= \frac{\text{Earning Paid to Common Shareholders}}{\text{Number of Equity Shares Out-Standing}}$$

The net profit after the deduction of preference dividend belongs to equity shareholders. However, the income that really receives is the amount of earning distributed as dividend. Dividend may be distributed in form of cash or bonus share. Dividend distribution affects the price of share. Shareholders prefer high dividend. However, it may sometimes be wise to distribute less amount of profit in investment opportunities are available.

3. Price-Earnings Ratio (P/E Ratio)

$$= \frac{\text{Market Value Per Share}}{\text{Earnings Per Share}}$$

P/E ratio is widely used to evaluate the bank's performance as expected by investors. It represents the investors' judgment or expectation about the growth in the banks earning. In other words, it measures how the market is responding towards the earning performance of the concerned institution. High ratio indicates greater expectation of the market towards the achievement of firm.

DISCUSSION ON THE STUDY OBJECTIVES

1. I want to learn more about ratio Analysis

What did I learn?

Ratio analysis compares line-item data from a company's financial statements to reveal insights regarding profitability, liquidity, operational efficiency, and solvency. Ratio analysis can mark how a company is performing over time, while comparing a company to another within the same industry or sector.

How?

1. Trend line: Calculate each ratio over a large number of reporting periods, to see if there is a trend in the calculated information.

2. Industry comparison: Calculate the same ratios for competitors in the same industry, and compare the results across all of the companies reviewed.

Where form?

Ratio analysis is used to evaluate a number of issues with an entity, such as its liquidity, efficiency of operations, and profitability. This type of analysis is particularly useful to analysts outside of a business, since their primary source of information about an organization is its financial statements.

Who told?

Investors and analysts employ ratio analysis to evaluate the financial health of companies by scrutinizing past and current financial statements. Comparative data can demonstrate how a company is performing over time and can be used to estimate likely future performance. This data can also compare a company's financial standing with industry averages while measuring how a company stacks up against others within the same sector.

How can I summarize my main/major discoveries (new learning)

After analyzing the financial performance, the researcher has found some important observation that needs the attention. By analyzing these observation following findings have been placed to perform efficient operation of financial performance.

2. I want to describe ratio analysis

What I can describe now?

Ratio analysis is a quantitative method of gaining insight into a company's liquidity, operational efficiency, and profitability by studying its financial statements such as the balance sheet and income statement. Ratio analysis is a cornerstone of fundamental equity analysis.

What matters can be explained now?

1. Liquidity Ratios
Liquidity ratios measure a company's ability to pay off its short-term debts as they become due, using the company's current or quick assets. Liquidity ratios include the current ratio, quick ratio, and working capital ratio.

2. Solvency Ratios
Also called financial leverage ratios, solvency ratios compare a company's debt levels with its assets, equity, and earnings, to evaluate the likelihood of a company staying afloat over the long haul, by paying off its long-term debt as well as the interest on its debt. Examples of solvency ratios include: debt-equity ratios, debt-assets ratios, and interest coverage ratios.

3. Profitability Ratios
These ratios convey how well a company can generate profits from its operations. Profit margin, return on assets, return on equity, return on capital employed, and gross margin ratios are all examples of profitability ratios.

4. Efficiency Ratios
Also called activity ratios, efficiency ratios evaluate how efficiently a company uses its assets and liabilities to generate sales and maximize profits. Key efficiency ratios include: turnover ratio, inventory turnover, and days' sales in inventory.

5. Coverage Ratios
Coverage ratios measure a company's ability to make the interest payments and other obligations associated with its debts. Examples include the times interest earned ratio and the debt-service coverage ratio.

6. Market Prospect Ratios

These are the most commonly used ratios in fundamental analysis. They include dividend yield, P/E ratio, earnings per share (EPS), and dividend payout ratio. Investors use these metrics to predict earnings and future performance.

What analysis I learned?

Uses of Ratio Analysis

1. Comparisons

One of the uses of ratio analysis is to compare a company's financial performance to similar firms in the industry to understand the company's position in the market. Obtaining financial ratios, such as Price/Earnings, from known competitors and comparing it to the company's ratios can help management identify market gaps and examine its competitive advantages, strengths, and weaknesses. The management can then use the information to formulate decisions that aim to improve the company's position in the market.

2. Trend line

Companies can also use ratios to see if there is a trend in financial performance. Established companies collect data from the financial statements over a large number of reporting periods. The trend obtained can be used to predict the direction of future financial performance, and also identify any expected financial turbulence that would not be possible to predict using ratios for a single reporting period.

3. Operational efficiency

The management of a company can also use financial ratio analysis to determine the degree of efficiency in the management of assets and liabilities. Inefficient use of assets such as motor vehicles, land, and building results in unnecessary expenses that ought to be eliminated. Financial ratios can also help to determine if the financial resources are over.

3. I want to tell my readers that the importance of Ratio analysis in the life of a bank or common man is immense.

Understanding of Ratio Analysis

Fundamental and quantitative analysis performed with the help of ratio analysis, which helps to understand the financial health of the company and its performance over a period with data gathered from the historical financial statements of the company.

Successful companies mostly have solid ratios indicating good financial health and growth over a period, and management ability to handle problems in various aspects of the business. It is important to perform ratio analysis from all aspects of the company to make decisions since a single ratio might be deceitful but after understanding all ratio investors get a complete picture of company performance over a period and future expectations from the company.

FUTURE FORWARD

Question

1. Overall Profitability ratios are based on
2. Stock is considered as a liquid asset as anytime it can be converted into cash immediately.
3. The ideal level of liquid ratio
4. Which of the following is not included in current assets?
5. Collection of debtors
6. Liquid assets is determined by
7. Liquidity ratios are expressed in
8. Return on Proprietors funds is also known as
9. The most precise test of liquidity is

10. Higher the ratio, the more favorable it is, doesn’t stand true for

Problem

Some of the most important limitations of ratio analysis include:

- Historical Information: Information used in the analysis is based on real past results that are released by the company. Therefore, ratio analysis metrics do not necessarily represent future company performance.
- Inflationary effects: Financial statements are released periodically and, therefore, there are time differences between each release. If inflation has occurred in between periods, then real prices are not reflected in the financial statements. Thus, the numbers across different periods are not comparable until they are adjusted for inflation.
- Changes in accounting policies: If the company has changed its accounting policies and procedures, this may significantly affect financial reporting. In this case, the key financial metrics utilized in ratio analysis are altered and the financial results recorded after the change are not comparable to the results recorded prior to the change. It is up to the analyst to be up to date with changes to accounting policies. Changes made are generally found in the notes to the financial statements section.
- Operational changes: A company may significantly change its operational structure, anything from their supply chain strategy to the product that they are selling. When significant operational changes occur, the comparison of financial metrics before and after the operational change may lead to misleading conclusions about the company’s performance and future prospects.
- Seasonal effects: An analyst should be aware of seasonal factors that could potentially result in limitations of ratio analysis. The inability to adjust the ratio analysis to the seasonality effects may lead to false interpretations of the results from the analysis.
- Manipulation of financial statements: Ratio analysis is based on information that is reported by the company in its financial statements. This information may be manipulated by the company’s management to report a better result than its actual performance. Hence, ratio analysis may not accurately reflect the true nature of the business, as the misrepresentation of information is not detected by simple analysis. It is important that an analyst is aware of these possible manipulations and always complete extensive due diligence before reaching any conclusions.

A tool used by individuals to conduct a quantitative analysis of information in a company's financial statements. Ratios are calculated from current year numbers and are then compared to previous years, other companies, the industry, or even the economy to judge the performance of the company. Ratio analysis is predominately used by proponents of fundamental analysis.

Ratio analysis is a study of the relationships between financial variables. It is very important in fundamental analysis which investigates the financial health of any financial institution. This ratio analysis gives frank financial information in this current business world. By giving a glance anyone will be able to know what the position that institution is now. Therefore managers, shareholders, creditors etc. all take interest in ratio analysis. For example using liquidity ratios managers can use the information if the institution's liquidity is struggling and they may have to take out short term finance.

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Others

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https://www.wikipedia.org/

APPENDICES

Appendix I

Introducing Consulted Articles

Sl	Article Title	Author(s)	Journal Name	Volume & Issue	Year	Publisher
1	EFFECTS OF MONETARY POLICY ON THE COMMERCIAL BANKS LENDING IN NIGERIA	Jegede Charles Ayodele (Ph.D)	www.arabianjbmr.com/RPAM_index.php	COMMERCIAL BANKS LENDING IN NIGERIA	5, July2014	Department of Public Administration Nnamdi AzikiweUniversity, Awka, Nigeria and Zainab Arabian Research Society for

						Multidisciplinary Issues Dubai, UAE
2	Gender, Entrepreneurship and Bank Lending: The Criteria and Processes Used By Bank Loan Officers in Assessing Applications	Professor Sara Carter, Department of Management and Organization, University of Stirling, Stirling, FK9 4LA, UK.	University of Stirling	Gender, Entrepreneurship and Bank Lending	18,june2001	Sara CarterUniversity of Stirling, Stirling, UK
3	The Role of Guarantees in Bank Lending	Alberto Franco Pozzolo	Eleanor Shaw University of Strathclyde, Glasgow, UK	Gender, Entrepreneurship and Bank Lending	13,jan1999	Eleanor Shaw University of Strathclyde, Glasgow, UK
4	The Bank Lending Process: Accounting Information Role in Constructing Realities or Illusions	Daniela Ruggeri1, Antonio Leotta1 & Carmela Rizza	Department of Economics and Business, University of Catania	Accounting Information Role in Constructing Realities or Illusions	January 15, 2018	Canadian Center of Science and Education
5	Institutions and Bank Behavior: Legal Environment, Legal Perception, and the Composition of Bank Lending	RAINER HASELMAN NPAUL WACHTEL	The Ohio State University	Legal Environment, Legal Perception, and the Composition of BankLending	December 15, 2009	E-mail:rainer.haselmann@uni-bonn.de
6	THE EFFECTOF THE LENDING POLICIES ON THE LEVELS OF NON-PERFORMING LOANS (NPLs)OFCOMMERCIAL BANKS IN KENYA	OWINO, MICHAEL OTIENO	UNIVERSITY OF NAIROBI	THE EFFECTOF THE LENDING POLICIES	NOVEMBER 10,2013	Owino Michael Otieno
7	An Empirical Study on Liquidity and Bank Lending	Koray ALPERTimur HÜLAGÜGürsu KELEŞ	Central Bank of the Republic of Turkey	Liquidity and Bank Lending	January 18,2012	Koray ALPERTimur HÜLAGÜGürsu KELEŞ
8	Reserve requirements and the bank lending channel in China	Zuzana Fungáčová, Riikka Nuutilainen	Bank of Finland, BOFIT Institute for	bank lending channel in China	21.9.2015	Suomen Pankki Helsinki

		and Laurent Weill	Economies in Transition			
9	Mapping capital and liquidity requirements to bank lending spreads	Michael R King	Monetary and Economic Department	Mapping capital and liquidity	November 2010	(www.bis.org)
10	The impact of capital requirements on bank lending	Jonathan Bridges, David Gregory, Mette Nielsen, Silvia Pezzini, Amar Radia, Marco Spaltro	vox	bank lending	02Septembe r 2014	Jonathan Bridges, David Gregory, Mette Nielsen, Silvia Pezzini, Amar Radia, Marco Spaltro

Appendix II

Complication of Objectives/ Purposes/ Questions/Hypotheses Addressed by the Articles

Article	**Objectives/ Purposes/ Questions/Hypotheses**
1	EFFECTS OF MONETARY POLICY ON THE COMMERCIAL BANKS LENDING IN NIGERIA
2	Gender, Entrepreneurship and Bank Lending: The Criteria and Processes Used By Bank Loan Officers in Assessing Applications
3	The Role of Guarantees in Bank Lending
4	The Bank Lending Process: Accounting Information Role in Constructing Realities or Illusions
5	Institutions and Bank Behavior: Legal Environment, Legal Perception, and the Composition of Bank Lending
6	THE EFFECTOF THE LENDING POLICIES ON THE LEVELS OF NON-PERFORMING LOANS (NPLs)OFCOMMERCIAL BANKS IN KENYA
7	An Empirical Study on Liquidity and Bank Lending
8	Reserve require mend and the bank lending channel in China
9	Mapping capital and liquidity requirements to bank lending spreads
10	The impact of capital requirements on bank lending

Appendix III

Complication of Conclusions

Article	**Conclusion s**
1	COMMERCIAL BANKS LENDING IN NIGERIA
2	Gender, Entrepreneurship and Bank Lending
3	Gender, Entrepreneurship and Bank Lending
4	Accounting Information Role in Constructing Realities or Illusions
5	Legal Environment,Legal Perception, and the Composition of BankLending
6	THE EFFECTOF THE LENDING POLICIES
7	Liquidity and Bank Lending
8	bank lending channel in China
9	Mapping capital and liquidity
10	The impact of capital requirements on bank lending