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Ranking of Commercial Banks in Uganda: A Comparative Analysis

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Abstract

The main aim of this study is to analyze the profitability ratios of the selected commercial banks in Uganda and rank the banks to find out which bank among the five is more profitable. The study is carried out for a period of eight years (2006-2013). The ratios have been calculated by the authors and the banks were ranked according to their overall means. The findings show that; in return on assets, Crane bank has the highest mean ((6.875) and is ranked first, followed by Centenary bank with a mean of ((4.7625) and DFCU bank is the last with a mean of ((2.9625). For return on equity, Stanbic bank is ranked 1st (41.8625) and DFCU 5th. In Net operating margin; Centenary bank is ranked 1st and DFCU 5$^{th.}$ In Earnings per share; Centenary bank is ranked 1st and Crane 5th.

Keywords: *Return on assets, Return on equity, Net operating margin, Earnings per share, JEL Code: G21, E59*

Introduction

The main objective of this study is to analyze the profitability ratios of the selected commercial banks and to rank them based on their profitability. Profitability is the capacity to earn a profit. If a company has a higher value relative to a competitor's ratio or same from the earlier period, for most of the ratios, shows that the firm is performing well. Comparing ratios between companies in the same industry is valid and good (www.aaii.com). Banks in Uganda are facing stiff competition from the increasing growth of the banking industry. This has squeezed profits for the banks. This is evidenced as the banks are facing a declining profitability trend (Nsambu Kijjambu 2015, Bank of Uganda 2011). In addition, commercial banks in Uganda are often closed due to being regarded as insolvent by bank of Uganda example Global trust bank on July 25, 2014 and many others in the past (www.bou.or.ug). Research done in Uganda on the banking industry is very minimal compared to other East African countries (Sarah Sanya and Mathew Gaertner (2012). Therefore, there is a need to analyze and rank the profitability ratios of Uganda commercial banks.

Literature review

Manish Kumar (2012) examined the most profitable banks in India. The main aim of the research was to discover the highest profitable nationalized bank of India and to rank the banks according to their profitability. The data were analyzed from 2008-2012 by the descriptive ratio analysis and the banks were ranked by the composite rank table. The findings revealed that Punjab National bank was the most profitable bank in India.

Sarah Sanya and Mathew Gaertner (2012) assessed the bank competition within the East African community. The main objective of the study was to examine the competitiveness of the four East African countries (Kenya, Tanzania, Rwanda and Uganda) in the banking industry. It was found that Uganda was ranked as the third and concluded that there are fewer studies in the banking industry done in Uganda.

Suzan Moraa (2014) examined the profitability of Kenya's top six commercial banks. The main objective of the study was to explore the function of bank specific factors on the top six commercial banks in Kenya over the period 2009-2013. The findings showed that the major important determinants of the profitability of the top six commercial banks are operating expenses, ownership, capital strength, bank size and ratio of loans.

Nsambu Kijjambu (2015) analyzed the factors affecting performance of commercial banks in Uganda for a period of 2000-2011. This study was built on the fact that the mean profits for domestic, commercial banks are declining compared to the foreign commercial banks. (Bank of Uganda 2011). The study found out that the factors affecting the performance of domestic commercial banks in Uganda are: management efficiency, capital adequacy, inflation, asset quality and interest income.

Priya. S (2014) analyzed the profitability position of private sector banks in India. The major objective of this study was to analyze the profitability position of some chosen private sector banks for a period of ten years

(2002-2003 to 2011-2013). The tools used for analysis were: descriptive statistics, chi-square and coefficients of variation. The findings showed that individual banks perform well in some profitability ratios and score poorly in others depending on the bank.

Statement of the problem

Banks in Uganda are facing stiff competition from the growing banking industry such as telecommunication companies. Today telecommunication companies like MTN (Mobile Telephone Networks) introducing MTNs' Mobile money and Warid Telecoms' Warid Pesa just to mention a few. This has reduced bank profits and created a strategic alliance between banks and the telecommunication companies. There is also fewer research in the banking industry done in Uganda (Sarah Sanya and Mathew Gaertner (2012). All these issues call for the performance of this study.

Objectives of the study

The main objective of this study is to analyze and rank the profitability ratios of the five selected Uganda commercial banks.

Sample size

They were twenty five commercial banks by the time this study was conducted and five percent among the top ten banks, according to assets were selected as the sample (appendix 1). The Five commercial banks selected for the comparative ratio analysis are: Stanbic bank, Crane bank, Centenary bank, DFCU bank (Development Finance Company of Uganda) and bank of Baroda Uganda. The ratios which can be used for comparing companies in the same industry have been selected. These ratios are; return on assets, return on equity, net operating margin and earnings per share. All the ratios were calculated in SHS'000' (Uganda shilling in "thousand").

Data collection

The study used secondary data. The annual reports were obtained from individual bank websites and www.africanfinacials.com. Numerous articles and magazines were also used. Profitability ratios were calculated based on the data from the annual report to make a uniformity of ratios.

Period of the study

The study was carried out for a period of eight years (2006-2013).

Tools of analysis

The tools used for the study are the descriptive statistics.

Limitation of the study

1) Annual reports have been used as the source of the secondary data and the profitability ratios selected were calculated based on that data. The analysis and findings rely mostly on the correctness of such data.
2) The aim of the research was to perform an analysis for at least 10 years, but some banks missed some years hence the analysis for only eight years.

Conclusion

It can be concluded that Crane bank utilizes most of its assets to generate earnings compared to other selected banks as it is leading in return on assets. Stanbic bank is leading in return on equity, this reveals that compared to all the selected banks, Stanbic bank utilizes most the share holder's equity to generate earnings while Centenary bank is leading in net operating margin and earnings per share therefore centenary bank reduces most costs and allocates higher profits to each of the outstanding shares of common stock than other selected banks.

Scope for further research

Further research should be done on analyzing and ranking the profitability of all the Uganda commercial banks or having a bigger sample size than this.

Suggestions

1) It is suggested that DFCU banks should utilize more its assets and shareholder's equity to generate earnings.
2) Baroda bank Uganda should try to reduce its costs as much as possible.
3) Crane bank should try to increase the profits it allocates to each outstanding shares of common stock.

Findings of the study

The findings of the study were based on four tables, namely, 1- Return on assets, 2- Return on equity, 3 - Net operating margin, 4 - Earnings per share.

1) Return on assets

Return on assets measures how efficiently a company uses its assets to accumulate operating profits. If the firm's return on assets is huge, that means that the company is efficiently using its assets and managing them well. Return on assets is calculated as net income divided by average total assets. **Table 1** shows the value of return on assets for the selected five commercial banks in Uganda. The return on assets for all the banks are not stable and non of the banks show a consistent upward trend or downward trend but they are all fluctuating among the years. The position of the selected banks, with overall trend, where Crane bank- 1st (6.875), Centenary- 2nd (4.7625), Baroda- 3rd (4.625), Stanbic- 4th (4.275) and DFCU- 5th (2.9625).

2) Return on equity

Return on equity measures how much net income was earned as a percentage of share holder's equity. It measures how much profit the bank earns from the share holder's money invested. Return on equity is calculated as net income divided by the average common equity. http://www.aaii.com/computerizedinvesting/article/profitability-ratios. The higher the company's return on equity, the higher the bank earns from the share holder's money invested. **Table-2** shows The position and means of the banks in return on equity were- Stanbic -1st (41.8625), Crane -2nd (36.55), Centenary- 3rd (30.525), Baroda- 4th (25.275), DFCU-5th (23.275).

3) Net operating margin

Net operating margin analyzes how much revenue a company is left with after subtracting off the variable costs of production for example raw materials and wages. Operating margin also shows how much money is left to pay for non-operating costs http://www.myaccountingcourse.com.

Net operating margin is a measure that indicates how well the bank minimizes its costs. It is calculated as (Total operating revenues – Total operating expenses) / Total Assets. Pretex net = Operating income/total assets. The higher the net operating margin, the better the company is controlling the costs. **Table- 3** reveals the values of the net operating margin and the rank of the banks, which are Centenary- 1st (18.7375), Stanbic- 2nd (13.8), Crane- 3rd (13.4875), DFCU-4th (10.775) and lastly Baroda- 5th (5.6125).

4) Earnings per share

Earnings per share are the part of the bank's revenue that is to be paid to each outstanding share of common stock. Earnings per share are computed as net income-dividends on preferred stock /average outstanding shares. **Table 4** shows the earnings per share of the selected banks and their overall means. Centenary-1st (51.11), DFCU- 2nd (5.04375), Stanbic- 3rd (4.9575), Baroda- 4th (2.985) and Crane-5th (0.79875).

Table 1: Return on assets in percentages

Years	Stanbic	Crane	Centenary	DFCU	Baroda
2006	3.5	8	3.5	2	4.4
2007	4.1	7.1	5.4	2.2	4.9
2008	5.4	6.7	5.2	3.2	5
2009	6	6	4.6	3.4	4.9
2010	2.7	8.4	4.2	3.2	4.2
2011	4.8	7.7	5.4	3.5	4.3
2012	4.5	7.4	5.3	3.1	5.4
2013	3.2	3.7	4.5	3.1	3.9
Overall mean	4.275	6.875	4.7625	2.9625	4.625
Rank	4	1	2	5	3

Calculated by the authors

Table 2: Return on equity in percentages

Years	Stanbic	Crane	Centenary	DFCU	Baroda
2006	40.8	38.6	25.6	14.1	24.5
2007	47.3	40.1	36.6	16.3	26
2008	55	41.1	33.4	22.8	26.5
2009	56.3	33.9	29.3	27.7	26.5
2010	26.6	46.4	28.6	27.5	23.8
2011	46.3	39.9	35.1	30	24
2012	37.5	34.8	30.3	24.5	28.8
2013	25.1	17.6	25.3	23.3	22.1
Overall mean	41.8625	36.55	30.525	23.275	25.275
Rank	1	2	3	5	4

Calculated by the author

Table 3: Net operating margin in percentages

Year	Stanbic	Crane	Centenary	DFCU	Baroda
2006	12	18.3	19.1	10.7	5.6
2007	13.8	11.6	22.1	14.3	5.7
2008	14	13.1	20.7	11.2	6
2009	14.4	13.2	18.9	10.2	5.3
2010	12	13	15.9	9.2	5.3
2011	14	13.7	17.7	10.1	6.9
2012	16.4	13.1	18.9	10.5	5.9
2013	13.8	11.9	16.6	10	4.2
Overall mean	13.8	13.4875	18.7375	10.775	5.6125
Rank	2	3	1	4	5

Calculated by the authors

Table 4: Earnings per share in Uganda shillings

Year	Stanbic	Crane	Centenary	DFCU	Baroda
2006	7.72	2.49	9.28	0.18	2
2007	10.32	0.55	4.08	9.75	2.7
2008	3.84	0.53	5.07	2.64	3.36
2009	5.15	0.58	5.84	3.87	4.17
2010	5.73	0.55	7.31	4.63	4.63
2011	2.37	0.67	4.79	6.18	2.27
2012	2.55	0.79	2.19	6.15	3.44
2013	1.98	0.23	2.32	6.95	1.31
Overall	4.9575	0.79875	5.11	5.04375	2.985
Rank	3	5	1	2	4

Calculated by the authors

Appendix 1

Allocation of Assets among Ugandan commercial banks as of December31/December/2014

Rank	Bank	Assets (USD) Millions	Market share In percentage
1	Stanbic bank	1,260	19.0
2	Standard chartered bank	936	14.0
3	Crane bank	620	9.3
4	Centenary bank	587	8.8
5	DFCU bank	513	7.7
6	Barclays bank	504	7.5
7	Baroda bank Uganda	409	6.1
8	CITI bank Uganda	300	4.9
9	Diamond Trust bank	252	3.8
10	Housing finance	220	3.5

Source: www.wikipedia.org

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