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Financial Ratio Analysis and Investment Decision in Quoted Deposit Money Banks in Nigeria

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ABSTRACT: The study examined the influence of financial ratio analysis on investment decision in the quoted deposit money banks in Nigeria for the period 2020 to 2024. The specific objectives of this study are to determine the influence of liquidity, profitability, and debt ratios on the investment decision in the quoted deposit money banks in Nigeria. The study adopted *ex-post facto* research design. Data for the study were collected from the selected banks' annual report and accounts for the period 2020 to 2024. Measure of central tendency was used to describe the characteristics of the variables. Ordinary least square was used to estimate the variables at a 5% level of significance. The results reveal that: liquidity and profitability ratios were positive and insignificant; and debt ratio was negative and insignificant for Access Bank Plc, for United Bank for Africa Plc, liquidity and profitability ratios were negative and insignificant; and debt ratio was positive and insignificant while Zenith Bank Plc current, profitability, and debt ratios were positive and insignificant. The study concluded that although financial ratios influence decision making in the quoted deposit money banks in Nigeria but in a minute way. The study recommended that commercial banks in Nigeria should: balance the liquidity position of their investment proposal with cash demand to achieve an optimal liquidity position that does not hamper customers cash demand is maintained, consider ratios topmost in the analysis of their proposed investment projects to be properly guided in selecting the most profitable investment that minimizes risks and maximizes shareholders' wealth, invest less in high-geared businesses since this portends negativity for their investment choice outcome.

INTRODUCTION

Analyzing financial ratios is an essential method employed by investors, financial analysts, and business managers to evaluate a company's financial condition, performance, and sustainability prior to making investment decisions (Blumenthal, 2025). Analyzing financial ratios can provide investors with the detailed information they require, addressing the single person theory of accounting suggested by academics, as opposed to the typically generated financial accounting annual reports that serve multiple purposes. In simpler terms, the purpose of financial ratio analysis is to cater to the distinct requirements of all potential investors who seek more detailed accounting information (Kadim, Sunardi, and Husain, 2020 and Rashid, 2021). The significance of utilizing financial analysis through ratios has grown as a vital method for assessing the performance of organizations and evaluating the outcomes of their operations.

The insights gained from financial analysis using ratios play a critical role in decision-making, helping to identify their strengths and weaknesses as well as to forecast the economic landscape (Alqam et al 2021). Analyzing financial ratios is crucial for assessing different elements within the banking industry and their influence on investment returns. This assessment aids in comprehending profitability, liquidity, efficiency, and risk considerations. Consequently, the purpose of this study is to investigate the effect of financial ration analysis on investment decision of three selected banks in Nigeria. They are Access, Zenith and United Bank of Africa.

To achieve the above purpose, this study relies on the financial statements of the selected banks as well as others relevant documents. The financial statements of the bank reveal key details, including cash flow financial ratios and various indicators of

financial performance that promote investment. The financial ratios utilized in this study encompass return on assets (ROA), return on equity (ROE), earnings per share (EPS), current ratios (CR), and debt-equity ratio (DER). ROA is a ratio that indicates the extent to which assets contribute to net income. It evaluates how efficiently a company can generate profits using its assets. A high ROA suggests that the company is effectively generating profits from its assets (Ogundajo, Siyanbola and Babatayo, 2022). Return on Equity (ROE) indicates how effectively a bank utilizes its own capital (Fapohunda & Falana, 2021).

In addition, earnings per share (EPS) is a financial indicator that determines the share of a company's profit assigned to each share of its common stock that is currently outstanding (Osagie & Omole, 2023). Furthermore, the current ratio (CR) influences the profitability of a company. The Debt to Equity Ratio (DER) is an important metric for assessing the level of financial support given by both creditors and shareholders (Chukwuemeka & Chukwuma, 2023). Based on the above background, this study assesses financial ratio analysis and investment decision in Access, Zenith and UBA using financial statements from 2020 to 2024. This period is pivotal because of the combination of post-Covid-19 impacts and the fuel subsidy removal (Harring et al. 2023). According to Tembo and Okoro (2024), this period is characterized by considerable economic fluctuations and shifts in policy, which have a direct impact on the stability and profitability of the banking sector. Grasping how these elements influence and define investment strategies is crucial for investors, banking executives, and regulatory authorities as well. Arising from the above, the main objective of this study is to:

a) Investigate the impact of financial performance, as measured by financial ratios, on investment decision of Access, Zenith and United Bank for Africa
b) Determine which financial ratio is the most significant predictor of investment decisions of Access, Zenith and United Bank for Africa

Research Hypothesis

Financial ratios have no significant effect on investment decisions of Access, Zenith and United Bank for Africa.

Justification for the Study

This study came at a time when Nigerian's financial sector is navigating a murky water of volatility and regulatory barriers. Some of these volatility and regulatory barriers include high cash reserve ratio, cashless policy, forex and inflation, monetary policy framework, cyber security threats, gaps in the legal framework, and a lack of transparency in some banks. Others include fintech disruption and digital transformation and rising non-performing loans (Oyetunji and Adepoju, 2020; CBN, 2020; and Udo Udoma & Belo Osagie, 2025). These barriers no doubt impact on banks' liquidity, lower profitability and hinders the sector's growth. It becomes necessary to investigate whether financial ratios such as return on assets (ROA), return on equity (ROE), earnings per share (EPS), current ratios (CR), and debt-equity ratio (DER) truly reflect the performance and investment-worthiness of banks. The outcome of this study has offered empirical evidence to help financial analysts, investors, and policy makers correctly read financial statements and make informed investment decisions. This study has also added value to existing body of knowledge in the area of financial management of banking sectors in Nigeria, Africa and globally.

LITERATURE REVIEW

Financial Ratio Analysis

Analyzing financial ratios is an effective way to assess a company's financial condition and performance. Ratio analysis refers to the calculation of particular ratios derived from crucial financial information, which offers important insights into a company's profitability, liquidity, solvency, and market value (Winvesta, 2025). In addition, evaluating financial ratios involves analyzing a company's balance sheet and income statement to gain insights into its liquidity, operational efficiency, and profitability (Bloomenthal, 2024)**.** Investors and business professionals can assess various ratios to forecast a company's financial health and potential growth in the future. These ratios can help analyze changes in a company's performance over time or compare it with other companies in the same industry (Bloomenthal, 2024). Investors can assess five key areas of operating performance and financial health through the use of financial ratios: 1. Liquidity 2. Profitability 3. Activity 4. Financial leverage 5. Return on investment (Rashid, 2021).

Ratio analysis has three primary objectives: monitoring a company's performance over time, contrasting results among competitors, and aiming for particular benchmarks. By utilizing different ratios in conjunction with qualitative analysis, companies can make well-informed choices regarding investments, lending, and strategic planning (Winvesta, 2025). The financial ratios utilized in this study encompass return on assets (ROA), return on equity (ROE), earnings per share (EPS), current ratios (CR), and debt-equity ratio (DER).

Return on Assets (ROA) is a financial ratio that indicates how effectively a company utilizes its assets to produce earnings; a higher ROA suggests that a company is more proficient in leveraging its assets to create profits (Schabek, 2020). An increased

ROA signifies that a company is more effective and productive in handling its balance sheet to produce profits. Conversely, a decreased ROA suggests that there is potential for enhancement (Hargrave, 2025). Additionally, ROA may have an indirect impact on a bank's dividend per share (DPS). In a study conducted by Maryati et al (2024), it was concluded that the DPR in Sharia Banks is not much impacted by ROA. Rather, a study conducted by Oduobuasi, Wilson-Oshilim and Ifurueze (2020) reveal that ROA has no impact on stock returns because investors consider other factors outside the profitability ratio, like the company's overall picture and individual needs.

Return on Equity (ROE) is a financial measure that determines net income for every capital given by shareholders; the higher the AOA, the more profitable the company operates (Xu et al., 2022). A greater ROE signifies that a higher return on the investment is achieved, while a lower ROE for a company suggests a lesser return rate. It is essential for potential investors to examine a company's ROE prior to committing to an investment in order to understand the potential returns they can expect from their investment (Jerab, 2024). As profit levels increase, a company's capacity to distribute dividends will also rise, leading to an increase in the company's stock price (Emeh, et al 2024). Investors often utilize ROE to assess how profitable companies are, as it can indicate the potential return on investments made (Sinebe, 2020 and Sinebe & Henry, 2023).

Earnings Per Share (EPS) is a financial metric that evaluates the effectiveness of generating profits for shareholders (Fee et al., 2023). EPS provides insight into the earnings a company produces for each share of its stock, which is useful for investors and analysts evaluating the financial performance of a company. This earnings metric for EPS can also have an indirect influence on the company's stock price. Earnings per Share (EPS) represents the profit generated by a company in a specific year, allocated to all shareholders. Evaluating both high and low EPS figures helps gauge the effectiveness of a company's performance. A rise in EPS is typically viewed positively by the market, as it aids capital holders in making informed investment choices regarding the company (Aprianti and Wahyuningsih, 2022). In a study conducted by Oge and Olaoye (2024), it was found that EPS exerted significant positive impacts on DPS of the listed bank. In research carried out by Khadka and Gaire (2024), it was discovered that earnings per share (EPS) has a notable impact on dividends per share (DPS), suggesting that as companies generate higher earnings per share, they are likely to raise their dividends per share.

CR (Current Ratio): The current ratio evaluates a company's ability to satisfy its short-term obligations in relation to its current assets that are owned or readily available (Aprianti and Wahyuningsih, 2022). The greater an entity's current ratio, the less likely it is to fail in settling its short-term debts. On the other hand, a low current ratio indicates poor performance in managing short-term debt obligations. As a result, companies that struggle to adequately meet their current liabilities can negatively impact their profitability, as they will face additional burdens related to their commitments (Tryono and Hadya, 2020).

Debt to Equity Ratio (DER):

The debt to equity ratio is a financial metric that indicates a company's capacity to manage its long-term obligations. A higher Debt to Equity Ratio (DER) indicates that an entity has more debt compared to its capital. This increases the pressure on the entity from creditors. Consequently, DER is seen as influencing the profitability of the company. This is due to the fact that the company's debt will ultimately diminish the profits it retains (Oli et al, 2023). The greater the value of the Debt-to-Equity Ratio (DER), the more financing a business receives through debt. This suggests that the business's capital structure relies more heavily on borrowed funds. An increase in DER may also result from the company's own capital being significantly lower compared to the debts owed to external parties. Utilizing more debt can enhance the company's capital; however, if the company fails to manage these funds effectively, a high debt-to-equity ratio will indicate an elevated level of debt on the company's books (Nurhikmawaty et al, 2020).

Investment Decision

An investment decision involves selecting the most effective method to reach the objective of gaining future returns while working with limited financial resources (Musfidah, et al, 2022). An investment decision pertains to the choices made regarding the allocation of a firm's resources to achieve the maximum return on investment for its stakeholders. These investment decisions are classified into two types: long-term and short-term investment decisions (Geeksforgeeks, 2023) Investment choices are determined by investors and portfolio managers. These choices are influenced by the results from analytical tools that utilize data concerning the companies.

Empirical Studies

Berthilde and Rusibana (2020) examined how financial statements impact investment decisions in banks in Rwanda, focusing on the Bank of Kigali. A survey research design was employed, utilizing a questionnaire as the method for gathering data. The findings indicated that grasping the analysis of financial statements is crucial for business owners as it serves as a means to mitigate the significant risks associated with launching and expanding a business.

Dadepo and Afolabi (2020) examined the impact of liquidity management on financial performance of selected manufacturing firms in the Nigeria. Descriptive, correlation, and multiple regression methods were employed to analyze panel data gathered from the annual reports of 10 selected companies from 2012 to 2016. The results indicated that liquidity management, as measured by the current ratio, cash ratio, and quick ratio, exerts a significant negative influence on financial performance, as represented by return on assets. Meanwhile, the cash ratio and quick ratio demonstrated a positive effect, although it was not statistically significant.

Sanyaolu (2020) examined the effects that financial statement analysis has on investment decision choosing Nigerian deposit money banks as a case study. The results indicated that liquidity did not have a notable positive influence. Furthermore, financial leverage also showed no significant positive effect. Lastly, profitability demonstrated a significant positive impact on investment decisions. In summary, the research revealed that the analysis of financial statements has a notable positive influence on investment decisions when considered collectively.

Nangih, Obuah and Kumah (2020) investigated the effect of current assets on stock performance. The study population was listed oil and gas firms in Nigeria. The research utilized an ex post facto design. A purposive sampling method was used to choose five (5) companies from the population under study. Data were gathered from financial statements and examined using correlation and simple regression analysis. The results indicated that both receivables and inventory had a positive and significant impact on stock prices, whereas cash did not.

Sanyaolu, Odunayo, Akintan, and Ogunmefun (2020) evaluated how financial statement analysis influences the investment decisions of Nigerian deposit money banks. Data was gathered from the yearly reports and financial statements of the ten selected banks. The research hypotheses were examined using regression analysis with fixed effects. The results indicated that profitability significantly positively influences investment decisions ($P < 0.05$); however, financial leverage does not have a significant positive effect on investment decisions ($P > 0.05$), nor does liquidity ($P > 0.05$). Based on these findings, the study concludes that the analysis of financial statements has a meaningful positive combined effect on investment decisions.

Ezejiofor, Rolise, and John-Akamelu (2021) conducted a comparative analysis of the telecommunications and banking sectors in Nigeria. The research utilized t-test statistics to analyze whether there is a disparity in investment decisions between the telecommunications and banking sectors in Nigeria, based on the secondary data gathered from the annual reports of the selected companies. The t-test results indicated that the liquidity of telecommunication companies is less than that of banks, which enhances the investment choices in the telecommunication sector. This suggests that liquidity plays a notably positive role in influencing investment decisions within Nigeria's telecommunication industry.

Ali-Momoh, Fajuyagbe, and Ahmed (2022) examined how financial statements influence the financial decisions of listed deposit money banks in Nigeria over the period from 2007 to 2020. The information for the study was collected from the yearly reports of the selected deposit money banks over a span of 13 years. The data was analyzed using both descriptive and inferential techniques. It was also found that asset tangibility has a negative and minor impact on the liquidity choices of deposit money institutions in Nigeria. Consequently, it is evident that asset tangibility affects the financial decisions of deposit money banks in Nigeria.

Tumaini (2024) studied the tools for Financial Statement Analysis (FSTs) and their impact on the investment choices of potential investors in the banking sector across the country. In particular, it demonstrated the impact of horizontal analysis, ratio analysis, and vertical analysis on investment choices. Secondary data were gathered from five commercial banks listed on the Dar es Salaam Stock Exchange (DSE) in Tanzania, covering the period from 2012 to 2021. A positive and noteworthy correlation was identified in this study among ratio analysis, horizontal analysis, vertical analysis, and the investment decision.

THEORETICAL FRAMEWORK

Value Maximization Theory

The model was first introduced by Michael Jensen in 2001 and has since been adopted as a foundational guideline for corporate decision-making (Jensen, 2002 cited in Davidson, 2025). According to Jensen (2001) in Davidson (2025) the theory of value maximization posits that the primary goal of a firm is to enhance shareholders' wealth or the value of the company over the long term, influencing decisions related to resource allocation. This theory posits that companies must forgo their short-term profit goals to enhance future long-term profitability. Consequently, the value maximization theory supports the objective of maximizing shareholder wealth or value. This theory suggests that a firm's primary goal is to enhance shareholder value over the long term, while also focusing on maximizing short-term profits (Ndum & Ejimma, 2023).

The value maximization theory extends beyond just increasing shareholder wealth. It also aims to enhance the value for other financial stakeholders, including debt holders and warrant holders. This indicates that companies need to fulfill their financial

responsibilities to all stakeholders while maintaining a robust financial status consistently. In real-world applications, the value maximization theory has considerable effects on corporate decision-making (Wallace, 2003 cited in Ala-Ketola, 2021).

The research was based on the value maximization theory, because it emphasizes the importance of wealth maximization as its core principle. Moreover, the theory is closely connected to the primary goal of enhancing shareholder value by focusing on long-term wealth creation. Wealth maximization as the core principle value maximization theory involves selecting strong investments, handling finances prudently, and leveraging your capital to achieve optimal returns while considering risks and the time element. Focusing on wealth enhancement assists both businesses and investors in achieving consistent growth and increasing profits, which ultimately advantages all parties involved (Kumar 2023).

MATERIALS AND METHODS

This study adopted ex post facto study. According to Akinlua (2020) an ex post facto study, or research conducted after an event, is a type of research design where the examination begins after the event has taken place without any influence from the researcher. An ex post facto research design does not involve any type of manipulation or measurement prior to the occurrence of the event, unlike true experimental designs (Akinlua, 2020). The basis for this adoption lies in the fact that the data for the research were obtained from the annual reports and financial statements of the selected banks for the years being analyzed. Three commercial banks namely Access Bank, United Bank for Africa and Zenith Bank were sampled for the study. These banks were mainly selected based on the ranking of Nairametrics. The sources for data used for this study are the annual reports and financial statements of the selected banks and CBN Financial Stability Reports. Accordingly, annual reports and financial statements of the sampled banks from 2020 to 2024 were used for analysis.

Model Specification

The data was analyzed using the ordinary least square method in estimating the parameter of the model and it is expressed in econometric form as stated below.

$INVEST_DEC_{it} = \beta_0 + \beta_1 ROA_{it} + \beta_2 ROE_{it} + \beta_3 CR_{it} + \beta_4 DER_{it} + \beta_5 EPS_{it} + \mu_{it}$

Where:

Investment decision proxy (dividend per share) for bank *i* at time *t*

β coefficient of independent variable

ROA_{it}: Return on Assets

ROE_{it}: Return on Equity

CR_{it}: Current Ratio

DER_{it}: Debt-to-Equity Ratio

EPS_{it}: Earnings Per Share

μ_{it}: Error term

RESULTS

Data collected were derived from the annual reports and financial statements of Access, Zenith, and United Bank of Africa, and CBN Financial Stability Reports as well as the Central Bank of Nigeria (CBN) Statistical Bulletin covering the years 2020 to 2024.

Table 1: Model Summary

R Square	**0.937253502**
Adjusted R Square	0.902394336
Standard Error	0.462023713
Observations	15

The R-squared value presented in table 1 shows that 93.7% of the overall variability in investment choices can be accounted for by the five financial ratios (ROA, ROE, EPS, CR, DER). This shows a very strong model fit. Furthermore, the adjusted R^2 value is 0.902, indicating that the model continues to account for 90.2% of the variability, which reinforces its robustness.

Table 2: ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	5	28.69714013	5.739428027	26.88685981	3.71258E-05
Residual	9	1.9211932	0.213465911		
Total	**14**	**30.61833333**			

The F-statistic is 26.89, and the Significance F value is 0.000037, which is below 0.05, suggesting that the regression model is statistically significant. Hence, at least one financial ratio significantly affects investment decisions.

Table 3: Financial performance (measured by financial ratios) of Access, Zenith and UBA

	Intercept	ROA	ROE	EPS	CR	DER
Coefficients	-2.333606552	-0.00240248	-0.000831635	0.06376446	0.053507484	0.150042383
Standard Error	0.608754134	0.332366702	0.023960722	0.025242402	0.010646932	0.027700754
t Stat	-3.83341389	-0.007228401	-0.034708254	2.526085306	5.025624512	5.416545
P-value	0.00400672	0.994390311	0.973069979	0.032443091	0.000713604	0.000423745
Lower 95%	-3.710704077	-0.754268195	-0.055034553	0.00666218	0.02942245	0.087378923
Upper 95%	-0.956509028	0.749463236	0.053371283	0.12086674	0.077592518	0.212705843
Lower 95.0%	3.710704077	-0.754268195	-0.055034553	0.00666218	0.02942245	0.087378923
Upper 95.0%	0.956509028	0.749463236	0.053371283	0.12086674	0.077592518	0.212705843

Interpretation of Regression Result

The information displayed in table 3 shows that EPS has a P-value of 0.03, CR has a P-value of 0.001, and DER has a P-value of 0.0004, all of which indicate significant positive influences on investment decisions. However, both ROA and ROE are not statistically significant (P-values > 0.05), suggesting they do not effectively forecast investment choices in this situation.

DISCUSSION

The findings indicate that financial ratios significantly influence investment decisions in Access Bank, Zenith Bank, and United Bank for Africa. The results further indicate that EPS, CR, and DER are the key financial ratios that predict investment decisions, whereas ROA and ROE do not hold significant importance. The above results indicate that investors are more likely to focus on EPS, CR, and DER when making investment decisions, rather than ROA and ROE. Therefore, this finding agrees with Oduobuasi, Wilson-Oshilim and Ifurueze (2020) findings which revealed that ROA has no impact on stock returns because investors consider other factors outside the profitability ratio, like the company's overall picture and individual needs. There are several reasons why investors are more likely EPS, CR, and DER in making investment decision. To begin with, EPS provides insight into the earnings a company produces for each share of its stock, which is useful for investors and analysts evaluating the financial performance of a company. This earnings metric for EPS can also have an indirect influence on the company's stock price. Earnings per Share (EPS) represents the profit generated by a company in a specific year, allocated to all shareholders. Evaluating both high and low EPS figures helps gauge the effectiveness of a company's performance (Aprianti and Wahyuningsih, 2022). Additionally, the current rations (CR) of the selected banks assess their capacity to fulfill short-term responsibilities, reflecting their financial well-being and operational stability. As Tryono and Hadya (2020) note that investors tend to favor firms with robust liquidity because they are better equipped to withstand economic downturns and can take advantage of emerging opportunities. Furthermore, investors looking for consistent returns tend to steer clear of banks with elevated Debt-to-Equity Ratios (DER) because of the greater risk associated with default or financial trouble. This view was better captured by Oli et al (2023) when they argue that a higher Debt to Equity Ratio (DER) indicates that an entity has more debt compared to its capital. This increases the pressure on the entity from creditors. Consequently, DER is seen as influencing the profitability of the company. This is due to the fact that the company's debt will ultimately diminish the profits it retains.

Theoretical and Managerial/Practical Implications

Theory of value maximization posits that companies must forgo their short-term profit goals to enhance future long-term profitability (Jensen, 2001). From a theoretical perspective, the finding that EPS, CR, and DER are the crucial financial ratios influencing investment decisions in Access Bank, Zenith Bank, and United Bank for Africa, while ROA and ROE are not significantly relevant, carries important theoretical implications. To begin with, the focus that investors have on EPS, CR, and DER indicates that they are valuing measures that directly demonstrate a bank's capability to produce distributable earnings (EPS), uphold liquidity (CR), and handle financial risk (DER). These are crucial for sustaining and growing shareholder value over time, which is the emphasis of theory of value maximization (Jensen, 2001 cited in Ala-Ketola, 2021). Additionally, the limited importance of ROA and ROE suggests that investors might regard these metrics as less dependable indicators of long-term worth in the banking industry, potentially because of the characteristics of banking activities or unique accounting methods specific to the sector. Investors, instead, concentrate on ratios that more clearly indicate the bank's ability to provide sustainable returns

and handle risk, which aligns with the theory's emphasis on long-term wealth rather than immediate accounting profits (Jensen, 2001 in Davidson 2025; Wallace, 2003 in Ala-Ketola, 2021; and Ndum & Ejimma, 2023)

Managerial/Practical Implications

The present study has made a valuable contribution to financial ratio analysis and investment decision in Access, Zenith and UBA. Consequently, Banks should optimize EPS, CR, and DER as ratios that are most likely to attract long-term investment. Moreover, the findings from this research will inform the strategic choices made by bank management regarding capital distribution, funding approaches, and enhancements in operations, which should be analyzed based on their influence on EPS, CR, and DER. For instance, choices concerning dividend distributions, debt sourcing, or expansion of assets ought to be evaluated for their impact on these essential ratios, as they are the main factors that shape investor perception and, consequently, share prices and the overall value of the firm. For regulators such as the CBN, the results of this study will redirect their focus to monitoring these ratios in order to evaluate market resilience and investor sentiment.

CONCLUSION AND RECOMMENDATIONS

Based on the results of the study it can be seen that financial ratios do have a significant effect on investment decisions in Access Bank, Zenith Bank, and United Bank for Africa. The results show that EPS, CR, and DER are the main financial ratios influencing investment choices, while ROA and ROE are not considered significantly important. Therefore, it is recommended that managers in the selected banks ought to focus on tactics that enhance EPS, sustain suitable liquidity levels (CR), and oversee leverage (DER). This entails prioritizing growth in profit per share, responsible management of liquidity, and cautious utilization of debt to mitigate excessive risk. In addition, given that investors are not as swayed by ROA and ROE, managers ought to customize their financial communications and reports to emphasize advancements in EPS, CR, and DER. Showing improvements in these metrics can help draw in and keep investors.

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