EVALUATION OF PERFORMANCE OF BANKS USING
FINANCIAL RATIOS

A DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF THE
REQUIREMENT FOR THE AWARD OF DEGREE OF BACHELOR OF
SCIENCE BUSINESS ADMINISTRATION
(ACCOUNTING AND FINANCE)

BY
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DECLARATION

I do hereby declare that, apart from the references of other researchers’ work which have been duly cited, this research work submitted as a project to the department of Business Administration and Economics, Okwahu campus of the Presbyterian University College, Ghana, for the award of Bachelor of Science in Business Administration (Accounting and Finance) is the result of my own research and has not been presented by anyone for any degree.

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EBENEZER ANSAH                   DR. PAULADJEI KWAKWA
(STUDENT)                        (SUPERVISOR)

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DATE                                DATE
DEDICATION

This paper is dedicated to my newly born baby boy, Nehemiah Nana Yaw Nyansani Opei-Ansah, and my wife, Mrs. Theodora Nana Djabeng Ansah for the support during the tough times.
ACKNOWLEDGEMENTS

I am highly grateful to the everlasting father the one who was, who is and who will be for His mercies, good health, and life during the course.

My deepest gratitude to Dr. Paul Adjei Kwakwa (my supervisor) for the guidance and time he spent during the project. God bless you Dr.

I really appreciate the diverse roles played by DDP Dominic Nicolas Arthur, ADP J.B. Norteye-Akutey, and CSP Samuel Okpoti Annang in this project, it was them who granted me to permission (thereby the peace of mind) to complete this project during their respective tenures in office as my commander.

To my lecturers, course mates, and friends, I say God richly bless you for the diverse roles you played.
ABSTRACT
The study assessed the performances of Ghanaian banks in terms of their liquidity, solvency and profitability by applying financial ratios on the published audited financial statements. The population of the study consisted four of the domestically controlled banks. Data gathered was analyzed using liquidity, leverage and profitability ratios. Current ratio, quick ratio and cash ratios were used to assess the liquidity of the banks. Additionally, debt to asset ratio, long term debt to capital ratio and debt to equity ratio were utilized to find out the solvency of the banks. Finally, gross profit margin ratio, return on assets, return on equity, and basic earning power ratio were employed to examine the profitability of the banks. Findings revealed that the liquid positions of the banks were below expectations. This is contrary to the banking sector report (2019). As far as the solvency positions of the banks were concerned, findings revealed the sector is highly leveraged. This was consistent with the findings of Owusu (2019). Analysis of the profitability position of the banks showed that the banks are fairly profitable as their profit averages were above that of the industry. This position was however contrary to the findings of Ebonyi-Amoah (2017). The study recommended that banks in Ghana should go easy with their mode of debts and since the sector cannot operate efficiently without debts, they should rely more on long term debts rather than concentrating on the short term debts.
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CHAPTER ONE
INTRODUCTION

1.1. Background of the Study

The Ghana banking sector has made some enormous improvement since 2001 mainly following what many pundits say has been the prudence of the central bank which has initiated many key decisions in line with global trends. Since 2003, Universal Banking has replaced a banking industry which was hitherto made up of a three-pillar banking model- development, merchant and commercial banking. Changes mainly captured in the Ghana Banking Act 2004 which implemented a universal banking concept, saw an inflow of banks into the country mainly from Nigeria, Liberia and India. This occurrence has introduced a healthy rivalry among banks, which experts have described as sound for the future development of the industry (Graphic Business, 2009).

The inflow saw the number of licensed banks in Ghana increasing to thirty-four (34) in 2017. This number of licensed banks though has dropped to twenty-three (23) as at February 2019. This was after the licenses of two insolvent banks, namely UT and Capital banks were revoked in July 2017 due to their severe capital impairment. Bank of Baroda voluntarily wound up, whilst GN Bank was downgraded to a savings and loans after it was unable to meet the minimum capital requirement set by the bank of Ghana. Additionally, seven other banks were consolidated into the now Consolidated Bank Ghana (CBG). Of the twenty-three (23) licensed banks, nine (9) are classified as domestically-controlled, while the remaining fourteen (14) are foreign controlled (Banking Sector Report, 2019).
By end of December 2017, the branch network of the banks stood at 1,483 distributed across the ten (10) regions of the country. The banking sector experienced some improvements in its liquidity, soundness and profitability in 2018 as reflected by the key Financial Soundness Indicators (FSIs). In comparison with 2017, the FSIs are expected to improve further on completion of the recapitalization process and on-going reforms. The industry’s income statement recorded an improved performance as at October 2018. The banking sector’s total assets increased from GH₵88.91 billion (20.5%, year-on-year) in October 2017 to GH₵106.34 billion (19.6%, year-on-year) as at October 2018 (Banking Sector Report, 2018).

1.2. Statement of the problem

It has been generally accepted now than ever before that the private sector is the engine of growth. This statement is further emphasized by the involvement of private entities in the businesses and activities of governments of which Ghana is not an exception. As the presence of the Ghanaian private sector is gradually being felt and acknowledged, its sustenance requires an efficient, innovative and liberalized market driven financial sector.

Having seen the opportunity to provide funds for the ever growing Ghanaian private sector, several banks have entered the Ghanaian banking industry thereby making the sector very competitive: most of these banks (as it were in the cases of ENRON Corporation, Parmalat SPA among others) try enhancing their image through the publication of “attractive” financial statements to stakeholders for informed decision making. When banks are performing well stakeholders become elated; the government will receive its corporate tax, shareholders are
assured of good returns, whilst the public benefits from social responsibilities undertaken by these banks. With ten domestic banks already wound up, another downgraded by the central bank, and a few others involved in merger deals, it is reasonable for stakeholders to be apprehensive.

In spite of these happenings within the industry (in the past year), most banks (according to the Banking Sector Report, 2019) are reporting significant increases in their profitability and asset levels. The question that comes up naturally is, are banks reporting the true and fair situations on the ground or have these banks resorted to creative accounting? Banks relay their performance to their stakeholders through their Financial Statements. Most of these stakeholders with little or no knowledge at all about financial accounting may therefore have little or no use of the information provided by banks through the financial statements. With stakeholders seemingly disturbed about the happenings and increasingly looking uncertain with regards to the future of Ghana’s financial sector, it has thus become very important for the financial reports of banks to be examined. This study aims at clearing stakeholders’ doubts and their uncertainty by analyzing their (banks) published financial statements so that stakeholders can utilize it in their decisions. It must however be acknowledged that this will not emerge as the first study to weigh the performance of these entities as several studies undertaken by various researchers have already taken place. However, most of these studies took place several years ago under different economic, political and social conditions. Moreover, their evaluations were targeted at different banks and on different financial reports. For instance, Attefah and Darko (2016), evaluated the performance of Cal Bank using financial ratios from 2010 to 2014, Kumi et al (2013) used financial ratios to evaluate the performance
of Barclays Bank Ghana, Ghana Commercial bank, and Agricultural Development Bank for 2005 to 2009. All these studies took place before the happenings of 2017 and 2018. This study seeks to use three important financial ratios, liquidity, leverage and profitability, in finding out the various banks’ liquidity, leverage and profitability positions (and by expansion their overall performance) for six of their most recent years. This study has therefore become even more crucial today as it seeks to find out the performance of banks before and after 2017.

1.3. Objectives

The main goal of this study is to use financial ratios to evaluate the performance of banks. The specific objectives of the study are outlined below:

- To examine how well the banks have performed in Ghana.
- To investigate the liquidity positions of the banks in Ghana.
- To assess the solvency positions of the banks in Ghana.
- To find out the profitability levels of the banks in Ghana.

1.4. Research questions

With the objectives of the study in mind, the following questions are posed:

- How well are banks performing in Ghana?
- How liquid are banks in Ghana?
- How solvent are banks in Ghana?
- How profitable are banks?
1.5. Significance of the Study

Aside trying to lay bare the profitability, liquidity, solvency and the overall performance of banks which will ease the confusion of stakeholders; this study will also contribute to the knowledge available on the subject area for researchers to pursue. Results emanating from this study could also direct the various banks to strategically plan; taking advantage of any opportunity and appropriately averting threats that may be exposed. Also, the Securities and Exchange Commission could rely on this study in the event of considering listing for Fidelity Bank in the near future.

1.6. Organization of the Study

The study was divided into five components. Chapter one consisted of the introduction to the study. Chapter two reviewed some of the literature on the topic. Chapter three looked at the profile of the selected banks as well the methodology used for collecting data. Chapter four considered findings, analysis, interpretations and presentation of data. The fifth chapter took into consideration the summary of the findings, conclusions and recommendations.
CHAPTER TWO
LITERATURE REVIEW

2.1. Introduction
This chapter will review some literature on the history of banking, history of banks in Ghana, the role of banks is also reviewed, the concept of performance, as well as the means of performance evaluation.

2.2. Banking
According to the American Bankers Association (2014) a bank is a place where customers’ deposits are safeguarded and these deposits used as loans for the borrowing public. The University of Calicut (2011) described banks as bridges between savers and borrowers, as banks accept money from savers as deposits and give same out to borrowers as loans. A bank as a financial entity takes deposits from the public and creates credit by engaging in lending activities either directly or indirectly through the capital markets.

Historically, the earliest form of banking begun in the 2000BCs through the barter trading system in Assyrian and Babylonian eras. In this system businessmen made loans (grain loans) to traders and farmers. In the Greece and Roman empires to follow, lending, money changing and deposits acceptance activities came up. Research shows that these activities also took place in China and India during that era. The beginnings of present day banking could be traced to Italy’s rich centers like Florence, Lucca, Sienna, Genoa, among others. In the 14th century, families like the Peruzzi and Bardi dominated the banking industry. They established branches in other parts of Europe. The Medici Bank set up in
1397 was one of the more popular banks in the period. The Bank of St. George was however, the earliest known state deposit bank, it was established in 1407 at Genoa in Italy. Practices such as fractional reserve banking and banknotes issue, came up during the 17th and 18th centuries. Businessmen begun saving their gold with goldsmiths based in London. These goldsmiths possessed vaults and charged for services they render. The goldsmiths gave out receipts indicating the quantity and quality of the gold which they held as bailees. The receipts they issue however could not be given to third parties, only the original depositor could present these documents for their gold. As time went by, the goldsmiths begun giving out the money on behalf of the depositors. Promissory notes (which later became banknotes) were issued to the goldsmiths for monies deposited as loans to them. Interests were paid on these deposits by the goldsmiths. The promissory note became an instrument that could move freely as a safe and suitable form of money with the goldsmith’s vow to pay, making it possible for goldsmiths to give out loans with low risk of non-payment. According to some briefings on modern day banking; the bank of Vernice founded in 1157 was the first banking organization whiles those of Barcelona and Genoa followed in 1401 and 1407 respectively. The three respective banks begun what has become today’s commercial banks. In 1609 and 1690, the banks of Amsterdam and Hamburg were respectively established heralding what is known as the exchange banking (University of Calicut, 2011).

2.3. History of Banking in Ghana

Information on the history of the Ghanaian banking sector was taken from the work of Antwi-Asare and Addison (2000). According to them, the history of
today’s banking industry in Ghana can be traced to the late nineteenth century. The Post Office Savings Bank (POSB) was the first among the lots to begin operations as a bank in the 1880s, using the premises and other facilities of the post offices within the country. In 1896 the British Bank of West Africa (Standard Chartered Bank) was established in the Gold Coast, Barclays Bank DCO (Barclays Bank Ghana) was to follow later in 1917. These were foreign banks incorporated in the United Kingdom and hence were subsidiaries. They mainly financed trading activities between the United Kingdom and the Gold Coast. In 1935 the Farmers’ Co-Operatives and the colonial government established the Co-operative Bank. This bank, aside the commercial activities it undertook, was also involved in financing cocoa buying and the activities of the co-operative groups across the country. With the exception of the Post Office Bank which had offices across the Gold Coast, the other banks only maintained branches in major commercial, cocoa-buying and mining centers.

They further stated that, in 1912 the United Kingdom government established the West African Currency Board (WACB), which was to issue currencies for the various British colonies in West Africa. The question of setting up a national bank emanated due to the fact that the two major banks (Barclays Bank DCO and British Bank of West Africa) favored mainly the foreign communities (The Europeans, the Asians, etc.) and only advanced credit to the local community on rare occasions. Sir Cecil Trevor recommended the formation of a jointly owned bank by the government and staffed by locals, this was after he was contracted to examine the field of banking in the Gold Coast because of the earlier problem between the major banks and the indigenes. In his recommendation, he emphasized that the said bank when established should operate for the benefit of
the local community, maintaining government accounts as well as being an agent during the flotation of government bonds. It was based on his examination and subsequent recommendation that the Bank of The Gold Coast was established and commenced operations in 1953. After 6th March 1957, Ghana left the West Africa Currency Board and divided the bank of Gold Coast into two; Central banking operations took place in the Bank of Ghana while the commercial banking activities were undertaken by the Ghana Commercial Bank.

Again, they added that immediately after independence, the socialist-inclined government of Ghana, coupled with lack of an active private sector, begun a government driven development of the banking industry. Many state owned banks were established by the Ghanaian government making use of the bank of Ghana, State Insurance Corporation, and Social Security and National Insurance Trust. In 1963 the National Investment Bank was established as a development bank with the main aim of providing medium and long term finance for the manufacturing and agro-business sectors. It was also to provide technical assistance to clients. It however begun commercial banking operations from 1975. Agricultural Credit and Co-operative Bank was next to be established in 1965 with capital from the government and the Bank of Ghana. This bank was established from the operations of Rural Credit Department of the Bank of Ghana. The name was later changed to Agricultural Development Bank (ADB) in 1967. Antwi-Asare and Addison posit that the National Savings and Credit Bank (NSCB) was carved out of the Post Office Savings Bank, which had seen several re-organizations since the time it was formed in the 1880s. From the onset it was a savings-only unit within the Department of Posts and Telegraphs. It was present in most post offices across the country. In 1962 it saw the major change when
the Savings Bank Act was passed. This saw the separation of the Post Office Savings Bank from the Department of Posts and Telegraphs, and a subsequent name change to Ghana Savings Bank. However, in 1972, government legislation, NRCD 38, reversed the name back to Post Office Savings Bank. In 1975, it became the National Savings and Credit Bank, autonomous from the Department of Post and Telecommunication and with power to operate as a commercial bank when the establishment Decree was amended. The Bank for Housing and Construction was the last development bank set up by the government. It was established by NRCD 135 in 1973. Its main objectives were to provide mortgage financing, participate in domestic or foreign private capital in the construction sector, and also enter joint venture projects in the sector. It began operations in 1974. The Social Security Bank which was established in 1977 was initially owned by SSNIT. This bank introduced the hire purchase scheme as a unit within the bank. This scheme which allowed salaried workers who had accounts with the bank to own consumer durables contributed to a large extent the rapid growth in the infant banking sector. This Department (the Consumer Credit Department) is now a limited liability company within the SSB Group.

According to the authors, the first merchant bank to be established was the National Merchant and Finance Bank limited (Merchant Bank Ghana). It was established in 1972 with capital from the Government of Ghana, State Insurance Corporation, National Investment Bank and the National Grind Lays Bank of the UK. The Ghana Co-operative Bank (COOP) which had its genesis in the Gold Coast Co-operative Bank was established by the Association of Cocoa Cooperative Societies in 1948. Its main goal was to mobilize deposits and finance cocoa purchases from co-operative members. This bank (COOP) was however
closed down by the government in 1961 for political reasons. Its affairs were then taken over by the Ghana Commercial Bank. It was revived again in 1973 but could only begin operations in 1975. Its main challenge has been a small capital base and an impaired goodwill. A share flotation in 1986 with a target of ɛ500,000,000.00 could only yield ɛ135,000,000.00. It was not able to meet the statutory capital requirement of 6% of risk rated assets set by the Bank of Ghana in 1988 and 1989. As a result of liquidity challenges it had to clear its cheques through NSCB between 1989 and 1992 since it was removed from the Bank Clearing House. The only private bank established during this period was the Premier Bank (Bank for Credit and Commerce Ghana Limited). It began operations in 1978 as a commercial bank with bias for corporate and trading sectors.

Concluding, the authors reiterated that the government’s interest in rural finance has been encouraged since 1974. The establishment of rural/community banks in almost all the districts within the country was encouraged by the state. As at the end of 1998 this has resulted in the establishments of 132 rural/community banks across the country. The banking industry that was in place before the middle of the 1980s was as a result of a conscious effort from the government to bring into existence entities that could fill gaps within the financial sector. This was undertaken either directly by the government or indirectly through institutions such as Bank of Ghana, SSNIT, SIC, among others.

2.4. Role of Banking Institutions

Hoffman (2011), as cited in Kwakwa (2014), stated that the central role of the financial sector is to facilitate economic operations by moving funds from the
savers to the borrowers. By connecting those demanding to suppliers in the capital market, they become intermediaries as far as lenders and borrowers are concerned. As intermediaries, they act as facilitators of risk (transfer) and as such are well positioned to manage the complexities associated with the financial markets (Kwakwa, 2014). According to Heffernan (1996), banks are intermediaries (special financial intermediaries) between savers and borrowers involved in the economy. They are differentiated from other financial institutions since they are able to provide deposit and loan services. On their part Bollard et al (2011) stated that banks, for that matter financial institutions, contribute immensely to living standards and economic development. They added that the services banks offer which include clearing and settlement systems, encourage trade, moving funds from the surplus public to the deficit public. This role of banks according to them can also be performed by other financial institutions or even the stock market, banks, they say, exist because they are able to manage information efficiently by being specialists in assessing the credit worthiness of their borrowers thereby ensuring default by borrowers is limited. In implementing money laundering policies, Baker (2005), as cited in Abudu (2012), suggested that banks must position themselves in a way in which they will be able to avert and see those transactions which might involve laundered money.

The uniqueness of banks is clearly seen in their function of providing credit and liquidity. Fama (1985) states that by holding deposits (of borrowers) with them, banks are able to observe the movement of cash and also have access to private information of borrowers, banks are then able to factor in these vital information when processing the next loan. Bossone (2001) identified two important features of banks; first, banks are able to issue debt claims on themselves that are accepted
as credit by the public, second, banks are able to inject credit into the economy by giving out claims on their debts. In a nutshell, banks are able to create money through claims on their own debts and also inject the system with credit through lending, thereby making use of their deposit liabilities more as compared outside credit. Heffeman (1996) said that having lots of local branches, banks are able to offer differing services contrary to the other intermediaries who concentrate on only specific areas. According to Goodfriend (1991), a bank’s ability to offer credit to entities and individuals, sell stocks, pay interest to savers, receive credit from the central bank, among others distinguishes banks from other intermediaries. In summary banks are classified as risk managers; they evaluate and accept risk. Liquidity risks, interest risks, credit risks, among others are some of the more common risks banks assume and assess. Traditionally, risk management focused on only the management of interest and liquidity risks while a specified unit handles the credit aspect (Heffernan, 1996). Other than the financial intermediary role played by banks, they are also crucial in the activities of most economies. A survey undertaken by Levine (1997) revealed that economic growth is affected by financial intermediation. Demirguc-Kunt and Huizinga (1999), revealed that financial intermediation crucially affects the returns to savings and return to investment. Regan and Zingales (1998), Levine (1997) mentioned that effective financial intermediation influences the economic growth of countries, whiles banks’ liquidity challenges leads to crisis which may have negative effects on the economy as a whole (Caprio and Klingebiel, 2003). The American Bankers Association added that banks alone contributed over half a trillion of Dollars in terms of taxes in Texas alone. In 2003, banks paid almost 200 million Dollars in salary terms to over 2.1 million employees in the US.
According to the association, the development of various communities through charitable causes is undertaken by banks (American Bankers Association, 2014). According to World Bank Report (2012) the banking sector provided up to 27.74% of Ghana’s domestic credit in 2011. This confirms that banks play an integral role in the economic success of any economy.

2.5. Concept of Performance

Organizational performance encompasses how the real output of an entity is compared against its budgeted output. According to Cascio (2006), as cited in Awal and Saad (2013), performance is the level of achievement of the mission at work place. Different researchers have varied thoughts about performance. Most researchers used the term performance to express the variance between actual productivity and the standard set (Stannack, 1996). According to Richardo and Wade (2001), the success of entities displays high return on equity, this however depends on the system of employees’ management performance established. Harker and Zenios (1998) stated that the performance of financial entities are indicated financially by a number of ratios. How an entity is able to be competitive, by maintaining its presence in the market is also deemed performance (Niculescu and Lavalette, 1999). Contributing on bank performance, Rengasmy (2012) defined bank performance as the “reflection of the way in which the resources of a bank are used in a form which enables it to achieve its objectives”. The term “bank performance” according to him means the use of a set of standards which portrays the bank’s current status and the extent to which it can fulfill its goals.
2.6. Means of Evaluating Bank Performance

There are many ways in killing a cat. Like the old adage, there are many means/techniques in measuring the performance of a given entity of which banks are not different. Performance evaluation is the monitoring of budgets or targets against actual results to establish how well the business and its employees are functioning. The importance of evaluating performance has resulted in the evolution of various techniques of performance measurement. Chenhall (2005) suggested that performance of an organization can be measured either by financial, non-financial or both means.

- Financial, Non-Financial and Balanced Scorecard

Kaplan and Norton (1996) came out with financial measuring technique, Non-financial performance technique and the Balanced Scorecard Technique as means of evaluating performance. They stated that since financial and non-financial techniques have their inherent weaknesses, the balanced scorecard (which is a combination of both financial and non-financial techniques) should be relied upon since the balanced scorecard technique thrives where the earlier mentioned techniques failed. Users of this means must however bear in mind that it involves a number of non-financial performance techniques and also moves away from the profit reliance and other financial techniques even though it may involve a huge number of calculations.

- CAMELS Rating System

This method came up and was put to use in the United States of America to enable them assess the state of finance of the banks (Kaya, 2001 as cited in Ostorul, 2011). The CAMELS rating system could be traced to the late 1970s and it is
made up of five parts, namely C- Capital adequacy, A- Asset quality, M-
Management soundness, E- Earnings and profitability, L-Liquidity and S-
Sensitivity (Cole&Gunther, 1998 and Barr et al, 2002 as cited in Khoury et al,
2018). According to Collier et al (2003), as cited in Khoury et al (2018), the
ratings ranges from 1 to 5, 1 being the best and 5 the worst.

- **Uniform Bank Performance Report (UBPR)**
  Additionally, there is the Uniform Bank Performance Report (UBPR). It helps in
  measuring the liquidity, capital and earning adequacy as well as other factors that
could influence the stability of banks. The Federal Financial Institutions
Examination Council describes the UBPR as an analytical tool created for
managerial purposes and it is used for supervising and evaluation. It shows the
impact of managerial decisions economically on the financial position of the
banks. The UBP Report is a helping tool for examining the earnings adequacy,
capital, liquidity, management and asset liability as well as growth management
(Philips, 2012).

- **Financial Ratios**
  Financial ratios are techniques adopted to examine the relative efficacy of entities
by undertaking computations on the items present in the financial statements
(Ingram, 2019). Financial ratios are utilized for different purposes including the
ability of an entity to pay its debt, and assessing the value of the entity (Barnes,
1987). According to Barnes (1987), financial ratios are a preferred means of
assessment because they could be adjusted to enhance comparison among firms.
Financial ratios are broadly used mainly to compute the profitability and financial
state of a bank or firm. The firm has many stakeholders, like the owners,
management, employees, customers, suppliers, competitors and academics, each having their views in applying financial statement analysis in their evaluations. Accountants and other experts use financial ratios, for instance, to forecast the future success of companies, while the researchers' chief aim has been to project models using these ratios (Sarkodie et al, 2015). Okyinyi (2012) in his studies revealed that banks in Kenya seem to be earning much higher returns despite being in the same environment. Sarpong et al (2014) in their quest to assess the performance of banks found that all the banks maintained sufficient capitalization but were among the highest in terms asset deterioration in Sub-Saharan Africa. Sarkodie et al (2015) urged micro finance institutions to pay particular attention to their current, acid test and debt ratios. Hossan and Habib (2010) after their studies found out that Beximco Pharmaceutical Company Limited was the best performing entity.

A study by Naser (2013) seeking to find out if financial ratios could reliably examine the performance of banks in Bahrain revealed that there is a relation between asset management and value of equity shares. The study also revealed that financial ratios could predict the future of banks (Sarkodie et al, 2015). Finch (2015) mentioned that financial ratios are one of the frequently used analytical tools for managerial decision making. Financial ratios compare different numbers from the financial statements of a firm so that data from its performance could be ascertained. Its explanation, more than its computation, makes financial ratios a more important tool for managers. Users must however note that results are limited by the fact that the analysis is based on historical financial records (Sarkodie et al, 2015). Gilman (1925) raised the following concerns about ratio analysis (a) ratios are not a natural measure for judging the performance since
companies are able to manipulate them (b) ratios easily affect the mind of users and hide the actual position (c) ratios swing widely thereby affecting its dependability. Fitzpatrick (1932) was able to predict the failure of firms with accuracy, when he used ratios to analyze 120 failed firms. While other ratios showed some prediction power, three of the thirteen ratios he used for the analysis were precisely accurate. Rasmer and Foster (1931) established that successful firms employ higher number of ratios than unsuccessful firms through the use of eleven financial ratios. This was a vital contribution in the evaluation of the usefulness of ratios. Using ratios to evaluate performance of entities is a form of fundamental analysis that combines the various financial statements of firms, analyze them, as well as compare the results of the analysis to those of others within a given industry. Using financial ratios, interested stakeholders can take relevant decisions thereon (Hossan and Habib, 2010 and Anjum, 2011).

Moore and Atkinson (1961) revealed that ratio analysis to an extent determines the borrowing capacity of entities by stating that the capacity to pay and financial ratios are related. Sorter and Becker (1964) who evaluated the link between psychological model and corporate personality of financial ratios, stated that long-established entities maintain greater liquidity and solvency ratios. Beaver (1967), who also reviewed the prediction power of ratio analysis, revealed that ratios are able to predict failure as early as five years before the collapse. Techniques used in this review were more substantial than earlier studies and also fund statement data was used in the calculation of the ratios. This study was the foundation on which future research on ratio analysis was to be built. Gombola and Ketz (1983) showed that profitability ratios and cash flow ratios produce differing information, and that the fund and income statements are
produced for different purposes. In other words both ratios gave important as well as different information from one another (Sarkodie et al, 2015).

Financial ratios measure various facets of the bank or company and they play important role in analyzing the financial statements of these companies. The financial ratios are grouped according the particular facet of the company the ratio is deemed to measure. While liquidity ratios focus on the ability of the firm to meet its obligations timely, activity ratios tend to describe the relationship between the firms’ sales level and the assets needed to maintain the firms’ operations. The firm’s ability to repay its long term debt is measured by debt ratios while the firm’s profitability is evaluated by profitability ratios. Market ratios on the other hand come to mind when the return on investment for shareholders, and the relationship between return and the value of an investment in company’s shares is being considered (Sarkodie et al, 2015). Financial statement analysis using financial ratios is the most crucial and oldest for entity performance examination. It has since long ago been used to study the positions of companies’ terms of finance and credit, this method of analysis is based on examination of the entity’s financial statement (Alrafadi and Yusuf, 2011). Tofeq (1997) was however quick to add that the mere fact that a number appears on the financial statement of a firm does not make it important unless it is compared to another number. According to Tofeeq (1997), a huge number of financial ratios can be applied when analyzing the financial and credit positions of companies. The ratio chosen for such analysis is based on the operations of the firm and the reason for the evaluation. Ross et al (2007) were of the opinion that majority of researchers divide the financial ratios into four main groups; Liquidity ratios shows the firm’s ability to pay its debt in the short term. Activity
ratios indicate how quickly entities are able to convert their accounts sales or cash. Debt ratios reveal how organizations are judiciously putting other people’s funds (that is borrowed monies) to use. Profitability ratios on the other hand contain several measures in weighing how successful firms are in making money (Lasher, 2005). Adding to the unlimited number of ratios available, Salmi et al (1990) added market ratios, and cash flow ratios.

- **Importance of Financial Ratios**

  Financial ratios are crucial techniques for analysis (financial). According to Lermach (2003), the following are some of the benefits that financial ratios possess;
  
a) They are used to measure performance and set performance standards.
  
b) They allow parties outside the organization to assess the creditworthiness of the organization.
  
c) They allow firms to know their strengths and weaknesses and help these firms to focus on improving these identified weaknesses.
  
d) Contributing to the financial ratios importance, Ingram (2019) added that financial ratios provide a yardstick with which institutions could be compared. According to him ratios are able to place firms at a relative level ground at which they could be compared.

- **Shortfalls of Financial Ratios**

  In his work Lermach (2003) also identified shortfalls associated with using financial ratios as a tool for performance analysis;
  
i. There is no acceptable law or rule as to what the right number of ratios is.
ii. The accuracy of comparability among firms using ratios is low as firms may be using different accounting practices.

iii. Ratios may only provide indications of the past since they are applied on the financial statements which are prepared on historical accounting records.

iv. Arslan and Ergec (2010), as cited in Ostorul (2011), argued that the sheer number of ratios cause discouraging and not consistent results making them unsuitable for measuring the overall performance of organizations despite the fact that each ratio relates to a specific aspect of activities of these organizations.

v. Ratios are also criticized for showing just the level of efficiency and not being able detect the sources of inefficiencies (Daley & Matthews, 2009 as cited in Ostorul, 2011).
CHAPTER THREE
METHODOLOGY

3.1. Introduction
This chapter focuses on the research design and type, a brief discussion on the population and sampling technique, as well as the data analysis. The formulae of the various ratios employed in this study are also revealed. At the tail end the selected banks are profiled.

3.2. Research Design
This research was fairly quantitative as it made use of numbers. The financial ratios analysis technique were employed in evaluating the overall performance of the selected banks’ profitability, liquidity and leverage positions.

3.3. Data Collection
Data used in this study was secondary in nature. The audited annual financial statements of the selected banks from 2013 to 2018 as the six-year period is enough for any trend regarding the performance of the selected banks to be established.

3.4. Population and Sampling
From a population of 23 banks, the researcher used a non-probability sampling method in selecting banks for this study. Fidelity Bank Limited (FBL), Cal Bank Limited, Agricultural Development Bank (ADB) and GCB Bank Limited were purposively sampled. Since the beginning of the Bank of Ghana’s “clean up” exercise of the banking sector, almost all the banks whose licenses have been
revoked were domestically controlled. The four banks were chosen to find out whether this trend was likely to continue, since the four banks are also domestically controlled.

3.5. Data Analysis

The data collected was analyzed using financial ratios. Considering the research objectives, ten ratios falling under three major categories of financial ratios were applied. The analysis considered six of the most recent financial statements published by the sampled banks. Additionally, trend analysis was used. In the data presentation, tables were utilized. The ratios used, their formulae, and interpretations are below;

3.5.1. Liquidity Ratios

In assessing the liquidity positions of the selected banks, liquidity ratios were used. Liquidity ratios measure a firm’s ability of retiring its short term obligations with its current assets. Though the ideal ratio depends to some extent the type of business, generally, a ratio of 2:1 (that is 200%) is considered optimal. This means that for every GH₵1.00 that a firm owes in current liabilities, it has GH₵2.00 worth of current assets which can pay off the liabilities and still have reserves to keep the business going. While a lower ratio means the firm is unable to pay its short term bills on time, a higher ratio means the firm has idle funds that could be put to better use. Specifically, while a quick ratio of 1:1 (100%) is considered ideal, a cash ratio of 0.5:1 (50%) is considered optimal. For the purpose of this study three liquidity ratios were considered, namely Current Ratio,
Quick Ratio, and Cash Ratio. Their mathematical representations as used in this study are represented below;

- **Current Ratio** = \[(\text{Current Assets}/\text{Current Liabilities}) \times 100\]
- **Quick Ratio** = \[(\text{cash & cash equivalents } + \text{ marketable securities } + \text{ receivables}/\text{current liabilities}) \times 100\]
- **Cash Ratio** = \[(\text{cash & cash equivalents } + \text{ marketable securities}/\text{current liabilities}) \times 100\]

### 3.5.2. Leverage Ratios

Leverage ratios were utilized to find out the solvency of firms. These ratios measure the extent to which firms use debt as part of their operations. Optimally, leverage ratios should be 0.21:1 (that is 21%) as stated by Barth and Miller (2017). This means that firms’ capital of GHC100.00 should consist of at most GHC21.00 debt. The lower it is, the better for the business. A debt to equity ratio of 1.5:1 (150%) or lower according to Maverick (2019) is favorable whiles anything higher is considered less favorable. Also, a long term to capital ratio of 0.5:1 (50%) is considered ideal as opined by Nguyen (2018). This study considered three leverage ratios in its quest to determine the solvency of the banks adopted for this study. The adopted leverage ratios are represented mathematically below;

- **Debt To Assets Ratio** = \[(\text{total liabilities}/\text{total assets}) \times 100\]
- **Long Term Debt To Capital Ratio** = \[\text{[long term liabilities}/(\text{long term liabilities}+ \text{shareholders’ equity})] \times 100\]
- **Debt To Equity Ratio** = \[(\text{total liabilities}/\text{shareholders’ equity}) \times 100\]
3.5.3. **Profitability Ratios**

Profitability ratios were used to measure the ability of firms to generate profit on its resources during a period of time. They show how well a firm is utilizing it assets. While there are established benchmarks for some of the ratios, according to Sarpong et al (2015), other ratios do not have any standard, instead the performance of individual firms are compared to that of the industry or firms of similar size. This means that there is generally no ideal ratio as far as some financial ratios are concerned. For this reason, in its quest to find out how profitable the banks are, the researcher compared the individual banks against each other and that of the industry. The higher a bank’s ratio is the more profitable the bank is. This study adopted four of these ratios, which are represented by the following formulas;

- Gross Profit Margin Ratio = \((\text{gross profit/sales}) \times 100\)
- Return On Assets Ratio = \((\text{net profit/total assets}) \times 100\)
- Return On Equity Ratio = \((\text{net profit/shareholders’ equity}) \times 100\)
- Basic Earning Power Ratio = \((\text{earnings before interest and tax/total assets}) \times 100\)

3.6. **Profiles of selected banks**

The profiles of the selected banks are outlined below;

3.6.1. **GCB Bank Limited**

Formerly Ghana Commercial Bank, it is the second largest bank in Ghana in terms of total assets and net profit. According to Bank of Ghana statistics, it is the largest indigenous financial institution in Ghana. It was founded in 1953 as
the bank of Gold Coast with the aim serving Ghanaians who could not obtain finance from the foreign banks. It was carved out of the Bank of Gold Coast to focus commercial banking activities while its twin sister, the Bank of Ghana, concentrated on central banking duties. In 1996 it was listed on the Ghana Stock Exchange with over twenty-one investors in the bank’s stock as at December 2016. As at December 2016, the bank had 161 network branches across the 10 regions of Ghana. Information obtained from the bank’s website (www.gcbbank.com.gh) indicates that the bank has the goal of becoming the leading bank in all the markets in which it operates. Its mission is to provide first class banking solutions to its customers and value for its stakeholders.

3.6.2. Agricultural Development Bank of Ghana

Commonly known as ADB, it is the first development finance institution established by the Government of Ghana. It was established by an Act of Parliament in 1965 to meet the banking needs of the agricultural sector while still remaining profitable. Wikipedia states that before its current name ADB was known as the Agricultural Credit and Co-operative Bank. The name change was warranted when the Parliamentary Statute was amended to allow the bank undertake full commercial banking operations in 1970. According the bank’s website (www.agricbank.com), it offers full range of banking products and services in consumer, corporate, parastatal, SME, Agric, trade and E-banking. Its business is universal with a development aim on agriculture and more. The bank was successfully listed on the Ghana Stock Exchange in December 2016. It has offices in all the political regions across the country. The bank aims to be among the top tier preferred banks in Ghana, balancing market orientation with a
development focus on agriculture and more. As its mission, the bank is committed to growing a strong customer-centric bank, providing profitable and diversified financial services for a sustained contribution to agriculture development and wealth creation.

3.6.3. Fidelity Bank Ghana Limited

Information gathered from the bank’s website indicates that fidelity bank obtained its universal banking operating license from the Bank of Ghana in June 2016. It is currently one of the twenty-three licensed commercial banks in Ghana. It is owned by Ghanaian individuals. Its head office is at the Ridge Towers in Accra and it operates at seventy-four additional offices within the country. Additional information obtained from its website (www.fidelitybank.com.gh) has it that the bank has a fully owned subsidiary, Fidelity Asia Bank Limited, in Labuan-Malaysia since 2012. It is currently a Tier one bank committed to becoming a top three bank in Ghana with international standards. It has the vision of becoming a world class financial institution that provides superior returns for all of its stakeholders.

3.6.4. Cal Bank Ghana Limited

From the bank’s website (www.calbank.net), the bank was previously known as Continental Acceptances Limited and Cal Merchant Bank, and commenced operations in 1990. It however received its Universal Banking License in 2004. It provides a broad range of banking and financial solutions to large corporations, small and medium sized enterprises through a network of 29 branches and over 100 ATMs across the country. The bank envisages being one of the main
financial services group creating sustainable value for its stakeholders. As its mission, the bank aspires to be a preferred financial institution through the delivery of quality services, using innovative technology and skilled personnel to achieve sustainable growth and enhance stakeholder value.
CHAPTER FOUR
DATA PRESENTATION, ANALYSIS AND DISCUSSIONS

4.1. Introduction
This chapter will analyze and present findings discovered during the ratio application. The findings are presented with the research objectives in mind. The findings are discussed with the aim of answering the research questions.

4.2. Findings

4.2.1. Liquidity Ratios

➤ Current Ratio

The current ratio revealed how the banks’ current assets were able to cover their current liabilities. The table below shows the current ratio of the banks for the various years.

Table 1: Current Ratio

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>FBL</td>
<td>52.12</td>
<td>56.23</td>
<td>66.07</td>
<td>73.30</td>
<td>235.24</td>
<td>75.95</td>
<td>93.15</td>
</tr>
<tr>
<td>CAL BANK</td>
<td>67.83</td>
<td>21.56</td>
<td>80.69</td>
<td>104.90</td>
<td>97.30</td>
<td>98.65</td>
<td>78.49</td>
</tr>
<tr>
<td>ADB</td>
<td>74.76</td>
<td>71.94</td>
<td>66.29</td>
<td>90.99</td>
<td>91.66</td>
<td>92.77</td>
<td>81.40</td>
</tr>
<tr>
<td>GCB BANK</td>
<td>58.29</td>
<td>100.59</td>
<td>107.53</td>
<td>62.93</td>
<td>65.12</td>
<td>53.36</td>
<td>74.64</td>
</tr>
<tr>
<td>SELECTED</td>
<td>63.25</td>
<td>62.58</td>
<td>80.15</td>
<td>83.03</td>
<td>122.33</td>
<td>80.18</td>
<td>81.92</td>
</tr>
<tr>
<td>BANKS AVG</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Source: Annual financial reports of selected banks

None of the banks obtained the optimal ratio of 200%. In 2014 however, Fidelity Bank Ltd 235.24% was above the optimal ratio. This indicates the availability of
idle funds which can be invested to generate additional revenue. On the average, the banks ratios were below the optimal. The banks were unable to retire their current liabilities with their available current assets. The banks are there likely to face liquidity challenges should their creditors demand immediate settlement.

➢ Quick Ratio

Also known as acid test ratio, this ratio measures the ability of the banks to retire their current liabilities relying on their cash and near cash assets. The table below reveals the quick ratios of the selected banks;

Table 2: Quick Ratio

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</thead>
<tbody>
<tr>
<td>FBL</td>
<td>84.25</td>
<td>54.39</td>
<td>63.68</td>
<td>65.39</td>
<td>114.81</td>
<td>37.23</td>
<td>69.96</td>
</tr>
<tr>
<td>CAL BANK</td>
<td>39.15</td>
<td>50.75</td>
<td>38.04</td>
<td>48.29</td>
<td>57.84</td>
<td>41.38</td>
<td>45.91</td>
</tr>
<tr>
<td>ADB</td>
<td>76.97</td>
<td>63.05</td>
<td>63.46</td>
<td>40.33</td>
<td>36.59</td>
<td>26.33</td>
<td>51.12</td>
</tr>
<tr>
<td>GCB BANK</td>
<td>75.51</td>
<td>73.82</td>
<td>78.16</td>
<td>51.94</td>
<td>56.91</td>
<td>58.34</td>
<td>65.78</td>
</tr>
<tr>
<td>SELECTED BANKS</td>
<td>68.97</td>
<td>60.50</td>
<td>60.84</td>
<td>51.49</td>
<td>66.54</td>
<td>40.82</td>
<td>58.19</td>
</tr>
<tr>
<td>AVG</td>
<td></td>
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</tbody>
</table>

Source: Annual financial reports of selected banks

With 100% being the ideal, indications from the table above are that the banks were unable to meet the standard with the exception of Fidelity Bank ltd.’s 114.81% in 2014. The banks total average of 58.19% was way below the expected. The individual ratios were testament this fact as no bank attained the standard 100% ratio on the average. The best they could attain on the average was 69.96% by fidelity bank ltd.
Cash Ratio

Diving more into how liquid the banks are, the cash ratio measures how the banks will be able to clear their current liabilities using their most liquid of assets, cash.

The higher the ratio the more liquid a bank is seen to be.

### Table 3: Cash Ratio

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>FBL</td>
<td>84.25</td>
<td>54.39</td>
<td>63.68</td>
<td>45.87</td>
<td>70.19</td>
<td>29.12</td>
<td>57.92</td>
</tr>
<tr>
<td>CAL</td>
<td>39.15</td>
<td>50.75</td>
<td>38.04</td>
<td>19.14</td>
<td>30.68</td>
<td>31.77</td>
<td>34.92</td>
</tr>
<tr>
<td>ADB</td>
<td>64.41</td>
<td>63.05</td>
<td>63.46</td>
<td>40.33</td>
<td>36.59</td>
<td>26.33</td>
<td>49.03</td>
</tr>
<tr>
<td>GCB</td>
<td>75.51</td>
<td>73.82</td>
<td>78.16</td>
<td>51.94</td>
<td>56.91</td>
<td>58.34</td>
<td>65.78</td>
</tr>
<tr>
<td>SELECTED BANKS AVG</td>
<td>65.83</td>
<td>60.50</td>
<td>60.84</td>
<td>39.32</td>
<td>48.59</td>
<td>36.39</td>
<td>51.91</td>
</tr>
</tbody>
</table>

Source: Annual financial reports of selected banks

With the ideal ratio being 50%, Fidelity bank was highest with 84.25% in 2018 (as depicted by table3), this was higher than the selected banks average of 65.83%. On the overall average (6 years), GCB bank led the way attaining 65.78%. Cal bank and ADB were the two banks who failed to achieve this ratio. The banks' cash ratios were similar to that of the quick ratios because most of the banks did not have receivables among their assets.
4.2.2. Leverage Ratios

In ascertaining the leverage proportions of the various banks, leverage ratios were used. These ratios examine the amount of debt that the various banks have employed as part their capital structure. Three of these ratios are used to assess the selected banks in this study. Tables 4 to 6 depict the results obtained by the researcher.

➢ Debt to Assets Ratio

This ratio assesses the percentage of debt the banks used in financing their assets.

**Table 4: Debt to Assets Ratio**

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</thead>
<tbody>
<tr>
<td>FBL</td>
<td>89.94</td>
<td>89.93</td>
<td>88.22</td>
<td>87.48</td>
<td>87.47</td>
<td>90.79</td>
<td>88.97</td>
</tr>
<tr>
<td>CAL BANK</td>
<td>85.62</td>
<td>84.09</td>
<td>85.64</td>
<td>84.56</td>
<td>85.29</td>
<td>81.65</td>
<td>84.48</td>
</tr>
<tr>
<td>ADB</td>
<td>82.22</td>
<td>86.49</td>
<td>85.02</td>
<td>84.40</td>
<td>84.06</td>
<td>82.67</td>
<td>84.14</td>
</tr>
<tr>
<td>GCB BANK</td>
<td>86.48</td>
<td>87.39</td>
<td>82.55</td>
<td>81.72</td>
<td>83.81</td>
<td>86.31</td>
<td>84.71</td>
</tr>
<tr>
<td>SELECTED BANKS AVG</td>
<td>86.07</td>
<td>86.98</td>
<td>85.36</td>
<td>84.54</td>
<td>85.16</td>
<td>85.36</td>
<td>85.58</td>
</tr>
</tbody>
</table>

Source: Annual financial reports of selected banks

Banks on the average during the six years used up to 85.58% debt in financing their assets. On the average FBL employed 88.97% debt for their assets, GCB bank followed closely with 84.48% whiles ADB and Cal bank were rightly behind with 84.14% and 84.48% respectively. These ratios are way above the required 21% expected. This indicates that the banks have taken on more debts in financing their assets than expected.
Long Term Debt to Capital Ratio

This ratio measures the proportion of long term debt in the banks’ capitalization. The results of are displayed in the table below;

Table 5: Long Term Debt to Capital Ratio

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>FBL</td>
<td>15.55</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>81.26</td>
<td>0.32</td>
<td>16.18</td>
</tr>
<tr>
<td>CAL BANK</td>
<td>8.00</td>
<td>5.47</td>
<td>9.79</td>
<td>8.57</td>
<td>7.11</td>
<td>7.27</td>
<td>7.70</td>
</tr>
<tr>
<td>ADB</td>
<td>13.18</td>
<td>1.68</td>
<td>6.31</td>
<td>3.39</td>
<td>2.70</td>
<td>1.30</td>
<td>4.76</td>
</tr>
<tr>
<td>GCB BANK</td>
<td>26.82</td>
<td>25.30</td>
<td>1.27</td>
<td>10.16</td>
<td>22.74</td>
<td>7.10</td>
<td>15.57</td>
</tr>
<tr>
<td>SELECTED</td>
<td>15.89</td>
<td>10.82</td>
<td>5.79</td>
<td>7.37</td>
<td>28.45</td>
<td>4.00</td>
<td>15.10</td>
</tr>
</tbody>
</table>

Source: Annual financial reports of selected banks

The analysis as represented by the table above reveals that each of the four banks performed well as they all attained less than the benchmark 50%. ADB however performed better among the banks with its 4.76% average ratio. Cal bank followed with 7.7%, GCB bank was next with 15.57% whiles Fidelity bank attained 16.18%. This means that ADB uses the least long term debt as far as the bank’s capital is concerned, in every GH¢1.00 capital the bank employs GH¢0.0476 in long term debt. This is better than Cal bank’s GH¢0.077, GCB bank’s GH¢0.1557, Fidelity bank’s GH¢0.1618, and the banks’ average of GH¢0.1510.
Debt to Equity Ratio

This ratio measures the relative proportions of debt and equity as they are employed in the financing of the firm’s activities. The table below illustrates the proportions of debt and equity of the respective banks.

Table 6: Debt to Equity Ratio

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>FBL</td>
<td>894.00</td>
<td>892.96</td>
<td>748.96</td>
<td>698.84</td>
<td>698.36</td>
<td>985.28</td>
<td>819.73</td>
</tr>
<tr>
<td>CAL</td>
<td>595.28</td>
<td>528.38</td>
<td>596.60</td>
<td>547.64</td>
<td>579.63</td>
<td>444.90</td>
<td>548.74</td>
</tr>
<tr>
<td>ADB</td>
<td>462.35</td>
<td>640.09</td>
<td>567.47</td>
<td>557.85</td>
<td>527.30</td>
<td>477.15</td>
<td>538.70</td>
</tr>
<tr>
<td>GCB</td>
<td>639.50</td>
<td>692.90</td>
<td>473.16</td>
<td>445.59</td>
<td>517.82</td>
<td>630.55</td>
<td>566.59</td>
</tr>
<tr>
<td>SELECTED</td>
<td>647.78</td>
<td>688.58</td>
<td>596.55</td>
<td>562.48</td>
<td>580.78</td>
<td>634.47</td>
<td>618.44</td>
</tr>
</tbody>
</table>

Source: Annual financial reports of selected banks

The above table indicates that the banks make more use of debt as compared to equity in their operations. On the average FBL’s debt employed is 7x that of its equity, Cal bank, ADB and GCB bank have a little above 5x of their respective equity funds. These ratios are significantly above the 150% which is an indication of the banks utilization of more debts as compared to equity. Even though none of the banks attained the standard 150%, ADB’s 538.7% was lower than Cal bank’s 548.74%, GCB bank’s 566.59%, Fidelity bank’s 819.73%, and the industry’s 618.44%. THIS Means that ADB employs GH¢5.38 debt against the bank’s GH¢1.00 equity, Cal bank GH¢5.48 debt against GH¢1.00 equity, GCB bank GH¢5.66 debt against GH¢1.00 equity, and Fidelity bank GH¢8.19 debt against GH¢1.00 equity.
4.2.3. Profitability Ratios

Profitability ratios measure the effectiveness of firms in revenue generation. The ratios are concerned with yield that firms make on their invested funds; they are very popular (McLaney, 2009). These ratios examine the performance of firms in terms of their ability to generate revenue from their operations. For the purpose of this study four of these ratios are considered. Calculated results by the researcher are presented in tables 7 to 10.

- Gross Profit Margin Ratio

Gross profit margin ratio measures the relationship between gross profit and sales.

The following table is the gross profit ratio of the selected banks:

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<tr>
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</thead>
<tbody>
<tr>
<td>FBL</td>
<td>64.52</td>
<td>63.70</td>
<td>57.48</td>
<td>60.61</td>
<td>53.68</td>
<td>46.78</td>
<td>57.80</td>
</tr>
<tr>
<td>CAL BANK</td>
<td>54.53</td>
<td>52.54</td>
<td>45.07</td>
<td>53.26</td>
<td>51.85</td>
<td>53.89</td>
<td>51.86</td>
</tr>
<tr>
<td>ADB</td>
<td>55.43</td>
<td>59.44</td>
<td>53.82</td>
<td>57.38</td>
<td>67.42</td>
<td>75.86</td>
<td>61.56</td>
</tr>
<tr>
<td>GCB BANK</td>
<td>71.36</td>
<td>75.37</td>
<td>86.87</td>
<td>87.18</td>
<td>86.54</td>
<td>83.32</td>
<td>81.77</td>
</tr>
<tr>
<td>SELECTED BANKS AVG</td>
<td>61.46</td>
<td>62.76</td>
<td>60.81</td>
<td>64.61</td>
<td>64.87</td>
<td>64.96</td>
<td>63.25</td>
</tr>
</tbody>
</table>

Source: Annual financial reports of selected banks

The table above reveals that GCB bank’s average ratio of 81.77% was the highest gross profit margin with ADB (61.56%), FBL (57.80%) whiles Cal bank had the least margin with 51.86%. The performance of the various banks as far as this ratio is concerned was not consistent as it was an up and down sort of. This means that GCB Bank’s profit generation from sales is better that that of the other banks,
it is even higher than the banks’ average. For every GH¢1.00 of sales, GCB bank generates an average GH¢0.81 in gross profit, which is higher than banks’ average of GH¢0.63.

➢ Return on Assets Ratio

This ratio evaluates the contributions of the various banks’ assets in the net profit made during the financial year. Ahmed (2009), as cited in Kumbirai and Webb (2010), stated that this ratio depicts the ability of management in acquiring deposits affordably and investing them in high yielding investments. Below are the realized ratios for the respective banks;

**Table 8: Return on Assets Ratio**

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</thead>
<tbody>
<tr>
<td>FBL</td>
<td>2.17</td>
<td>1.90</td>
<td>0.67</td>
<td>3.71</td>
<td>2.47</td>
<td>2.90</td>
<td>2.30</td>
</tr>
<tr>
<td>CAL BANK</td>
<td>2.63</td>
<td>3.61</td>
<td>1.47</td>
<td>4.94</td>
<td>5.27</td>
<td>5.98</td>
<td>3.98</td>
</tr>
<tr>
<td>ADB</td>
<td>0.25</td>
<td>0.68</td>
<td>(2.31)</td>
<td>(3.70)</td>
<td>2.22</td>
<td>4.97</td>
<td>0.35</td>
</tr>
<tr>
<td>GCB BANK</td>
<td>3.08</td>
<td>2.65</td>
<td>4.83</td>
<td>5.47</td>
<td>6.62</td>
<td>6.73</td>
<td>4.90</td>
</tr>
<tr>
<td>SELECTED</td>
<td>2.03</td>
<td>2.21</td>
<td>1.17</td>
<td>2.61</td>
<td>4.15</td>
<td>5.15</td>
<td>2.88</td>
</tr>
</tbody>
</table>

**Source:** Annual financial reports of selected banks

The assets return generation was generally low as indicated by the banks’ averages. As indicated by the above table GCB bank led the way with an average generation of 4.9%, Cal bank followed with 3.98%, with Fidelity bank recording 2.30% whiles ADB had the least average return on assets rate with just 0.35%.

The implication is that averagely whiles GCB bank makes GH¢0.49 net profit on every GH¢1.00 worth of assets, Cal bank makes GH¢0.39, Fidelity bank makes
GH₵0.23, with ADB only making GH₵0.035. Management of GCB bank made judicious use of the bank’s assets more than the others and it remained more profitable than the industry.

➢ Return on Equity

Similar to the return on assets, return on equity assesses the contribution of equity funds in the net profit generation.

**Table 9: Return on Equity**

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</thead>
<tbody>
<tr>
<td>FBL</td>
<td>21.59</td>
<td>18.82</td>
<td>5.66</td>
<td>29.60</td>
<td>19.69</td>
<td>31.43</td>
<td>21.13</td>
</tr>
<tr>
<td>CAL</td>
<td>18.28</td>
<td>22.68</td>
<td>10.21</td>
<td>32.00</td>
<td>35.83</td>
<td>32.59</td>
<td>25.27</td>
</tr>
<tr>
<td>ADB</td>
<td>1.41</td>
<td>5.06</td>
<td>(15.40)</td>
<td>(24.46)</td>
<td>13.92</td>
<td>28.69</td>
<td>1.54</td>
</tr>
<tr>
<td>GCB</td>
<td>22.74</td>
<td>21.00</td>
<td>27.67</td>
<td>29.82</td>
<td>40.93</td>
<td>49.18</td>
<td>31.89</td>
</tr>
<tr>
<td>SELECTED</td>
<td>16.01</td>
<td>16.89</td>
<td>7.04</td>
<td>16.74</td>
<td>27.59</td>
<td>35.47</td>
<td>19.96</td>
</tr>
<tr>
<td>BANKS AVG</td>
<td></td>
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</tbody>
</table>

Source: Annual financial reports of selected banks

Equity funds in GCB bank generated most in the six year analysis in terms of the percentages with an average return rate of 31.89%, Cal bank’s equity had second most highest average with 25.27% whiles ADB had the least return rate among the four banks with an average rate of 1.54%. There were negative return rates in the equity funds of ADB during the 2015 and 2016 analysis with returns on equity as low as -24.46% and -15.40% respectively. Fidelity bank made the third most net profit among the four banks with its average return of 21.13%. GCB bank’s profit generation was higher than the industry in each of the six years of
the analysis. Cal bank and Fidelity bank also had higher net profit generation as compared that of the industry albeit below that of GCB bank.

- Basic Earning Power Ratio

The basic earning power of a firm indicates how the firm’s assets aids in the generation of the firm’s total earnings before taxes and interests are deducted.

Table 10 displays the various banks’ basic earning power ratios.

**Table 10: Basic Earning Power**

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</thead>
<tbody>
<tr>
<td>FBL</td>
<td>3.71</td>
<td>2.76</td>
<td>0.34</td>
<td>5.26</td>
<td>3.83</td>
<td>3.80</td>
<td>3.28</td>
</tr>
<tr>
<td>CAL BANK</td>
<td>4.11</td>
<td>5.18</td>
<td>0.47</td>
<td>6.58</td>
<td>7.31</td>
<td>8.16</td>
<td>5.30</td>
</tr>
<tr>
<td>ADB</td>
<td>0.95</td>
<td>1.34</td>
<td>(3.48)</td>
<td>(4.69)</td>
<td>1.61</td>
<td>5.18</td>
<td>0.15</td>
</tr>
<tr>
<td>GCB BANK</td>
<td>4.20</td>
<td>3.45</td>
<td>7.69</td>
<td>7.75</td>
<td>9.27</td>
<td>9.31</td>
<td>6.95</td>
</tr>
<tr>
<td>SELECTED</td>
<td>3.24</td>
<td>3.18</td>
<td>1.26</td>
<td>3.73</td>
<td>5.51</td>
<td>6.61</td>
<td>3.92</td>
</tr>
<tr>
<td>BANKS AVG</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Source: Annual financial reports of selected banks

Table 10 reveals that GCB bank’s assets contributed 9.31% toward the generation the bank’s total earnings before interest and tax in 2013, this however dropped to 3.45% in 2017. GCB Bank’s performance fell consistently from 2013 (9.31%) to 2017 (3.45%) and rose again in 2018 (4.20%). The highest any of the other banks could do was Cal bank in 2013 when the bank’s asset had 8.16% rate in the earnings before interest and tax generation. FBL’s basic earning power had been a topsy-turvy affair: the bank’s earning power rate rose from 3.80% in 2013 to 5.26% in 2015. This went down to as low as 0.34% in 2016 and rising ever since to 3.71% in 2018. ADB’s average earning power rate of 0.15% being the
least among the four banks. In 2015 and 2016 ADB’s earning rate was -4.69% and -3.48% respectively. This means that when it comes to how the banks utilize their assets to generate earnings before interests and taxes are effected, GCB bank was able to generate the most EBIT with a rate of 6.95%, Cal bank followed closely with 5.30%, Fidelity bank also following with 3.28%, whiles ADB was only able to raise 0.15%.

4.3. Discussion of Findings

The analysis above revealed trends that might be of interest to stakeholders about the four banks. The objective of the study was to find out the liquidity, leverage, and profitability of the four banks in particular and to some extent the banking sector as a whole.

- Liquidity

The selected banks seem to be not doing so well as far as banks’ liquidity is concerned. The banks on the average failed to keep the needed ratio, the overall liquidity was below the standard 200%. This might be as a result of the banks’ failure to keep enough assets in the form of non-fixed assets or the banks’ pleasure in keeping most of their debts in the form of short term debts. That is the banks either failed to keep enough of their assets in the non-fixed form or their borrowings were focused mostly on the money markets instead of the capital markets thereby resulting the illiquidity of the banks. Another reason might be that the banks are investing all their liquid funds with the view of earning additional returns. The Business and Financial Times Online also suggests that the illiquid nature of the banks may be as a result of the banks experiencing cash flow constraints, high fixed costs, and generating revenue that
are sensitive to economic recessions. With banks contributing more than GHC200 million in form of additional capital to the central bank, one would have expected that the banks liquidity would have been positively affected. Maybe the injected capital would be felt in subsequent years of the sector. The bank of Ghana’s Banking sector report (2019) posits a contrary outcome. The report states that the sector’s liquidity is adequate. The findings of Sumaila (2015) suggests that the banking sector of Ghana’s liquidity is above the global average. A press release by the sector’s regulator however suggests that sections of the sector are illiquid thereby to some extent agreeing with findings of this study.

- Solvency

Analysis of the solvency positions of the banks indicate that the banks are highly leveraged. In other words the banks took on more debts during the period of analysis in their operations. This might be the nature of the sector as almost all the banks analyzed seem to be heavily leveraged. Caprio and Kengebiel (1996) opines that insolvency of banks can be traced to the late 1970s. They added that the issue of solvency dates back in 33 A.D. This suggests that the leverage positions of the banks revealed is not new, earlier studies seem to go similar way. The bank of Ghana’s press release acknowledges the fact that some banks in the country are insolvent. According to Kapotwe (2018), at one point the governor of the Bank of Ghana described some of the banks as “deeply insolvent”.

- Profitability

Analysis of the banks’ audited financial statements revealed that the banks profit levels are averagely above the industry average. This means that the banks are profitable. According to Gyenti (2019), the Ghana banking sector remained
profitable with the industry seeing an 8% year on year growth in terms of the average operating revenue. The banking sector report (2019) posits that the banking sector’s profitability moderated, with growth reducing from 21.7% in 2017 to 1.5% in 2018. The decline, according to the report, is as a result of the general decline in interest rates, lower levels of loans, and borrowings. The Ghana Report (2019), posits that in spite of the challenges confronting the banking sector in Ghana, it remained profitable. Ebonyi-Amoah (2017), on his part however, states that the profitability of the banking sector in Ghana is generally low.
CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

Having analyzed, interpreted and presented data in the previous chapter, this chapter presents summary of the researcher’s findings, conclusions and recommendations.

5.2. Summary of Study

The study was to evaluate the performance of banks in Ghana by applying financial ratios on their audited financial statements from 2013 to 2018. The selected banks for this study were Fidelity Bank Ghana Limited, Cal Bank Limited, Agricultural Development Bank and GCB Bank Limited. The first chapter presented the state of Ghana’s banking sector. The improvements that has taken place since the introduction of the universal banking license, the problem statement, objectives of the study, its significance, and the organization of the study were all outlined in the first chapter.

In the second chapter, works undertaken by other researchers which were related in one way or the other were reviewed. The origin of banking, history of banking in Ghana, and the roles of banks were some of the literature considered. Chapter three saw the methodology adopted for this study outlined. Data collection, research design, data analysis were all outlined. Also, the selected banks for study were profiled. The forth chapter saw the presentation and analysis of data, and
discussion of findings. The fifth and final chapter of the study considered the summary of the study, conclusions and necessary recommendations.

Summary of major outcomes of the study include;

➢ **Liquidity Ratios**

In assessing the liquidity positions of the banks, three ratios were computed. Namely current ratio, quick ratio and cash ratio. The analysis revealed that the banks’ liquidity positions were low. Overall, Fidelity Bank did better in terms of the liquidity analysis, with GCB Bank following. Cal bank was the least liquid among the four banks per the analysis.

➢ **Leverage Ratios**

These ratios were considered in the researcher’s quest to find out the solvency positions of the banks. In so doing three of the leverage ratios were adopted, debt to assets ratio, long term debt to capital ratio and debt to equity ratio. The outcome was that the banking sector is highly leveraged. In all ADB was the least leveraged bank among the four banks.

➢ **Profitability Ratios**

In the quest to find out the profitability of the banks, four profitability ratios were employed. The gross profit margin ratio, return on assets, return on equity and basic earning power ratio. The analysis indicated the banking sector to be fairly profitable. Of the banks considered, GCB bank was the most profitable.
5.3. Conclusions

The liquidity ratios indicated that none of the banks was able to meet the acclaimed 2:1 ratio. Fidelity Bank Limited appear to be more liquid than the other banks as its ratios were relatively higher. The leverage ratios revealed that the banks are highly leveraged. The banks used a lot of debt in their operations during the years under review. This confirms the position of the regulator in its banking sector report (2019), which indicated that the banking sector’s borrowings had risen by 71% in 2018. Long term debts however constituted the minority in these borrowings. The position was further was reiterated during the debt to equity analysis of the banks. With increase in assets, one would have expected the profit levels of the banks to increase significantly if not proportionate to the assets growth. This was however not to be as the banks made just marginal improvements in their profitability levels despite the fact that their average profit levels were higher than the industry average.

General indications point Fidelity Bank limited to be the most liquid among the sampled banks despite the fact that it was not able to meet the expected 2:1 (200%) ratio. The leverage ratios revealed that all the banks were highly leveraged with ADB having the least ratios on the average notwithstanding the fact that its ratios were also on the high side. Thus ADB performed better in the leverage ratios. GCB Bank led the way in the profitability ratios, with Fidelity Bank Limited and Cal Bank closely following.
5.4. Recommendations

Having analyzed the banks performance over the past six years in the course of this study, the following recommendations are made;

1. To avert the problem of disappointing their clients, the banks should keep more liquid assets in order to meet their short term obligations as and when they may fall due. This is likely to raise the dwindling confidence that clients have in the financial sector.

2. The banks should slow down the rate of their borrowings. This will reduce the costs associated with them, thereby increasing their profits, and in the process boosting investors’ confidence. This is not however a suggestion for debts to be thrown out entirely as debts are necessary evils.

3. The banks should focus on improving their profitability levels so that more investors would be attracted. The banks can do this by reducing their lending rates for example, which will lead to more borrowers being attracted resulting in more interest income in the process.

4. Returns on the banks’ assets should be maximized by the banks seeking income generation avenues aside the lending rates. The banks can venture into investments to get additional income.

5. The banks can also resort to long term borrowings instead of the ever increasing short term funds. This will relieve them of the tendencies of keeping funds, which could have been invested idle, just to meet short term debts.
REFERENCES


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