UNIVERSITY OF CAPE COAST

EVALUATION OF THE FINANCIAL PERFORMANCE OF GA RURAL BANK LIMITED FROM 2010 - 2013

BY

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DECLARATION

Candidate's Declaration

I hereby declare that this dissertation is the result of my own original work and that no part of it has been presented for another degree in this university or elsewhere.

Candidate's Signature .... Date ....

Candidate's Name: Bernard Asare

Supervisor's Declaration

I hereby declare that the preparation and presentation of the dissertation were supervised in accordance with the guidelines on supervision of dissertation laid down by the University of Cape Coast.

Supervisor's Signature .... Date ....

Supervisor's Name: Prof. Edward Marfo-Yiadom

ABSTRACT

The study used the annual financial statements covering a period of Four years (2010 to 2013) to evaluate the financial performance of Ga Rural Bank Limited. Ratio Analysis was the major tool used to analyze the data collected from the Ga Rural Bank Limited.

The results of the study revealed that, the Bank had been successful in its Deposit mobilization, Liquidity and its high Profitsare based on some of the strengthswhich serve as a catalyst for driving its profits. The strengths are good corporate governance culture, superior quality service delivery, innovation of new products , effective communication of strategy and management commitment to staff training and development .The liquidity and size were positive and significantly related to the performance of the Bank.

Overall the study found that Ga Rural Bank Limited performance increased considerably in the entire period of the analysis. A significant change in trend was noticed at the onset of the four year period, reaching its peak during the end of the period. This resulted in rising profitability, high deposit mobilization and low liquidity.

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DEDICATION

To the honour of my mother, Ms. Grace Obeng-Adasi. My lovely wife Mrs Abena O. Asare and my two children, Kofi Buabeng Asare and Abena Achiaa Asare.

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LIST OF ACRONYMS

SSA	-	Sub - Saharan Africa
SIF	-	Social Investment Fund
SFA	-	Stochastic Frontier Approach
S&Ls	-	Savings and Loans
S&LCs	-	Savings and Loans Companies
RRB	-	Regional Rural Banks
ROE	-	Return on Equity
ROA	-	Return on Assets
RCBs	-	Regional and Community Banks
PNDCL	-	Provisional National Defence Council Law
PAT	-	Profit After Tax
NPL	-	Non - Performing Loan
NLTA	-	Net Loans to Total Assets
NLDST	-	Net Loans to Deposit Short Term
NGOs	-	Non - Governmental Organisations
NEPAD	-	New Partnership for African Development
NBFI	-	Non -Banking Financial Institutions
MMP	-	Minimum Monetary Policy
MFIs	-	Micro-Finance Institutions
MDGs	-	Millennium Development Goals
MDAP	-	Millennium Development Authority Projects

MASLOC	-	Micro- Finance and Small Loan Centre
LRGL	-	Loan Loss Reserve to Gross Loans
LADST	-	Liquid Assets Deposit Short Term
GHAMFIN	-	Ghana Micro -Finance Institution Network
FRA	-	Financial Ratio Analysis
EPS	-	Earnings Per Share
DEA	-	Data Envelopment Analysis
CUs	-	Credit Unions
CI	-	Cost to Income
CBRDP	-	Community-Based Rural Development Project
CAR	-	Capital Adequacy Ratio
BSD	-	Banking Supervision Development
BOG	-	Bank of Ghana

CHAPTER ONE

INTRODUCTION

Background to the Study

The Ghanaian rural banking industry which began in 1976 has grown significantly in terms of assets and its contribution to the economic growth of Ghana. It has unique characteristics in terms of ownership structure, management structure and operations features. Unlike the large commercial banks, Rural Banks are community-owned and community-run unit banks. This gives them geographical advantages which facilitate the proper management.

The idea of rural banking was conceived some years ago by the Bank of Ghana when it opened a dialogue with stakeholders to find ways of mobilizing funds for productive activities as well as bringing banking to the doorstep of Rural Communities in Ghana . To achieve the vision of Bank of Ghana , ARB apex Bank limited was registered under the companies code 1963 (Act 179)as a public limited liability company and licensed by the Bank of Ghana under the then Banking Law, 1989 (PNDCL 225) as repealed by the Banking Act, (Act 673). Apart from the above legal and regulatory framework in which the Bank is operating, it is also subject to the Bank of Ghana Act, 2002 (Act 612) and other directives issued by the Bank of Ghana from time to time. The Bank is also regulated by legislations such as Financial Administration Act, 2003 (Act 654), Public Procurement Act, 2003 (Act 663) among others. Furthermore, the ARB Apex Bank Ltd is regulated by its Regulations; ARB Apex Bank regulation (L.I. 1825).

According to the Bank of Ghana (2006) the roles of Rural Banks are: to mobilize savings in the rural communities and channel them into the provision of credit to rural microenterprises, agro-based firms and cottage industries; monetize the rural communities by way of inculcating in rural folks the culture of formal banking; serve as tools for the growth and development of microenterprises in the rural communities to facilitate rapid rural industrialization for the overall enhancement of the national economy.

This study attempts to delve into the financial performance of Ga Rural Bank against the back drop of its mandate as stated above through a case study approach. As at June 2007, 23 out of the 145 Regional and Community Banks (RCBs) have been closed down (Aboagye & Otieku, 2010) due to reasons identified by the Bank of Ghana (2001) as management incompetence, embezzlement and fraud, negligence and ineffective board of directors, ineffective accounting procedures, non-compliance with regulations in granting credits, persistent operational losses, poor loan recovery and corruption, low deposits mobilization, use of unqualified staff, non-submission of prudential returns, high unearning assets and high non-performing credit portfolios.

According to Aboagye and Otieku, (2010) Rural Banks evolved as an economic development approach intended to benefit low income, micro and small-scale entrepreneurs in the rural areas. They are created to perform financial intermediation to the rural people. Rural banking concept is a developmental tool that can be used to alleviate poverty by providing financial services to low income clients including the self-employed. The importance of savings mobilization and granting of loans to individuals, and small scale enterprises for a long time ranked low in the debate for economic development especially in Ghana and Sub Saharan

Africa Region. According to Aboagya and Otieku, 2010 the prevailing opinion was that the able Ghanaian salary worker, farmer, artisan and trader cannot make ends meet and are therefore neither able nor willing to save towards his/her future. Those who can make ends meet have rather not developed the culture and practice of saving at the bank. Besides, the provision of credit to individuals and households willing to turn it around was regarded as the main engine of growth of the economy.As the deficiencies of this concept became apparent with the passage of time, the relevance of a comprehensive financial system was generally acknowledged. Today, not only is the need for the efficient allocation of resources paramount but also the transformation through financial intermediaries is recognized. The other half of financial development that is, savings mobilization and granting of loans and advances are being given the priority it deserves.

Statement of the Problem

The evaluation of bank performance particularly rural banks is not well researched and has not received increased attention over the past years.Ga Rural Bank Limited has been operating for the past two decades. No research has been done on the bank to assess its performance for the past years it has been in operation. Customers come and go, products are introduced and some are also abandoned yet studies on the bank have focused on other areas not on the financial performance. There have not been a large number of empirical studies on rural bank performance in Ghana. However, little has been done on bank performance in Ghana. However, with the deteriorating health of the rural banking institutions and the recent surge of bank failures as a result of the current global financial crisis and other problems, it is justified that bank performance receives increased investigation from both scholars and industry specialists.

Alsomost studies in this area tend to focus on the big commercial banks, thus this study with its focus on rural banks, contributes a lot to literature concerning financial performance in rural and community banks.However, it is important to note that just like other Rural Banks, the activities of the banks are highly regulated by the Government through the Central Bank. Due to low income and the fact that Banking is alien to rural community in Ghana,this to a large extent impinges upon the expansion of its activities. The current study thus investigates the financial performance of Ga Rural Bank Limited and look at the growth pattern.

Objectives of the Study

The purpose of this study was to evaluate the financial performance of Ga Rural Bank Limited. Specifically the study sought to:

1. Assess the profitability of Ga Rural Bank Limited in terms of financial performance.
2. Assess the liquidity positions of the bank and to ascertain whether the bank can meet customers and creditors demand as and when required/fall due.
3. Assess the savings mobilization potential of Ga Rural Bank Limited.

Research Questions

a) To what extent is Ga rural bank profitable ?

b) What are the liquidity position of the bank?

c) What is the savings mobilization potential of Ga Rural Bank ?

Scope of the Study

This study focused on evaluation of financial performance of the Ga Rural Bank, its financial performance , growth and mobilization expansion in meeting the needs and satisfaction of customers in the catchment area. It also focused on assessment of profitability, liquidity and mobilization of savings. It is hoped that this work would provide very useful insights into the area of financial performance and contribute to general efficiency in the banking sector.

Significance of the Study

In the midst of keen competition from the Commercial and Development Banks, Non-Bank Financial Institutions and other rural banks in Greater Accra, the study would help and contribute to knowledge and literature on the underlying issues in the efficient performance of the Bank. The information on the study of Ga rural bank would help and offer bankers and customers a greater understanding of the concept of financial performance. The study also would provide policy makers, both in government and private sector with information that may be used to improve and maintain the quality of service and overall impacted on employee performance and institutional development. Finally, the study would provide an insight into things that inhibit performance and growth in Rural Banking so that managers in banking could work to remove the obstacles.

Organisation of the Study

This study has been organised into five chapters. Chapter one focused on background to the study, problem statement, objectives of the study, research questions, significance of the study and organisation of the study. Chapter two deals with literature review which looks at review of relevant literature to obtain detailed knowledge on the topic being studied. Chapter three focuses on the research methodology to be employed in the study. This will involve research design, followed by population and sampling procedure, data collection procedure and instrument adopted and used for the study and data analysis. Chapterfour covers the analysis of data, findings and discussions of the results. Chapter five seeks to summarize all the Findings and draw Conclusions, Recommendations and Suggestions for future studies.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

Introduction

According to the Bank of Ghana (2006) the roles of Rural Banks are: to mobilize savings in the rural communities and channel them into the provision of credit to rural microenterprises, agro-based firms and cottage industries; monetize the rural communities by way of inculcating in rural folks the culture of formal banking; serve as tools for the growth and development of microenterprises in the rural communities to facilitate rapid rural industrialization for the overall enhancement of the national economy.

The aim of this study is to assess these roles and financial performance of Ga Rural Bank Limited in terms of profitability, liquidity and deposit mobilization. This chapter explore the key concepts and theories around which the study is built, clarify, interprets and summaries these concepts and theories in relation to the study.

Measuring of Financial Performance

Harker and Zenios (1998) define the performance of financial institutions as an economic performance which is measured in both short and long-term by a number of financial indicators such as price-to-earnings ratios, the firm's stock beta and alpha, and Tobin's Q. The financial performance of Rural and Community Banks (RCBs) is influenced by internal factors or bank-specific factors and external or macroeconomic factors. Zaman (2004) and Yaron (1998) have studied the factors underlying improved financial performance of RCBs.

Yaron (1998) delved into three active Asian RCBs which have achieved leadership in the provision of financial services at unprecedented levels to millions of rural households and micro enterprises. Zaman (2004) on the other hand conducted an in-depth study into how four RCBs in Bangladesh have made great strides in financial intermediation. Both Zaman (2004) and Yaron (1998) summarized the factors underpinning effective financial performance as visionary leadership, management autonomy in formulating operational policies, efficient staff recruitment and remuneration systems, innovative and technology-driven products; flexible low-cost delivery system keen supervision of loan portfolio; effective management information system that promotes proper planning and enhances management ability to control operational expenses and ensures adequate internal control systems. The crucial influence of microeconomic stability and a conducive regulatory environment were also alluded to.

Lending and Fiduciary Activities

Aboagye and Otieku (2010) contended that for RCBs to continue in business, they must make enough money through lending and fiduciary activities or services to cover their operational and financing costs and plough back retained earnings to finance future operations. This will enhance not only the survival of RCBs but their growth and profitability. Historically, profitability from lending activities has been cyclic and dependent on the needs and strengths of the loan customers (Annor, 1998). Bank loans are expected to be the source of income and are expected to have a positive impact on profitability. All other things being equal, the higher the amount of loans given out, the higher the profitability level. For example, Naceur (2003), claims that, loans have a significant positive relationship with profitability.With respect to the relationship between liquidity and banks profitability, Buyinza (2010), posited that, liquidity has a significant relationship with profitability. However, this relationship is a negative one.

Non Performing Loans

According to Achou and Tenguh (2008), non-performing loans (NPL) has an inverse relationship with banks' profitability. Another variable which previous empirical studies have identified as having an impact on banks' profitability is size as represented by total assets. However, the available evidence indicates that, the relationship between total assets (size) and banks' profitability is an inconclusive one. For instance, Berger, Hanweck, and Humphrey, (1987), argued that a bank can achieve cost savings as its size increases. The findings of Berger, *et al* . (1987) lend support to that of Shaffer, (1985). Specifically, Shaffer,(1985) showed that as a bank's size increases, significant economics of scales are achieved which enhances financial performance. However, other studies have found a negative relationship between size and bank's financial performance, For example Naceur, (2003) revealed that, large banks tend to have lower levels of profit as a result of inefficiencies associated with diseconomies of scale.

Buyinza, (2010) has confirmed the findings of Naceur, (2003) by indicating that bank size is negative and significantly correlated with profitability. Buyinza, (2010) posited that bank consolidation, cost efficiency, and the ability of a bank to take on more risk as the key determinants of banks' profitability, whereas market structure, as measured by market concentration, and size were found to have a negative association with profitability. On the other hand, Okazaki and Sawada (2006) has a slightly different opinion as his findings show that policy-oriented consolidation has a positive impact on deposits, though it may have a declining effect on bank's profitability. Clair (2004) established that proper management of lending activities, credit quality and expense control enhance bank's financial performance. The study also found that interest rates may place significant downward pressure on capital and liquidity, and that non-performing loans erode profits.

Delis and Papanikolous (2009) adopted a semi-parametric model to evaluate the impact of bank specific factors, industry–specific and macroeconomic variables on banks' efficiency and performance. They discovered that bank size is statistically significant and has a direct relationship with banks' efficiency and performance. Kosak and Zajc (2006) researched into cost efficiency of banks as a parameter of growth and improved financial performance in the banking sector. Their findings were consistent with that of Delis and Papanikolous (2009). In particular, they found a direct association between financial development and banks' cost efficiency. Hansan and Bashir (2003) showed that given a stable macroeconomic environment and improved financial market system, high capital and improved loan–to-asset ratios have positive effects on banks financial performance.

Effect of Location

In Asia, Malhotra (2002) delved into the impact of location on the financial performance ofregional rural banks in India. He concluded that geographical location of rural banks is not a limiting factor of rural banks' performance. In another study of the Indian rural banking industry, Ibrahim (2010) evaluated the financial performance of regional rural bank (RRBs) in specific areas such as number of agencies or branches, district coverage, deposits mobilization, loans portfolio and investments. The study concluded that bank consolidation has enhanced the financial performance of RRBs. This has facilitated growth in branch network, the closure of underperforming RRBs and an increased coverage of the number of districts served by the RRBs. Again, total capital funds have increased tremendously after amalgamation took place in the year 2005-06. He further discovered that credit-deposit ratio has grown over the years indicating a remarkable deployment of credit facilities by RRBs in rural areas.

Liquidity Effect

Robison and Barry (2001) showed that the liquidity challenges of rural banks are mainly due to loan delinquencies and default as well as low levels of deposits. They claimed that banks whose loan portfolios have low risk are less efficient than those with high-risk loan portfolios. Robison and Barry further concluded that the level of asset quality and availability of liquidity may help to reduce the risks of rural banks.

Berger and Humphrey (1997) assert that the whole idea of measuring bank performance is to separate banks that are performing well from those which are doing poorly. They further indicated that, "evaluating the performance of financial institution can inform government policy by assessing the effects of deregulation, mergers and market structure on efficiency" (p175). Bank regulators screen banks by evaluating banks' liquidity, solvency and overall performance to enable them to intervene when there is need and to gauge the potential for problems (Casu, Molyneux, & Girardone, 2006). On a micro-level, bank performance measurement can also help improve managerial performance by identifying best and worst practices associated with high and low measured efficiency. When looking to improve their performance, banks compare the performance of their peers and evaluate the trend of their financial performance over time. Tarawneh (2006) in his study measured the performance of Oman banks using financial ratios and ranked the banks based on their performance. The study utilised Financial Ratio Analysis (FRA) to investigate the impact of asset management, operational efficiency and bank size on the performance of Oman banks. The findings indicated that bank performance was strongly and positively influenced by operational efficiency, asset management and bank size.

In the Gulf, Samad (2004) investigated the performance of seven locally incorporated rural banks during the period 1994-2001. Financial ratios were used to evaluate the credit quality, profitability, and liquidity performances.The performance of the seven banks was compared with the banking industry in Bahrain which was considered a benchmark. The article applied Student's t-test to measure the statistical significance for the measures of performance. The results revealed that rural banks in Bahrain were relatively less profitable, less liquid and were exposed to higher credit risk than the banking industry, in which wholesale banks are the main component.

Kiyota (2009) in a two- stage procedure investigated the profit efficiency and cost efficiency of rural banks operating in 29 Sub-Saharan African countries during 2000-2007. The article employs the stochastic frontier approach (SFA) for the estimation of profit and cost efficiency, financial ratios and the Tobit regression to provide cross-country evidence on the performance and efficiency of African rural banks. The findings based on a range of performance ratios as well as stochastic cost and profit frontier estimation, suggest that foreign banks tend to outperform domestic banks in terms of profit efficiency as well as cost efficiency. The results are also in line with the research by Kirkpatrick, Murinde and Tefula (2007) who used a sample of 89 banks from Sub-Sahara African countries for the period 1992-1999 and found that banks are on average 67% profit efficient and 80% cost efficient, as indicatedby the results from both the distribution free approach and SFA methods.

Effect of Efficiency

O'Donnell and Van der Westhuizen (2002) measured the efficiency of a South African bank at branch level. Their main focus was investigating branches which were performing well and those that were doing badly, where efficiency could be improved. They found that many branches were operating on a scale that is too small and could increase their operational scales thereby improving the overall efficiency of the bank. In a similar approach, Okeahalam (2006) used the Bayesian SFA to assess the production efficiency of 61 bank branchesin nine provinces of South Africa. The findings of the study pointed to the factthat although every branch was operating at increasing returns to scale, the bankbranches could reduce their cost by 17% if they improve the level of efficiency. Overall the article concluded that the bank branches were less efficient than they should be and could obtain cost reductions by increasing output.

Further, Oberholzer and Van der Westhuizen (2004) investigated the efficiency and profitability of ten banking regional offices of one of South Africa's larger banks. This study demonstrates how conventional profitability and efficiency analyses can be used in conjunction with Data Envelopment analysis

(DEA). Although their study concentrated on banking regions, their findings confirm those of Yeh (1996) that DEA results as an efficiency measure have a relationship with both profitability and efficiency ratios. The conclusions were that there are significant relationships between conventional profitability and efficiency measures and a locative, cost and scale efficiency and no significant relationship with technical efficiency.

Most of the above mentioned studies concentrated on branches of a single bank, one of the studies that investigated the entire South African banking sector is Cronje (2007) who employed the DEA method and a sample of 13 South African banks to provide a measure of the efficiency of the South African banks. His findings show that out of the 13 banks, the three largest banks are efficient and serve as a standard for the banks classified as inefficient. The fourth largest bank showed a slight inefficiency. Overall, seven banks were classified as inefficient and the article recommends target areas for the banks to improve their efficiencies with guidelines that bankers in inefficient banks could use to increase their sustainable profitability. The results of this study are in sharp contrast to studies in the UK where Drake (2001) and Webb (2003) found the larger banksless efficient. This difference could be attributed to the differences in operating environment as South Africa is an emerging economy with a different political and economic history where as UK is a developed country.

Another study that provides a brief but interesting account of bank performance was conducted by Ncube (2009) who used the stochastic frontier model to analyse the cost and profit efficiency of four large and four small South African banks. The results of the study showed that South African banks have significantly improved their cost efficiencies between 2000 and 2005 with the most cost efficient banks also being most profit efficient. However, efficiency gains on profitability over the same time period were found not to be significant.

The main advantage of financial ratio analysis (FRA) is its ability and effectiveness in distinguishing high performance banks from others and the fact that FRA compensates for disparities and controls for any size effect on the financial variables being studied (Samad,2004). Additionally, financial ratios can be used to identify a bank's specific strengths and weaknesses as well as providing detailed information about bank profitability, liquidity and credit quality policies (Hempel *et al*, 1994). FRA permits a historical sketch of bank returns and risks which Hempel *et al*, (1994) suggests presents an opportunity to evaluate the past performance of the bank which is an important step for planning for future performance.

Although accounting data in financial statements is subject to manipulation and financial statements are backward looking, they are the only detailed information available on the bank's overall activities (Sinkey, 2002). Furthermore, they are the only source of information for evaluating the management's potential to generate satisfactory returns in future.

Ga Rural Bank Limited plays a vital role in the economic resource allocation of Ghana. They channel funds from depositors to investors continuously. They can do so, if they generate necessary income to cover their operational cost they incur in the due course. In other words for sustainable intermediation function, Ga Rural Bank Limited need to be profitable. Beyond the intermediation function, the financial performance of Ga Rural Bank Limited has critical implications for economic growth of Ghana. Good financial performance rewards the shareholders for their investment. This, in turn, encourages additional investment and brings about economic growth. On the other hand, poor banking performance can lead to banking failure and crisis which have negative repercussions on the economic growth.

The performance of Ga Rural Bank Limited can be affected by internal and external factors (Al-Tamimi, 2010; Aburime, 2005). These factors can be classified into bank specific (Internal) and macroeconomic variables. The internal factors are individual bank characteristics which affect the bank's performance. These factors are basically influenced by the internal decisions of management and board. The external factors are beyond the control of Ga Rural Bank Limited and affect the profitability of the bank.

Bank Performance Indicators

Profit is the ultimate goal of Ga Rural Bank Limited. All the strategies designed and activities performed thereof are meant to realize this grand objective. However, this does not mean that Ga Rural Bank Limited have no other goals. Ga Rural Bank Limited could also have additional social and economic goals. However, the intention of this study is related to the first objective, profitability. To measure the profitability of Ga Rural Bank Limited there are variety of ratios used of which Return on Asset, Return on Equity and Net Interest Margin are the major ones (Murthy and Sree, 2003; Alexandru *et al.*, 2008).as well as Capital Adequacy, Asset Quality, Management Efficiency, Earnings Ability and Liquidity.

Structure and Performance of Rural Bank

According to Johnson (2007) the Micro financial system in Ghana falls into three main categories: formal, semi-formal, and informal:

Formal financial institutions

Formal financial institutions are those incorporated under the Companies Code 1963 (Act 179) and licensed by the Bank of Ghana (BOG) under either the Banking Law 2004 or the financial institutions (Non-Banking) Law 1993 (NBFI Law) to provide financial services under Bank of Ghana regulation. Rural and Community Banks (RCBs) operate as commercial banks under the Banking Law, except that they cannot undertake foreign exchange operations. Their clientele is drawn from their local catchment area, and their minimum capital requirement is significantly lower. Among the nine specified categories of Non-Bank Financial Institutions (NBFIs), Savings and Loans Companies (SLCs), which are restricted to a limited range of services, are most active in micro and small-scale financial intermediation using microfinance methodologies.

Semi-formal Financial Institutions

Non-Governmental Organizations (NGOs) and Credit Unions (CUs) are considered to be semi-formal– legally registered but not licensed by the Bank of Ghana. NGOs are incorporated as companies limited by guarantee (not for profit) under the Companies Code. Their poverty focus leads most of them to provide multiple services to poor clients, including micro credit, though mostly on a limited scale. They are not licensed to take deposits from the public and hence have to use external (usually donor) funds for micro credit. Credit Unions are registered by the Department of Cooperatives as cooperative thrift societies that can accept deposits from and give loans to their members. Although credit unions are nominally included in the NBFI Law, BOG has allowed the apex body Ghana Cooperative Credit Union Association to continue to regulate the societies pending the introduction of a new Credit Union Law.

Informal Financial Institutions

The informal financial systemcovers a range of activities known as *susu*, including individual savings collectors, rotating savings and credit associations, and savings and credit "clubs" run by an operator. It also includes money lenders, trade creditors, self-help groups, and personal loans from friends and relatives. Money lenders are supposed to be licensed by the police under the Money Lenders Ordinance 1957.

The commercial banking system is dominated by a few major banks and reaches only about 5% of households, most of which are excluded by high minimum deposit requirements. With 60% of the money supply outside the commercial banking system, the RCBs, S&Ls, and the semi-formal and informal financial systems play a particularly important role in Ghana's private sector development and poverty reduction strategies. The assets of RCBs are nearly 4% of those of the commercial banking system, with S & Ls and CUs adding another 2%. While "RMFIs" is used to refer collectively to the full range of these institutions, they use different methodologies to reach different (albeit overlapping) clientele among farmers, rural households, the poor, and microenterprises, and hence different regulatory and supervisory instruments may be appropriate.

Rural and Community Banks

RCBS are unit banks owned by members of the rural community through purchase of shares and are licensed to provide financial intermediation. They were first initiated in 1976 to expand savings mobilization and credit services in rural areas not served by commercial and development banks. The number expanded rapidly in the early 1980s, mainly to service the government's introduction of special cheques instead of cash payment to cocoa farmers – though with adverse consequences for their financial performance (Nissanke & Aryeetey, 1998). Through a combination of rapid inflation, currency depreciation, economic decline, mismanagement of funds and natural disasters, combined with weak supervision, only 23 of the 123 RCBs qualified as "satisfactory" in 1992.

The obvious need for re-capitalization and capacity-building was addressed during 1990-94 under the World Bank's Rural Finance Project, with half of them achieving "satisfactory" status by 1996. The combination of very high (62%) primary and secondary reserve requirements imposed by BOG in1996 and high Treasury bill rates helped to reduce the risk assets and increase net worth, further improving their financial performance. The number of RCBs reached a peak of 133 in 1998, but fell to 111 in 1999 with the closure of 23 distressed banks and the commissioning of one new bank. These closures sent a strong signal to the remaining rural banks to maintain or improve their operations in order to achieve satisfactory status. Between 1999 and 2001 there was 64% increase in the number of satisfactory banks. The number of rural banks at the end of December 2013 was 143. Total assets of the rural and community banks (RCBs) in operation stood at GH¢1,790.5 million at the end of December, 2013. Gross loans and advances amounted to GH¢540.9 million, while investment in government security was GH¢667.9 million. Deposits mobilized by the RCBs during the period was GH¢1,155.8 million (ARB Apex Bank Limited , 2013).

At the end of December, 2005, 98 RCBs out of 121 had Capital Adequacy Ratio of 6 percent and above and were classified as satisfactory. The number of mediocre rural/community banks however were 7 whilst 14 were considered unsatisfactory. A few RCBs have succeeded in expanding to over 20,000 clients and reaching high levels of operational and financial sustainability. The total number of recorded depositors in all RCBs is GH¢1.2 million, with about 150,000 borrowers (some of them groups of 5 to 35 members, so actual outreach is somewhat greater). On average, however, RCBs are relatively small compared even to African Savings and Loans Companies that cannot meet new requirements.

The Role of Rural and Community Banks

The banks undertake a mix of micro finance and commercial banking activities structured to satisfy the needs of the rural areas. They provide banking services by way of funds mobilization and credit to cottage industry operators, farmers, fishermen and regular salaried employees. They also grant to customers for the payment of school fees, acquisition/repair of houses and to meet medical expenses. Some of the banks have subsidiary companies engaged in consumer credit services and other developmental activities. Rural banks devote their profits to meet social responsibilities such as donations to support education, health, traditional administration and the needy in their communities. Some of the banks have specific gender programmes focusing on women-in-development and credit with education activities for rural women (Bank of Ghana, 2006).

According to annual performance report of ARB Apex Bank 2013, rural and community banks provide these roles and services: Savings, loans, payments on behalf of government- and donor-financed programs, such as Microfinance and Small Loan Center (MASLOC), the Social Investment Fund (SIF), the Community-Based Rural Development Project (CBRDP), and the Millennium Development Authority projects (MDAP).

Rural banks offer all the general savings products such as the regular savings accounts, current accounts, and time deposits.The major credit products offered by the rural banks include microfinance loans, personal loans, commercial loans, salary loans, susu loans, overdrafts, and others. Microfinance loans and susu loans are the two special loan products that most directly benefit the low-income population.

Microfinance loans

These loans are provided to individual as well as groups of individuals to finance small and micro income-generating activities. The groups are jointly liable for the loan. The size of a microfinance loan ranges between GH¢50 and GH¢1,000; most loans are between GH¢100 and GH¢500. The term of a microfinance loan is four to six months, and the interest rate ranges between 30 and 36 percent.

Susu loans

These loans are provided to individuals following a three-month susu deposit. The size and term of susu loans are similar to those of microfinance loans, but susu loans are provided to individuals whereas microfinance loans are group loans.

Salary loans

These loans, provided to salaried individuals, are secured by the individual's salary, which is paid through the bank. The bank automatically deducts the loan repayment instalment from the salary payments. Salary loans are used for consumption and investment, as well as social purposes. The size of the loan is determined by the salary of the borrower. The maximum term of a salary loan is 48 months, and the interest rate ranges between 30 and 33 percent.

Commercial loans

These loans are provided to companies and individual entrepreneurs for working capital or fixed capital. The maximum loan size is GH¢100,000, the maximum term is 36 months, and the interest rate ranges between 28 and 35 percent.

Money Transfers

Rural banks offer both domestic and international money transfer payments. Domestic transfer payments are offered through Apex Link, a domestic transfer system, set in place in 2003. Apex Link also allows for money transfer to and from other commercial banks and selected nonbanks in Ghana. International money transfers are offered through partnership agreements between the ARB Apex Bank and several major international money transfer companies such as

Western Union, Vigo, and Money Gram. The overall quality of service delivery and financial performance of the rural banks improved significantly.

Payment

Payment services are a key service provided by rural banks. Rural banks provide this service through the Apex Bank, which is a member of the national clearinghouse. The introduction of MICR cheque in 2002 gave rural banks' cheque the same legitimacy as cheques issued by other financial organizations. Due to location and network of branches, rural banks are used by the central and local governments and private companies to make salary and pension payments to their employees in rural areas.

Social Investments

Many rural banks support social development activities in the communities where they operate as part of their social responsibility to their communities. Activities generally supported include financing of infrastructure such as school buildings, community libraries, and community roads, as well as scholarships for girls and medical students.

Problems Faced by Rural Banks

According to Bank of Ghana, 2006, the rural and community bank in Ghana faced a number of problems.Among the problems are:Weak management as a result of their inability to attract qualified and suitable personnel; Low capital base; Shareholders are generally poor and therefore cannot make substantial investments in the rural banks; Unsatisfactory cheque clearing arrangements resulting in lack of public confidence in rural bank cheques; Poor technology and lack of adequate communication facilities to promote modern banking operations; Inadequate bookkeeping, poor internal control measures and lack of regular auditing and inspection; Inadequate training due to the inability of the banks to afford the cost; Low income and low literacy rate in the rural areas; Lack of adequate and acceptable securities by rural dwellers; The high risk involved in farming/agricultural operations that is, inadequate storage, marketing and processing facilities in the rural areas; Absence of skilled staff in handling rural/micro finance.

Statutory Obligations of Financial Institutions

The Banking Law 2004 (Act 673)identifies the following:

The establishment of a financial institution: Under the Ghana Banking Law 2004 (Act 673) a Financial Institution has to be incorporated in Ghana and licensed to operate as such if it wishes to do business in Ghana. An application for licenses to operate as a Financial Institution is required to be made in writing to the Bank of Ghana. This written application must be accompanied with the following: A certified true copy of the regulations or other instruments relating to the proposed business of banking or by or under which the institution is seeking to be licensed was established; Particulars of the directors or persons concerned with the management of the said business; A feasibility report including a business plan and projections for the first five (5) years; Any other particulars the Bank of Ghana may require.

Capital Adequacy

At all times whilst in operation, a Financial Institution is required to ensure that it maintains minimum capital adequacy ratio of 10% (Act 673) (S .23). A default of this attracts penalty from Bank of Ghana.

Reserve Funds

Every licensed financial institution shall maintain a reserve fund into which fund shall be transferred, out of the company net profits for each year. Among them are the following: An amount not less than 50% of the net profit, until the amount in the institution's mandatory reserve funds equals the amount of its minimum paid up capital; After the amount in the reserve fund attains the targeted level, the transfer shall be in amounts at rate less than 12.5% of the net profit for each year; It should be noted that with the mandatory reserve fund, there shall not be withdrawals without prior written approval by the BOG (Act 673).2005 (29).

Minimum Capital Requirement

The old Banking Act (1970) specified minimum paid-up capital of GH¢7,500 (US$0.65 million) for Ghanaian banks and GH¢200,000 (US$1.76 million) for foreign banks. After a period of rapid inflation and currency depreciation, changes in 1989, 2000 and 2001 brought the minimum capital requirements to GH¢2,500,000 (US$2.8 million as of 2004) for Ghanaian banks, GH¢5,000,000 (US$5.6 million) for foreign banks, and GH¢7,000,000 (US$7.8 million) for development banks (Gallardo,2002 and Addeah, 2001). The already low minimum paid-up capital for RCBs was eroded steadily by inflation until

1998, when BOG responded to concerns about poor portfolios and non-compliance with capital adequacy ratios by raising the minimum capital requirement. It has since been adjusted twice, though not as drastically for RCBs as for other categories, standing at GH¢50,000 (US$56,000) as of 2004. Many RCBs have had difficulty raising additional capital to comply because of non-payment of dividends since inception, shareholders' perception that they are entitled to loans, and local politics.

The financial institutions (Non-Banking) Law of 1993 prescribed a uniform minimum paid-up capital of GH¢10,000 for all categories of NBFIs, but BOG have since differentiated the capital requirement of deposit-taking institutions from that of non-deposit taking institutions. Increases in required minimum capital in 1998 and 2000 served mainly to restore the value to the 1993 level in dollar terms. Nevertheless, this represented a tenfold increase in cedi terms, which only 3 of 8 S&Ls were able to achieve. Reasons for difficulties in compliance include: low initial paid-up capital; lack of additional funds among present shareholders; unwillingness of shareholders to cede some of their shares and dilute ownership; and poor operational performance and profitability.

In 2001, concerns about the health and under-capitalization of the majority of the S&Ls, as well as the rising number of applications relative to limited supervision capacity, led BOG to substantially raise the minimum capital requirements for NBFIs to GH¢1,500,000 (over US$2 million) for deposit-taking institutions and GH¢1,000,000 (US$1.4 million) for non-deposit-taking institutions. This increase was far more than necessary to adjust for the substantial depreciation of the Cedi in 2000-2013, and proportionately greater for NBFIs than for commercial banks, thus limiting the rate of entry and perhaps encouraging some consolidation. So far, the regulatory authorities have refrained from closing down existing S&Ls that cannot meet new requirements.

Liquidity Reserve Requirements

All banks and other deposit-taking commercial institutions are required to maintain a proportion of deposits in the form of liquidity reserves, consisting of primary reserves in cash and balances with other banks and secondary reserves in Government and BOG bills, bonds and stocks. In fact, the high returns on relatively risk-free secondary reserve assets (T-bill rates averaged 35% from 1993 to 2001, ranging from 24% to 43%) made the requirement virtually redundant, as they accounted for as much as 75% of the combined total deposits of commercial banks (Camara, 1996). To help soak up liquidity and improve the solvency of RCBs, BOG raised their secondary liquidity reserve requirement from 20% to 52% in 1996. While intended to strengthen poorly-performing institutions, the regulations did not distinguish between stronger and weaker ones, thereby penalizing the more efficient RCBs by limiting their ability to pursue profitable lending opportunities. In 2002 BOG lowered the reserve requirements to a total of 43%, including 8% primary and 30% secondary, as well as 5% placement with ARB Apex Bank (to facilitate cheque clearing). In 2006 BOG completely abolished the secondary reserve imposed on the banks.

Interest Rates

Restrictive policies during the 1970s and early 1980s, such as government-controlled interest rates and sectorial allocation of credit, no doubt retarded development of Ghana’s formal financial system. Nevertheless, various forms of informal finance predated financially repressive policies in Ghana, and actually expanded after financial markets were liberalized in 1987 (Aryeetey, 1994). Although interest rates have not been officially controlled since 1987, the Government has nevertheless introduced a number of credit programmes targeted for small business development or poverty alleviation whose interest rates were pegged in 2001 at 20% (well below market-determined rates), and District Assemblies have been mandated since 1979 to provide 20% of their "Common Funds" for micro and small enterprises at an interest rate of 75% of the commercial bank rate.

Security

Licensed banks normally require that loans be secured by title to land or physical assets, deposit balances, or T-bills, following BOG guidelines. These options are clearly beyond the reach of poor households. Close coordination between the Ministry of Finance, BOG and the Ghana Microfinance Institutions Network (GHAMFIN) has led to a better understanding of the characteristics of microfinance loans and the methodologies underlying high repayment rates (Gallardo, 2002); personal and group guaranteed loans are now recognized as secured microfinance loans.

Delinquency and Provisioning

All licensed financial institutions are required to monitor and review their portfolio of credit and other risk assets at least quarterly. Assets of all banks, both major and rural, are classified into five grades of risk, for which the rate of provisioning increases from 10% for loans overdue less than 30 days to 50% for "doubtful" loans over 180 days and 100% beyond 540 days. For NBFIs, assets are classified into four grades of risk: (i) current; (ii) sub-standard; (iii) doubtful; and (iv) loss. Assets in risk grades (ii) to (iv) are considered non-performing and, therefore, no income may be accrued on them. BOG has specified prudential norms for microfinance and small business loans that take into account the characteristics of these activities and classify them as either (i) current or (ii) delinquent (i.e., scheduled payment not received as of the due date), on which no interest income may be accrued (Gallardo, 2002). Provisioning for delinquent microfinance and small businesses loans is made on a "basket" basis, rather than an individual loan basis (i.e., the aggregate outstanding balances in each arrearage basket are grouped without regard to any security available for individual loans). The prescribed rate of provisioning increases steadily every 30 days of delinquency from 5% for under 30 up to 100% for over 150 days.

Other Prudential Regulations

Capital Adequacy: Prior to the Banking Law (1989), banks were to maintain a minimum capital of 5% of total mobilized resources. Following international best practice, the Banking Law (1989) shifted the adequacy of capital from deposit-based to its relationship to risk-weighted assets (Asiedu-Mante, 1998). The Banking law prescribes the capital base at 6% of the adjusted asset base as the minimum capital adequacy ratio for the banks, which is being raised to 10% under the new Banking Law. The NBFI Law already prescribes the rate of 10% for S&Ls and other deposit-taking institutions.

Credit Exposure: Both the Banking Law and the NBFI Law limit unsecured loans to individual customers to 10% of net worth, with somewhat different limits for secured loans of 25% for banks and 15% for non- banks. Credit exposure is also severely limited with respect to loans to any firm in which any of the bank's directors or officials are connected as a partner or principal shareholder.

Supervision and Monitoring Mechanisms

BOG has legal authority over all banking and credit institutions, whether formal or informal (Addeah, 2001). Functions stipulated by the Bank of Ghana Act 2002 include to "regulate, supervise and direct the banking and credit system" and to "license, regulate, promote and supervise non-banking financial institutions." The NBFI Law gives BOG the "supervisory authority in all matters relating to the businesses of any non-bank financial institution licensed under" the law. The 1992 Constitution empowers BOG "to operate a banking and credit system to promote economic development in Ghana." BOG has used its authority to intervene and close down dubious and fraudulent financial practices such as pyramid schemes, as well as insolvent banks. BOG's supervisory functions laws have been carried out by the Banking Supervision Department (BSD) and the Non-Bank Financial Institutions Department (established in 1994 to oversee licensing of NBFIs under the new Law, supervise and regulate them, and provide advisory and promotional services), which were merged in 2002. Until 2002, a separate department was involved in promoting RCBs and, to some extent, following up on supervision issues.

Methods

Methods employed by BOG for its regulatory functions include:

• *Off-site examination* of prescribed reports to verify compliance and performance; -going basis;

• *On-site examination* to assess the accuracy of the reports submitted and to review in detail the compliance and performance (the Banking Law enjoins this assignment to be undertaken at least once a year for each bank, while the NBFI Law is silent on frequency); follow-up on-site visits may be undertaken to discuss supervisory concerns raised during examinations and to ensure compliance with recommendations;

• *Special Assignments* have been established by BOG to manage the risks from RCB Managers staying on for years, using a special pool of nine experienced commercial bankers to relieve RCB Managers while they take their annual leave. Besides minimizing fraud and enhancing internal controls, these special assignments have helped raise the skills of RCB staff, improved credit, administration and the submission of prescribed norms, restrained undue interference by Board members and local authorities, and raised customer confidence in RCBs.

Compliance

Enforcement mechanisms available to BOG include fines, suspension, revocation of license, criminal penalties and appointment of auditors and managers (Addeah, 2001). Twenty-three distressed RCBs have had their licenses revoked. BOG has been concerned about irregular submission of prudential reports, and has begun applying fines for late returns and reporting non-compliance due to negligence of the executive to the RCB Board.Their poor performance, in turn, triggered a restrictive response in the form of higher reserve requirements, which gradually helped improve their financial position, but restricted their ability to achieve their mandate of increasing the availability of rural credit. The government has responded to that situation through a project to strengthen their capacities and create a new Apex Bank to better serve, develop, and eventually supervise them. Despite weaknesses in financial performance and direct financing of agriculture, RCBs today constitute the backbone for extension of financial services to rural areas.

High Interest Rates and Reserve Requirements Improve Soundness, Inhibit Outreach

Throughout the 1990s, weak fiscal discipline, persistent double-digit inflation, and the use of monetary policies to restrain liquidity resulted in relatively high interest rates for Treasury bills (above 30% for seven years). Banks have had little incentive to lend, because they could make a good return (over much lower deposit rates) simply by investing excess liquidity in T-bills. Although the high reserve requirements (62% primary and secondary) imposed on Rural Banks have sometimes been blamed for the small amount of credit they provide, in fact they have generally maintained more than the required amount of reserves (e.g., 28% in primary reserves in 1998 as against 10% required; and 64-65% in 2000-01 in secondary reserves as against 52% required). While these conditions have been largely responsible for improving the rating of a substantial share of RCBs, reduced interest rate and reserve requirements are re-establishing conditions for them to fulfil their mandate to make credit available in rural areas.

Successful lending will depend not only on improving management capacity and information systems in the RCBs, but also on improving the capacity of BOG and the ARB Apex Bank to implement an effective supervision system that distinguishes between well-performing RCBs and less capable ones.

Ratio Analysis

Ratio analysis can be applied to financial statements and other similar data in order to assess the performance of the company; to determine whether it is solvent and financially healthy; to assess the risk attached to its financial structure; and to analysis the returns generated for its shareholders and other interested parties.

Categories of Ratios

When using ratios for analytical purposes, computation and interpretation is assisted if the analyst uses some sort of analytical framework. Weetman (1996) suggests that a systematic approach to ratio analysis should initially establish a broad picture, before focusing on areas of concern. A systematic approach to ratio analysis is also facilitated by using ratio pyramids as an analytical aid, but here I shall focus on the division of ratios into groups or categories which are linked to particular areas of concern. There is widespread agreement on the main ratios included in each category.

Profitability Ratios

These ratios give a guide to how successful the managers of the company have been in generating profitability. The most common measure of bank performance is profitability. Profitability is measured using the following criteria and Ratios in this category include:

Return on Assets (ROA) = net profit/total assets

ROA shows the ability ofmanagement to acquire deposits at a reasonable cost and invest them in profitable investments (Ahmed, 2009). This ratio indicates how much net income is generated per Cedi of assets. The higher the ROA, the more profitable the bank becomes.

Return on Equity (ROE) = net profit/ total equity

ROE is the most importantindicator of a bank's profitability and growth potential. It is the rate of return toshareholders or the percentage return on each Cedi of equity invested in the bank.

Cost to Income Ratio (C/I) = total cost /total income

Cost to Income Ratiomeasures the income generated per Cedi cost. That is how expensive it is for the bank to produce a unit ofoutput. The lower the C/I ratio, the better the performance of the bank.

Liquidity Performance

Liquidity indicates the ability of the bank to meet its financial obligations in atimely and effective manner. Samad (2004) states that ''*liquidity is the life and blood of a commercial bank*''**.** These ratios measure a company's ability to meet its financial obligations as they become due. Liquidity is crucial in bank management and long-run profitability. Maintaining adequate liquidity is a key constraint on the bank's profit making capacity. If claims by depositors and other lenders are not met, their confidence will be diminished and many refuse to deposit funds and lend to the bank. However customers deposits and other funds are necessary condition for the expansion of loans and investments beyond the amount allowable by the use of equity only. Liquidity ratios give the primary means of reviewing a bank's liquidity position. The following ratios are used to measure liquidity.

Cash ratio

This ratio relates the sum of cash in hand and at banks including the Central Bank to total deposits. It is calculated as; Cash and cash balances of central bank x100 / Total customer deposits .The ratio looks at how much cash is held against customer deposits. Normally how much must be held depends on the maturity of the deposits.

Loans to deposit ratio

This ratio is generally used to determine the lending practices of banks. It is also used to measure liquidity by dividing the banks total loans by its total deposits. A too high ratio indicates liquidity problem that the bank might not have adequate funds to cover. Where the ratio is too high, it means that banks might not have enough liquidity to cover any unanticipated demands by depositors.

Loans to assets ratio

This relates loans to total assets and finds the proportion of total assets held as loans. Too high a ratio indicates lower liquidity but too low a ratio indicates low profitability.

Liquid funds to deposit ratio

This is a key liquidity ratio that looks at protection for customer deposits. The higher the ratio the better it is for the liquidity position.

Liquid assets to deposit-borrowing ratio (LADST) = liquid asset/customer deposit and short term borrowed funds.

This ratio indicates the percentage ofshort term obligations that could be met with the bank's liquid assets in the caseof sudden withdrawals.

Net Loans to total asset ratio (NLTA) = Net loans/total assets

NLTA measures the percentage of assets that is tied up in loans. The higher the ratio, the lessliquid the bank is.

*Net loans to deposit and borrowing (NLDST) = Net loans/total deposits and short term borrowings***.** This ratio indicates the percentage of the total deposits locked into non-liquid assets. A high figure denotes lower liquidity.

Activity Ratios/ Asset Credit Quality (Credit Performance)

These ratios show how efficiently a company has managed its short-term assets and liabilities, i.e. its working capital, and they are closely linked to liquidity ratios. While it is expected that banks would bear some bad loans and losses in theirlending activities, one of the key objectives of the bank is to minimize such losses (Casu, Molyneux, & Girardone,2006). Credit performance evaluates the risks associated withthe bank's asset portfolio i.e. the quality of loans issued by the bank. Severalratios can be used for measuring credit quality however, not all information onthe loans is always available. Non-performing loans is not available for all banks therefore this study uses the following ratio:

Loan loss reserve to gross loans (LRGL) = Loan loss reserve/gross loans.

This ratio indicates the proportion of the total portfolio that has been set aside butnot charged off. It is a reserve for losses expressed as a percentage of total loans.

Gearing Ratios/ Risk Measurement

These ratios reflect how a company is financed with respect to debt and equity and are used to assess the various risks that arise as a result. Ratios in thiscategory include capital gearing, debt/equity ratio, interest cover and operating gearing.

Capital Adequacy

Capital adequacy measures the amount of a bank's capital expressed as a percentage of its risk weighted credit exposures. The capital adequacy ratio (CAR) determines the robustness of a bank to withstand shocks to its balance sheet. It is a standard measure used by banks and central banks to ensure that banks absorb reasonable level of losses before becoming insolvent.

Investors Ratios

These will primarily be used by investors and analysts in order to decide whether they should buy or sell the shares of particular companies. There are certain ratios which are of particular interest to those who would want to commit resources into the business. The bank is therefore assessed in the light of these ratios.

Dividend cover

Since dividends are paid out of profit, this ratio relates profit to dividends to determine the ability of the bank to pay the proposed dividends.

Earnings per share (EPS)

It is the amount of profit in Cedis attributable to ordinary shareholders. It is a widely used measure of corporate performance. It is calculated as;

Profit after tax / Number of ordinary shares issued.

Price earnings ratio

It is a basic measure which expresses the amount that shareholders are prepared to pay for the share as a multiple of current earnings. A high price earnings ratio is an indicator that investors perceive the business's earnings to be of high quality. It is expressed as share price divided by EPS. Ga Rural Bank Limited financial performance will be assessed using some of these ratios and other regulatory requirements by Bank of Ghana.

Using Ratios Effectively in Evaluations

Ratios derived from the firm's current financial statements may be compared with the following for better understanding and contextual analysis:

- ratios from budgeted statements for the current or relevant periods to disclose compliance with or accpmplishment of the budget(s);

- ratios from statements of earlier periods to disclose trends;
- industry average ratios to show differences in degrees of efficiency;
- ratios of different divisions of the same firm to reveal performances;
- ratios of different firms in the same industry also to reveal performances;

CHAPTER THREE

METHODOLOGY

Introduction

This chapter discusses the methodology for the study. It focuses on a brief review of the research design, study area, instrument adopted and used for the study, data collection procedure, and data analysis. The financial statement for a period of four year (2010 - 2013) were collected for the study and it formed the basis of the financial analysis performed .The four (4) year financial statement was to allow vertical and horizontal analysis of the financial statements. Information concerning profit before tax , Loans , Non-performing Loan , total assets, current assets and current liabilities were extracted from the financial report for the analysis. The provision of bad debt as well as loan loss was used as a proxy for the non-performing loans.

Research Design

The study employed case study design. Yin (2003) defines the case study as an empirical tool that investigates a contemporary phenomenon within its real-life context. Saunders (2007), defines research design as the general plan of how the research questions would be answered. It is the conceptual structure within which research is conducted. It constitutes a blue print for the collection, measurement and analysis of data. The research design for this case study was the ratio analysis method and was designed to assess the performance of Ga Rural Bank Limited. Mean would be computed for key financial figures. Bar charts, Line charts, Pie charts and Line graph would be employed in data presentation and analysis.

The Bank Under Study

Ga Rural Bank Limited is a private limited liability company, incorporated under the companies code 1963 (Acts 179) and licensed by Bank of Ghana in conformity with the provisions of the Banking Act as well as other regulations governing the operations of unit or rural banks. Ga Rural Bank Limited currently has six branches strategically located at Taifa, Medie, Kokrobite, Kwabenya , Achimota and Mallam. The Head Office is located at Amasaman in Ga West Municipal Assembly .The District shares common boundaries with Ga East and Accra Metropolitan Assembly to the East, Akwapem South to the North and Ga South and Ga Central to the South. It occupies a land area of approximately 284.08 sq km with about 412 communities.

The financial institutions located within the district are the Ga Rural Bank, with its headquarters in Amasaman. The Awutu Efutu Rural Bank in the Awutu Efutu District has its branch in the District at SCC-GICEL. The National Investment Bank and Agricultural Development Bank have branches located in Mandela. According to the 2010 National Population and Housing Census, the population of Ga West District was estimated at 348,926, with intercesal growth rate of 3.4%. The projected population for the year 2020 is 426,439. The growth rate is as a result of the districts closeness to the capital city Accra where there is a lot of inflow of migrant workers. The female population as at year 2010 was 174,030 representing 49.9% of the total population; Males make up the other 50.1% i.e. 174,896. The population is mainly concentrated along the peri-urban areas of the district particularly on the border with the Accra Metropolitan Assembly and Ga East District Assembly. The urban population of 236,709 inhabitants constitute 67.8% with the remaining 112,217 which is 18.9% residing in the rural portion of the District. The bank targets small individual micro entrepreneurs, especially market women and other workers from both the formal and the informal sector.

This study was focused on the Ga Rural Bank Ltd and its Branches. It is hoped that this work would provide very useful insights into the area of performance and organizational effectiveness at the Ga Rural Bank Limited.

Profile of Ga Rural Bank Limited

Corporate Vision: The vision of Ga Rural Bank Limited is to be the most efficiently managed and profitable financial institution in the community of rural banks.

Corporate Mission: The Ga Rural Bank Limited was established to engage in the ordinary business of banking through the mobilization of funds from its catchment area and applying such resource for the financing of various economic activities in the locality.

Objectives: The main objectives of Ga Rural Bank Limited are to provide:

Quality and prompt service to small scale farmers, rural entrepreneurs and salaried workers; Promoting Economic and infrastructural development of its area of operation; Development of professional skills and attitudes of its staff through training, seminars and exposures to modern trends of banking.

Board of Directors

Ga Rural Bank Limited has a nine member Board of Directors and the board is the driving force behind the success of the bank. It is the governing body that formulates policies and ensures that the company operates within those policies, in compliance with regulatory and statutory requirements so that the interest of shareholders and other stake holders' are protected. The board also offers advice and guides management of the company in the implementation of the strategies to achieve the overall objectives of the company and in carrying out its operating policies.

Top Management Team

The top management is a five member team comprising the Supervising Manager, the Senior Operations Manager, the Human Resources Manager, the Credit Officer and the Chief Internal Auditor. The Management functions are decision making and planning that determine the goals of the entire business. The Top Management has oversight responsibilities over the day to day administration of the branches of the bank. Apart from this top management team, the bank has branch managers who are responsible for the running of their branches.

Clientele

The company targets small individual micro entrepreneurs, especially market women and other workers from both the formal and the informal sector. To benefit from the company's financial services, a savings account with a minimum of GH¢50 is required.

Financial Delivery

Ga Rural Bank Limited has adopted home grown, innovative methodologies to reach its clients, and this has proved to be a cost-effective mechanism. Principles that guide the company, to move towards its vision of becoming a market leader, in the provision of financial services within the urban and peri-urban areas of Accra include:

- a focus on the informal sector and urban productive poor
- matching the needs of customers with appropriate products
- streamlining operations to reduce costs
- providing services and products with an in-built motivation for customers to save more and repay loans
- creating confidence in the safety of the institution and maintaining a high level of discipline concerning financial and prudential guidelines
- introducing and improving convenience to customers with regard to time, place and form of intermediation
- full cost pricing of products and services to maintain the value of assets
- charging interest rates that reflect a consistent balance between ability of borrowers, cost of service and profitability needs of the company

Ga Rural Bank Limited is convinced that financial and banking needs of the urban poor, micro and small enterprises can be achieved only through a system of disciplined, efficient and sustainable financial intermediation.

Characteristics of Savings and Credit Products

Credit Products

Ga Rural Bank Limited offers a wide range of products to appeal to its clientele base. The bank's loan products fall under the following categories: Enterprise Loan; Partnership Loan; Group Loan; Individual Loan.

Loan products include short and long-term loans and lines of credit for working capital, equipment and raw materials finance, investment loans for business expansion, bridge loans for “rotating savings” groups, personal loans, consumer durable finance loans and school fees loans.

Loan Monitoring and Recovery

Internally, the Banking Supervision and Internal Audit Unit of the Company conduct procedural checks to ensure that: Applications and loan analysis were done correctly; Loan sizes and terms comply with company policy; the qualified officers approved loans; Legal documents were properly signed and kept in the appropriate place; Delinquency management timing and procedures are correctly followed.

Credit officers, who visit enterprises and offer advisory services on marketing skills, cheaper sources of supplies, pricing of goods and record-keeping, keep track of loans at the branches. This involves credit checks by officers to ensure that, repayments are on schedule. Branch managers keep weekly updates of loan performance at their branches and report on loans that are behind schedule.

Instrument for Data Collection

The study depended on secondary data. The data were collected from the financial statement for a period of four year (2010 - 2013) for the study. Information concerning profit before tax , loans , non-performing loan , total assets, current assets and current liabilities were extracted from the financial report for the analysis. The provision of bad debt as well as loan loss was used as a proxy for the non-performing loans.

The secondary data was sourced from the audited annual reports and financial statements of the bank. Ratios analysis were used as a major tool in analysing the audited annual report and financial statements of the bank.

Data Collection Procedure

Before conducting the data collection exercise, the researcher collected an introductory letter from the Department of Accounting and Finance, University of Cape Coast to obtain permission to collect data from the selected departments. The researcher visited the selected departments of Ga Rural Bank Limited and first explained the purpose of the study to the heads of departments and their staff.

Data Analysis

Data from the bank were analysed using the tools such as ratios analysis. Chart and graphs were also used to explain the data collected. Mean would be computed for key financial figures. Bar charts, Line charts, Pie charts and Line graph would be employed in data presentation and analysis.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

Introduction

This chapter concentrates on data collected from the bank's audited annual financial statement, the findings and analysis discussed with regard to :The analysis of financial performance of Ga Rural Bank Limited from 2010 to 2013; Financial appraisal – Ratios and graphical analysis of Ga Rural Bank Limited in ascertaining the ability to meet customers demand as and when they fall due; Analysis of loans (advances) granted to customers by business segments and type of customers; The data analysis of Ga Rural Bank Limited performance; Deposit mobilization and trend analysis.

Mean would be computed for key financial figures. Bar charts, Line charts, Pie charts and Line graph would be employed in data presentation and analysis in the area of liquidity, efficiency, profitability, leverage, activity, investor ratios and real interest rate calculation. Similarly, analysis would be performed on deposits, loans and advances, assets credit quality (credit performance) etc.

The extract of financial statement of Ga Rural Bank and their finding are discussed below :

Financial Performance of Ga Rural Bank- 2010-2013

Table 1 and 2show the historical performance of Ga Rural Bank Limited from 2010-2013.

Table 1: Extracts From Income Statement (in Ghana Cedis)

Profit and Loss	2010	2011	2012	2013
Interest on income	1,422,260.00	1,783,991.00	2,399,271.00	3,669,953.00
Interest Expense	164,177.00	240,251.00	306,454.00	369,339.00
Net Interest Income	1,258,083.00	1,543,740.00	2,092,817.00	3,300,614.00
Comm. & fees	220,397.00	331,075.00	477,023.00	656,630.00
Total Income	1,478,480.00	1,874,815.00	2,569,840.00	3,957,244.00
Impairment Losses on advances	12,905.00	95,619.00	163,717.00	206,553.00
Operating Exp	1,253,819.00	1,527,637.00	2,040,859.00	3,250,562.00
Operation Profit before Tax	211,756.00	251,559.00	365,264.00	500,129.00
Profit on Sales of Asset	-	-	-	-
Net Profit before Tax	211,756.00	251,559.00	365,264.00	500,129.00
Under Prov. For Tax	-	-	-	-
Prov. For Tax	-	4,124.00	21,888.00	49,877.00
Net Profit after Tax	211,756.00	247,435.00	343,376.00	450,252.00

Interest Surpluses	2010	2011	2012	2013
Bal at beg.	433,755.00	568,334.00	722,634.00	921,299.00
Profit for the yr	211,756.00	247,435.00	343,376.00	450,252.00
TOTAL	645,511.00	815,769.00	1,066,010.00	1,371,551.00
Trf. to Statutory reserve	52,939.00	61,859.00	85,844.00	112,563.00
Trf. to other reserve	-	-	-	70,000.00
Proposed Dividend	24,238.00	31,276.00	58,867.00	108,955.00
Total	77,177.00	93,135.00	144,711.00	291,518.00
Other reserve utilization	-	-	-	-
Bal as at Dec 31st	568,334.00	722,634.00	921,299.00	1,080,033.00

Source: Ga rural bank audited Account compiled by Author. 2014

Table 2: Extracts From Balance Sheet (in Ghana Cedis)

Assets	2010	2011	2012	2013
Bank Cash &Bal	1,210,942.00	2,303,234.00	2,203,159.00	2,367,845.00
Investment (short Term)	5,197,850.00	6,441,500.00	8,006,600.00	8,122,500.00
Loan & Advances	2,324,003.00	2,985,365.00	4,966,330.00	7,916,459.00
Other Assets A/c	547,176.00	486,386.00	599,011.00	813,002.00
Sub Total	9,279,971.00	12,216,485.00	15,775,100.00	19,219,806.00
Investment (Long Term)	84,269.00	84,269.00	84,269.00	84,269.00
Fixed Assets	930,367.00	1,028,260.00	1,200,290.00	1,495,078.00
Sub Total	1,014,636.00	1,112,529.00	1,284,559.00	1,579,347.00
Total Assets	10,294,607.00	13,329,014.00	17,059,659.00	20,799,153.00
Liabilities :				
Deposits & Current A/C	8,855,397.00	11,508,436.00	14,929,250.00	17,499,539.00
Creditors & Accruals	240,669.00	362,583.00	327,226.00	848,947.00
Proposed Dividend	24,339.00	30,001.00	45,576.00	36,115.00
Taxation	-	-	8,126.00	67,411.00
Total Liabilities	9,120,405.00	11,901,021.00	15,310,178.00	18,452,012.00
Shareholders' Funds:				
Stated capital	281,278.00	318,910.00	355,888.00	682,251.00
Statutory Reserve	324,590.00	386,449.00	472,294.00	584,857.00
Income Surplus	568,334.00	722,634.00	921,299.00	1,080,033.00
Development Fund	-	-	-	-
Scholarship fund	-	-	-	-
Staff Pension fund	-	-	-	-
Community Dev't Fund		-	-	-
TOTAL SHAREHOLDER FUND	1,174,202.00	1,427,993.00	1,749,481.00	2,347,141.00
Total Shareholders fund& Liabilities	10,294,607.00	13,329,014.00	17,059,659.00	20,799,153.00

Source: Ga R/B Head Office. Compiled by Author - 2014

Analysis of Ga Rural Bank Limited Performance (General Overview)

Ga Rural Bank Limited stands tall among its peers as one of the most profitable rural banks in Ghana. The bank's operational performance over the years, necessary from 2010 to 2013 had been convincingly remarkable as shown in Table 1. Ga Rural Bank interest income increased by 25.4% from GH¢

1,422,260 in 2010 to GH¢1,783,991 in 2011. There was a further impressive increase by 34.4% in 2012 from 2011 figure to GH¢ 2,399,271. In 2012, interest income of GH¢2,399,271 was recorded. At the end of the 2013 financial year, Ga Rural Bank interest income shot up by 53% to GH¢ 3,669,953. This performance was due to good policies and commitment of staff.

Similarly, Ga Rural Bank's commissions and fees figure appreciated steadily over the years to as much as GH¢ 240,251 at the end of the 2011 financial year. It went up further by 28% to GH¢306,454 at the close of 2012 and then again up by 21% to GH¢ 369,339 in 2013.Ga Rural Bank Limited profit after tax (PAT) records had also been remarkable over the years. The PAT moved up through the years to GH¢251,559 in 2011, and also a higher level of GH¢ 365,264 in 2012. In 2013, Ga Rural Bank Limited PAT went up to GH¢ 500,129 representing 37% upward growth. A total deposits of GH¢8,855,397 were recorded in 2010, which increased by one third to GH¢11,508,436 in 2011. This showed an increase of 30%. There was a further increased by 30 % to GH¢14,929,250 in 2012. Total deposits as at the end of 2013 were GH¢17,499,539 showing an increase of 17%. The annual growth of deposits, from 2010 to 2013, shows an average growth of 25%.

The short-term investment of the bank grew from GH¢5,197,850 in 2010 to GH¢8,122,500 in 2013 showing an annual growth of 14%. In year by year basis, the amount of investment increased from GH¢5,197,850 in 2010 to GH¢ 6,441,500 in 2011. There was a steadily increase to GH¢ 8,006,600 in 2012 and then to GH¢8,122,500 in 2013, showing an upward increase of 24%. There was a further increase of 24% and finally, up by 1% in 2013. From the modest amount of GH¢2,324,003 advances granted to clients in 2010, it increased to GH¢

7,916,459 as at the end of 2013 financial year, showing an annual growth of 60.25%.

Total equity of the bank improved remarkably over the years from GH¢281,278 in 2010 to GH¢318,910 in 2011. It went up further to GH¢355,888 in 2012, an increase of 12%. There was a further improvement by 92% to GH¢ 682,251 as at the end of 2013 financial year. There had been a growing confidence of the general public in Ga Rural Bank Limited shares, which showed in the increase of the stated capital which stood at GH¢ 281,278 in 2010, but as at 2013, it was GH¢ 682,251 with GH¢ 6,930,151 shares outstanding.

Liquidity Analysis

Liquidity performance measures the ability to meet financial obligations as they become due and is crucial to the sustained viability of banking institutions. Ga Rural Bank Limited relies on customer's deposits and its current balances with the Bank of Ghana for its liquidity. The bank required to hold an average daily amount of liquid assets that shall not be less than 5% of adjusted liabilities. Table 3 shows the liquidity trend in terms of Cash Ratio, net loan to total assets ratio (NLTA), net loan to deposit and short term borrowing ratio (NLDST), Loan to assets and liquid assets to deposits and short term borrowing ratio (LADST).

Table 3: Liquidity Ratios

	Year			
Type of Ratios	2010	2011	2012	2013
Cash Ratio	0.14	0.2	0.15	0.14
Loan to Deposit Ratio	0.26	0.26	0.33	0.45
Loan to Asset	0.23	0.22	0.29	0.38
Liquid Fund to Deposit	0.14	0.2	0.15	0.14
Net Loan to Total Assets	0.23	0.22	0.29	0.38
Net Loan to Dept. & Borrowing	0.26	0.26	0.33	0.43

Source: Compiled by Author - 2014

Liquidity Trend

In as much as the ratio of net loans to total assets does not directly measure liquidity, it gives an indication of how much of the bank assets are tied into illiquid loans. From the trend displayed by Table 3, Net Loan To Assets (NLTA) decreased by 1.00 from 23.00 in 2010 to 22.0 in 2011 and increased to 29.00 in 2012 when favourable economic conditions and the Cedi stabilised with low inflation and this increased the demand for loans from businesses and allowed banks to grow their loan portfolios. Loans to customers increased by 241% from GH¢2,324,003 in2010 to GH¢7,916,459in 2013 while total assets increased from GH¢10,294,607in 2010 to GH¢17,059,659 in 2012 and increased by 9.00% to GH¢ 20,799,153 at the end of 2013.

In 2011 NLTA dropped to 22.00 before finally increased again to 38.00 in 2013. The change in the trend signifies the slowing down in loans to customers and a continued increased in impaired loans leading to an increase in net loans and in total assets at the end of 2013. Generally, a higher NLTA may indicate possible liquidity problems for banks in a tight credit market in the face of a large deposit withdrawal or in case of unexpected withdrawals. However, the increase in NLTA for the banks did not pose any liquidity problems as Ga Rural Bank Limited could still access the cash reserves that they held in excess of the minimum requirement with the bank of Ghana.

The LADST ratio has been gradually falling for the period under review indicating reduced liquidity for the bank. The ratio decrease by 25.00% from 20.00 in 2011 to 15.00 in 2012 indicating a fall in the amount of customer and short term funds that could be met if they were suddenly withdrawn. The ratio however slightly increased in 2012 as the amount of liquid assets held by the banks decreased by 4% during 2012 as Ga Rural Bank increased their investments in instruments qualifying as liquid assets. The ratio then decreased from 15.00 to 14.00 in 2013 indicating a further deterioration in liquidity. Therefore in as much as Ga Rural Bank have been increasing their percentage of liquid assets that mainly consist of current accounts/reserves with the Bank of Ghana and other banks, customer deposits and short term funding have also been increasing such that the overall trend continued to show reduced levels of liquidity. NLDST followed a similar trend decreasing by 1.00 from 0.26 in 2010 to 0.25 in 2011 and subsequently increasing by 25.00% to 0.33 in 2012. The increasing trend indicates deteriorating liquidity in the banking sector as more and more assets, customer deposits and short term funding are tied into loans which are classified as illiquid assets. The liquidity of the Ga Rural Bank contracted most between the years 2012-2013 when the banks were aggressively increasing their loan portfolios. The variation in the ratio from 2012 onwards is ascribed to changes in both loans to customers and changes in deposit and short term funding.

Financial stability issues lie at the profitability and liquidity, therefore a decline in liquidity is associated with an increase in profitability, since low liquidity means larger percentage of assets and total deposits are tied with loans. Under normal circumstances rapid loan growth tend to result in higher returns and higher risks. However, Saunders and Cornett (2006) argue that rapid growth in assets (loans) than in deposits is indicative of banks using borrowed funds excessively. This seems to highlight the position of the Ga Rural Bank Limited. There has been a growing trend in loans and advances to customers; however, this increase has not been met by an equal increase in customer deposits. This may then mean Ga Rural Banks Limited has been turning to purchase liquidity in the form of money market instruments to fund the increase in loans. It is therefore worth noting that as a result of the above mentioned issues, the Ga Rural Bank Limited faces long-standing risks rooted in the reliance on short-term wholesale deposits. To reduce the risks associated with the Ga Rural Bank reliance on short term wholesale deposits, is to implement a deposit insurance system to counter such risks and provide the added benefit of inducing household saving to migrate from unguaranteed liquid financial instruments to competing bank deposits, thus strengthening the retail base of banks**.**

The ratios under liquidity measure a company's ability to meet its financial obligations as they become due. Ratios in this category include the current ratio, cash ratio and the quick ratio. On the whole the bank is in a position to meet its maturing obligation when they fall due.

Efficiency Analysis

The ratios in this category showed how efficiently the bank has managed its assets and they are closely linked to the liquidity ratios. From the ratios, the assets were efficiently utilized. It showed an average of 231% for the four years period, which is far, exceeded the industrial average of 100%.

On the other hand, the return on earning assets also performed creditable. It recorded an average of 32%, compared to the industry average of 2%. It indicated that the bank has performed extremely well, as shown in Table 4.

Table 4: Efficiency Ratios

	Year				
Type of Ratios	2010	2011	2012	2013	Average
Assets utilization	2.55	1.82	2.15	2.72	2.31
Return on Earning Assets	0.38	0.25	0.31	0.33	0.32
Pro. for B/Debt to Int Income	0.58	0.77	0.88	0.98	0.8

Source : Compiled by Author - 2014

Profitability Analysis

In banking the risk-reward trade-off is constantly present. Risk taking generates higher earnings through various mechanisms. For example granting high margin loans to risky customers may increase earnings in the short term but it also increases the credit risk profile and the probability of future losses (KPMG, 1998). Table 5 shows the profitability performance of Ga Rural Bank Limited for the period 2010-2013. Profitability is measured in terms of Return on Assets

(ROA), Return on Equity (ROE), Quick (Acid) Test, Net profit margin and Cost-to-Income (C/I).

Table 5: Profitability Ratios

	Year			
Type of Ratios	2010	2011	2012	2013
Return on Asset	0.02	0.02	0.02	0.02
Return on equity	0.18	0.17	0.2	0.19
cost to income	0.85	0.86	0.85	0.86
Quick (Acid Test)	0.7	0.73	0.67	0.57
Profit Margin	0.15	0.14	0.14	0.12

Source : Compiled by Author - 2014

Profitability Trend

Table 5 shows a decreasing profitability trend from 2010 to 2012 with a slight decrease in 2013. Return on assets remained constant throughout the period at 0.02. The Apex Bank believes that the Ga Rural Bank Limited profitability remained favourable during 2010-2013 due to strong asset growth as the total assets grew from GH¢10,294,607 in 2010 to GH¢20,799,153 in 2013 registering an increase of 25.5% per year. Loans and advances were the main contributors to the increase in assets mainly due to increase in loans. The higher ratios indicate a better prospective as the high net interest margin was feeding through greater net income thus boosting ROA and ROE.

However, at the onset of the economic downturn bank performance deteriorated slightly.ROA remained the same throughout the period at 0.02

neither showing an increase or decrease over the period, a consequence of the global financial crisis and a slowing down in the domestic economy. The downward trend is also reflected in the ROE, which decreased from 0.18 in 2010 to 0 .17 in 2011 before increasing to 0.20 in 2012, reflecting an increase of 2.00%. However, it fell to 0 .19 in 2013. The downward trend is attributable to a decrease in loans and advances to customers as well as increased credit impairments owing to defaults which negatively impacted profitability.

The trend reflected by ROA and ROE is also reflected in the cost to income ratio, which improved by 1.00 from 85.00 in 2010 to 86.00 in 2011 indicating better efficiency and profitability performance. The ratio continued to show signs of improvement, it strengthened by 1.00 from 85.00 in 2012 to 86.00 in 2013.The steady improvements in cost to income are mainly ascribed to increasing net income reported by the banks which rose by 112% from GH¢211,756in 2010to GH¢450,252 in 2013 consequent of the lower loan loss provisions and relatively lower operating expenses experienced by the banks during that period. The decline in the C/I ratio is as a result of cost efficiency levels which have significantly improved. The macro economic performance of the country had contributed to the decline of the profitability of the bank.

Leverage Analysis

Leverage reflects a company's finance with respect to debt and equity and are used to assess the various risks that arise as a result of this financing. Financial leverage reflects the amount of debt used in the capital structure of the firm.

The debt to equity ratio, which showed an increase from 77.7% in 2010 to 78.6% in 2013, is not encouraging. On the average, the bank had 81.8% debt/equity ratio. This means that, the bank capital structure is made up of 81.8% debt and 18.20% equity. Debt to assets also had an average of 89%, which exceeded the industry average of 75%.

The interest cover ratio indicates how many times the bank can cover its current interest payment out of current profits. This ratio gives an indication of whether servicing its existing debt is becoming a problem. Even though, there had been a fall of this ratio from 1.29 times in 2010 to 1.19 times in 2012. It also rose to 1.35 times in 2013. On the whole, the average was 1.22 times which compared favourably with the industry average of 1.5 times.

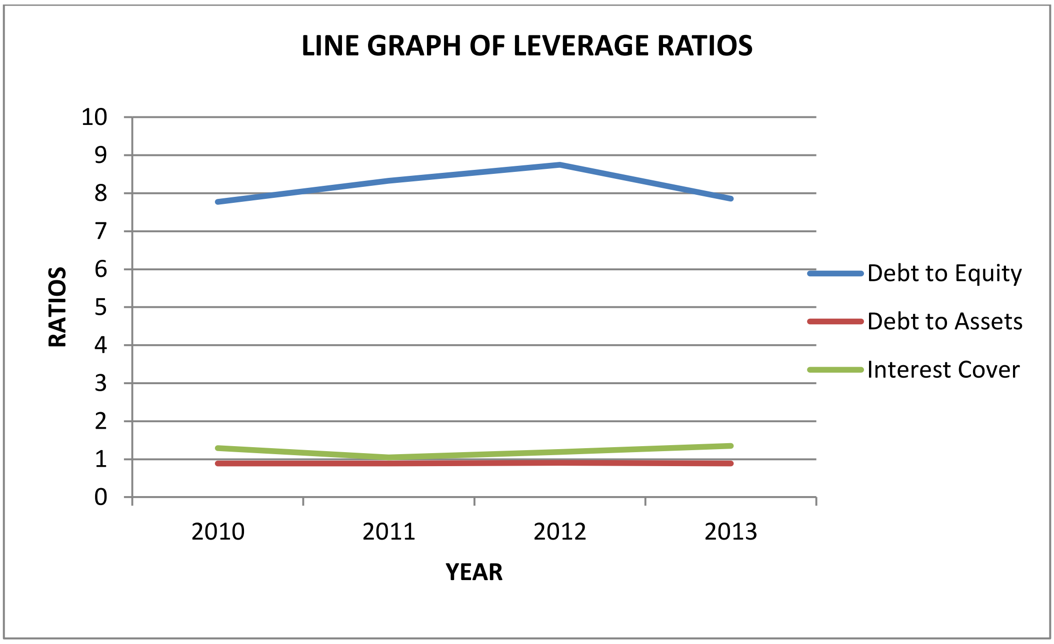

Figure 1: Leverage Ratios (Line Graph Showing Leverage Ratio)

Analysis of Activity of Ga Rural Bank

Activity ratios are used to measure the number of times the firm is turning over its assets. In terms of total assets, the average for the Four years was 0.15 times, which is below the industry average of 0.5 times. With the fixed assets turn over, it increased to 1.60 times in 2011 from the 2010 figure of 1.40 times, but started rising and settled at 2.32 times in 2013. All the periods under review are within the industry average of 3.5 times.

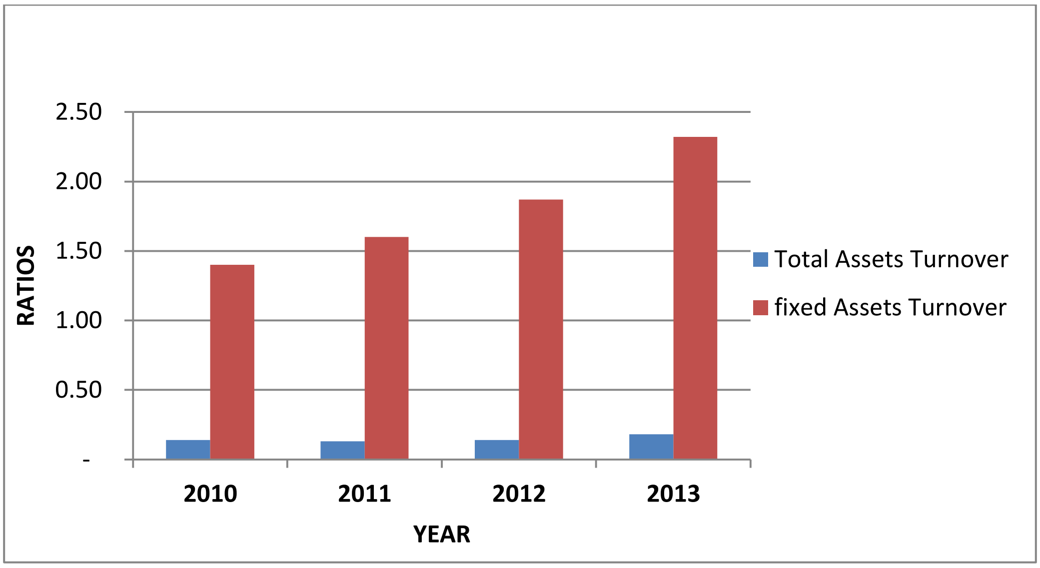

Figure 2: A bar Chart Showing Activity Ratio

Primarily investors and analyst use the ratios in Table 6 in order to decide whether they should buy or sell the share of a particular company. The earnings per share, which is regarded as the key ratio by stock market investors started well with GH¢0.14 pesewas per share in 2010, but decreased to GH¢0.13 in 2011 and rose again to GH¢0.14 and GH¢0.18 pesewas respectively in 2012 and 2013. The dividend per share showed annual growth of 50%. From GH¢0.02 per share in 2011, it was increased to GH¢0.03 per share in 2012. Fortunately, it increased to GH¢0.04 per share in 2013. The dividend payout, which was 29% in

2011 increased to 86% in 2013. The management is consistent in their dividend payment over the years.

Table 6: Investor Ratio

	Year			
Type of Ratio	2010	2011	2012	2013
Earnings per share	0.14	0.13	0.16	0.15
Dividend per share	0.02	0.02	0.02	0.01
Dividend payout Ratio	0.11	0.12	0.13	0.08

Source : Compiled by Author - 2014

Ga Rural Bank Limited Performance Based on Real Terms

So far, the analysis did not factor in inflation of the country, but was based on the nominal value. To have a meaningful analysis, there is the need to change these nominal values to real values. This is done by calculating the effective interest rate. This is given as;

$$\text{Real Rate} = \frac{(1+\text{nominal Rate})}{(1+\text{inflation Rate})} - 1$$

Table 7: Real Interest Rate Calculations and Analysis

			Year	
Variable	2010	2011	2012	2013
Inflation (%)	10.70	8.58	9.2	10.5
Interest Rate (%)	13.8	13.2	14.5	16
Real Rate (%)	3	4	4	4

Source: Compiled by Author - 2014

From Table 8, the real income grew from GH¢ 42,688 in 2010 to GH¢146,798 in 2013. The growth rate for the four years, from 2010 to 2013 was 244%. On year by year basis, the real income increased to GH¢71,360 in 2011 from 2010 figure of GH¢ 42,668. In 2012 the figure increased to GH¢ 95,971. The real income assumed it upwards increase again in 2013, it increased by 53% compared to the 2012 value. It finally reached GH¢146,798 in 2013.

Table 8. Real Interest Rate Calculation (In Ghana Cedis Terms)

Interest Income	1,422,260	1,783,991	2,399,271	3,669,953
Real Income	42,668	71,360	95,971	146,798

Deposit Mobilization Analysis

Ga Rural Bank Limited deposits mobilization increased from GH¢ 8,855,397 in 2010 to GH¢11,508,437 in 2011, showing an increase of 30%. There was a further increased by 30% to GH¢14,929,250 in 2012. In 2013, there was again an increase from GH¢14,929,250 to GH¢17,499,539 representing 17 % increase. From 2010 to 2013, there was an annual growth of 20%.

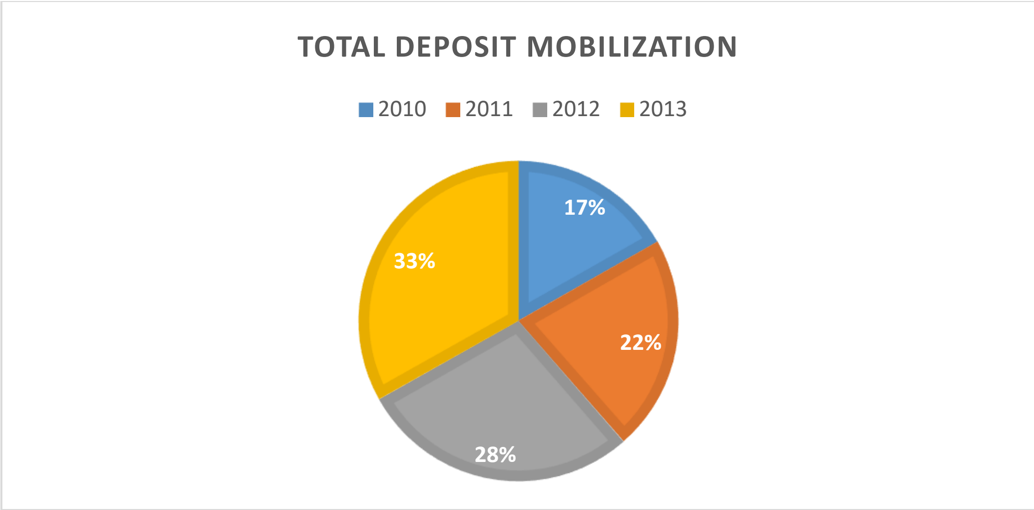

Figure 3: Deposit Mobilization Chart

Loan and Advance Analysis

From Table 2 the bank loans and advances increased for the four years period. From GH¢2,324,003 loan disbursed in 2010, the figure increased over the years to GH¢7,916,459in 2013. This showed an annual growth of 18%. The recovery rate of the bank is very much encouraging. The provision for bad debt on the average was 5%.

Provision for bad debt to interest income ratio also showed an average of 11%. On the whole, the bank credit officers are doing tremendously well in the area of loan recovery.

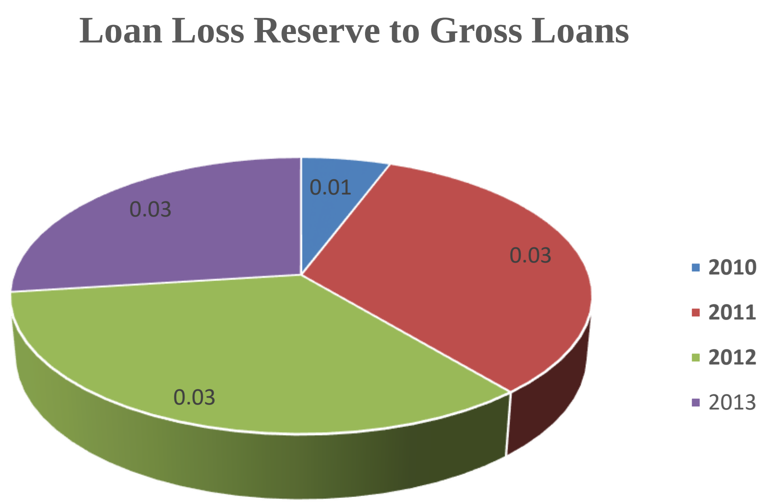

Figure 4: Asset Credit Quality (Credit Performance)

Credit performance is concerned with the examination of the risk associated with a bank's asset portfolio. Figure 5 shows a fairly stable trend in the loan reserve to gross loans ratio between 2011 and 2013. However, 2010-2011 shows a significant deterioration in the credit quality. The ratio registered a decline of 64.6% from 0.01 to 0.03 during 2010-2011 before slightly increasing from 0.03 throughout the periods. The slight improvement was due to continued growth in loans to customers as well as growth in non-performing loans which continued on a downward trend.

Credit Quality Trend

The loan portfolio deteriorated in 2011-2013 as the ratio increased by 116.00%. Credit risk ratios increased during 2011 indicating the deterioration of the quality of the loan portfolio as compared to 2013. This is because the banks were more exposed to increased credit risk as risky loans given during the 2010-

2013 period began to go bad and the banks reported higher charge off or additional provision for loan losses. Hence Ga Rural Bank Limited is facing increased credit risk, especially in their home loan portfolios, in the face of record household indebtedness and a mounting debt service burden.

This case study measured the performance of Ga Rural Bank Limited over the period 2010-2013. The results indicate that the overall bank performance in terms of profitability, liquidity, and credit quality has been improving since 2010 up to and including 2013. Banks increased the size of their loan portfolios during the period. Although the banks aggressively increased their loan portfolios, sound and effective credit risk management policies have been in place so that the lending behaviour could still be contained. This is reflected in the downward trend in nonperforming loans. This confirms Zaman (2004) and Yaron (1998) studies that good policies and Visionary leadership results in profitability.

However, the bank performance deteriorated during 2012-2013 as the banks' operating environment deteriorated due to the Depreciation of Cedi and high inflation rate. The analysis has also uncovered that the illiquidity levels in the Ga Rural Bank Limited has reached extreme levels. This is exacerbated by the banks' dependence on wholesale markets and the fact that deposits with less than one year maturity represent close to 80% of total deposits. Despite these alarming features, Ga Rural Bank Limited have managed to continue with their normal day to day business during the crisis. The Bank low leverage, high profitability, and limited exposure to foreign assets and funding allowed them to remain liquid and well-capitalized; obviating any need for extraordinary liquidity or state support.

It was also found that there was significant difference in profitability performance for the period 2010-2011 and the period 2012-2013. The results indicate that profitability deteriorated during the later period. There might be several reasons for the significant deterioration in profitability. One of the reasons could be increasing bank operating costs and reduced incomes amid the crisis. Furthermore in these recessionary times, when corporate and private clients find it hard to service their debts, the level of the provision for loan losses and bad debts increased. In contrast, no statistically significant differences were observed between bank performance during the two periods in terms of liquidity and credit quality. The comparable performance results in terms of liquidity and credit quality between these two periods may be as a result of the fact that the bank entered the downturn with a sound macro/fiscal position, enabling aggressive counter-cyclical fiscal and monetary responses. Notwithstanding the crises in the domestic economic developments during 2010-2013, the Ga Rural bank Limited system remained stable and ability to open new branches boosted the bank fortune as confirmed by Malhotra (2002), Berger, Hanweck and Humphrey (1987) and Buyinza (2010). The Bank was adequately capitalised and profitable. Ga Rural Bank Limited remained in a sound position.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

This chapter concludes the study and gives a summary of the findings of Ga Rural Bank Limited. It also provides recommendations that may help to improve its performance as financial intermediation.

Summary of Findings

This study had attempted to investigate liquidity management, deposit mobilization and profitability with focus on Ga Rural Bank. Findings from the study indicate that :

Ga Rural Bank Limited performed well in the generation of interest income, Fees and commission and profit after Tax. Deposit, Short term Investment, advances and Loans and Equity also improved indicating growing confidence in the Bank.

Demand for loan increased but enough funds were not available to meet all the demand and this led to decline in loan to customers. Inability to grant more loans improves the liquidity position but loan recovery rate was weak leading to high non-performing loans.

On profitability, low loan recovery, decreased in loans and advances coupled with high operational cost contributed to low profitability level of Ga Rural Bank Limited.

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There is significant relationship between liquidity and profitability. That means profitability in Ga Rural Bank is significantly influenced by liquidity and vice versa. It was also revealed that profitability will be optimized only when liquidity is effectively and efficiently managed i.e. when Ga Rural Bank is able to meet its financial obligations and at the same time maximizes its profits. A situation where Ga Rural Bank Limited maintain more than the required liquidity level, the result will be huge stock of idle stock in the vault at the expense of profitability. This was exactly the situation for Ga Rural Bank. One can then conclude that the declared profits after tax of Ga Rural Bank within the period under study where below optimum level because of excess idle cash they maintained. High leverage turns to worsening the liquidity position of Ga Rural Bank Limited and needs attention.

From the analysis on deposit mobilization, Ga Rural Bank had been successful in its deposit mobilization from 2010 to 2013. The significant growth and their high performance is based on some of the strengths which could serve as catalyst for driving its profits. The strengths and profit drivers are good corporate governance culture which enhances accuracy, authenticity and timeliness of information disclosure; remaining very focused as a Rural Bank; continuous demonstration of superior quality service delivery; always being at the fore front of innovation and setting of service quality standards; effective communication strategy to differentiate itself for clients to see and feel the difference; commitment to Human Resource training and development; dedicated, committed and experienced management team; and highly qualified and experienced young professional staff.

The company savings mobilization was impressive. From GH¢8,855,397 in 2010, it increased to GH¢17, 499539 in 2013. This has resulted in an increase in the granting of loans from GH¢2,324,003 in the year 2010 to a high figure of GH¢ 7,916,459 in 2013. The company's investment also increased from GH¢5,197,850 in year 2010 to GH¢8,122,500 in 2013 financial year.

Conclusions

Liquidity management and profitability in rural banks are two sensitive issues in the operations of rural banks and of which information on them are seriously hoarded. Consequently, a study on these two issues was not coming too easy. The major concern of this study was to reconcile the conflicting requirements of bank liquidity and bank profitability arising from the conflicting desires of the two major providers of the bank resources namely the shareholders and the depositors. The shareholders desire maximum profitability as a return on their capital, while the depositors opt for a maximum liquidity as a guarantee for safety and ability to pay their money on demand. Considering the findings of this study, the following conclusions can be drawn:

For the success of operations and survival, Ga Rural Bank should not compromise efficient and effective liquidity management. They are expected to maintain optimal liquidity level in order to satisfy their financial obligations to customers or depositors and maximize profits for the shareholders.

The optimal liquidity level is reached if Ga Rural Bank religiously maintained the minimum liquidity requirement as stated by the Central Bank of Ghana. This attempt helps to reduce cases of bank distress.

From the study, we can rightly conclude that both illiquidity and excess liquidity are "financial diseases" that can easily erode the profit base of a bank as they affect bank's attempt to attain high profitability-level. The pursuit of high profit without consideration to the liquidity level can cause great illiquidity, which reduces the customers' patronage and loyalty. Therefore, any bank that has the aim of maximizing its profit level must adopt effective liquidity management.

Effective liquidity management also requires adequate liquidity level which will help Ga Rural Bank to estimate the proportion of depositor's funds that will be demanded at any period and arrange on how to meet the demand. It can finally be concluded that liquidity is inversely related to profitability. That means as liquidity increases, profitability decreases and vice versa.

The company through its micro finance scheme instituted for the people within its catchment areas in diverse ways contributed towards Ghana’s economic growth and development. Savings mobilization undertaken by the bank in its catchment areas has encouraged some individuals and households to develop the habit of savings. Ga Rural Bank profitability and liquidity positions are satisfactory and the bank had performed credible well.

Recommendations

Based on the critical evaluation of the above findings, I hereby make the following recommendations with the sincere conviction that they will help to reduce if not totally eradicate the problems associated with liquidity management and profitability in banks.

From the above analysis it is recommended that the bank continues to focus on its core lending activities without sacrificing liquidity. The liquidity position slipped in 2010 due to aggressive lending although there seem to be some easing in 2012. The bank should continue to adopt best practice in terms of its approach to credit risk management. The deterioration in asset quality could be due to clear disregard for best credit practices.

Total deposits should be improved by adopting pragmatic steps to revitalize the deposit mobilization drive. The bank could increase its interest on deposits for instance and pay a little more on fixed deposits between six months and one year so as to attract deposits to improve its liquidity.

Service charges should reviewed to attract deposits since the current situation where the more an account is active in terms of turnovers, the more it pays on service charges is disincentive to deposit mobilization drive when others in the industry are adopting a fixed commission on turnover charges or zero charges in some cases. The bank could leverage on the deposits by lending it out and get returns in the form of fees and interests.

Better information technology platform could give the bank operational leverage and thus improve its operational efficiency which will have a trickledown effect on profitability. A better information technology platform could boost its competitive strategies by providing better and timely services.

The credit risk department should continue to receive empowerment to prudently manage credit administration to further improve asset quality. The bank's recovery drive must be given the needed impetus to reduce impairment charges so as to increase profits. A considerable improvement in recoveries would add to both liquidity and profitability. Speedy credit delivery is also key in recoveries since many facilities are time bound and therefore not conforming to these timelines defined by client's could lead to under-recoveries.

This study shows that there is a significant relationship between Ga Rural Bank financial performance on one hand and size as measured by total assets, liquidity, and non-performing loans. The study concludes that the financial performance of Ga Rural Bank has been stableover the past four (4) years. However, its credit risk management practices as indicated by the level of non-performing loans are not stringent enough.

The bank should intensify its loan screening and monitoring activities to increase its loans recovery rate. It is important to concentrate on lending to salary workers and identifiable groups such as market women associations, farmers associations,

Fishermen/fishmongers associations, faith-based groups and other civil societies. This will ensure higher rate of loans recovery and enhancement of the bank's returns. Loans to individuals should be secured by micro insurance products and marketable Securities so that in the event of default such securities can be sold to defray the debt.

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