KWAME NKRUMAH UNIVERSITY OF SCIENCE OF TECHNOLOGY,

KUMASI

COLLEGE OF HUMANITIES AND SOCIAL SCIENCES

SCHOOL OF BUSINESS

USING FINANCIAL RATIOS FOR ASSESSING THE PERFORMANCE OF NWABIAGYA RURAL BANK LIMITED AND AMENFIMAN RURAL BANK

BY

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A THESIS SUBMITTED TO THE DEPARTMENT OF ACCOUNTING AND FINANCE, SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF BACHELOR OF SCIENCE IN BUSINESS ADMINISTRATION

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DECLARATION

I hereby declare that this submission is my own work towards the award of the BSc and that, to the best of my knowledge, it contains no material previously by another person or any material which has been accepted for the award of any other degree of the University, except where due acknowledgement has been made in the text.

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DEDICATION

I dedicate this work to the glory of the Almighty God, love ones and friends for their profound protection, love and encouragement for making my dreams to the tertiary level a reality.

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ABSTRACT

The objective of this study is to help investors to continue with the decision made to invest in the bank, creditors to always transact business with the bank by always depositing their money because they have the motive that their money would be fully utilize to generate profit. To help find solutions to the research objectives, questions such as how can financial ratios be used to assess performance of a financial institution and what specific financial ratios are of importance to the assessment of an organization's performance were asked. Some of the limitations of the study include limited time, financial constraint, attitude of respondents and access to information. The study type is a descriptive and the research strategy used for the study is a case study. The financial statements of the bank were used to compute the categories of ratios, analyzed and presented. For the purpose of the study, financial statements from 2015-2017 were used to obtain data. Among the key findings the study revealed include; inconsistency in the performance of the bank under the profitability ratio, poor debtor collection policy under the activity ratio and the study showed that as the performance under current ratio for both banks were not liquid when compared with the standard current ratio; (iv) Odotobri Rural Bank Limited is highly burdened by debt expense from the calculation of interest cover ratio and (v) from the calculation of returns on equity, for every cedi invested by the shareholders, there is a profit yielded on it. It is recommended that much effort should be put in by management towards its performance to continue to have either constant or increase in their performance under the profitability ratio and also there should be a specific number of days set in which debtors should settle their debt. Moreover, the both banks should put their funds in investments that will yield good returns since the bank is not generating sufficient revenue to satisfy interest expenses and (iv) much effort should

be put by management to get better returns since there was return on every cedi invested by shareholder.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Although performance measurement systems can play a key role in communicating, evaluating, and rewarding the achievement of strategic objectives. One of the primary criticisms of performance measurement systems is that they are generally limited to financial indicators, thereby focusing the organization on past performance and encouraging a short term view of strategic objectives (e.g., Eccles, 1991; American Institute of Certified Public Accountants, 1994; Deloitte & Touche, 1994).

Rural Banks have undergone immense regulatory and technological changes since the attainment of constitutional democracy in 1992. Ghanaian rural banks are faced with increasing competition and rising costs as a result of regulatory requirements, financial and technological innovation, entry of large foreign banks and the proliferation of microfinance in the retail banking environment and challenges of the recent financial crisis .These changes had a spectacular effect on the performance of the rural banks (Kumbirai and Webb, 2010).The presentation of audited financial statements of rural banks to shareholders and other stakeholders, serves as the basis for analyzing the bank's performance (Yeboah, 2008). However, there are some weaknesses in the financial performance which cannot be ignored. These include declining trends in operational liquidity, profitability and Return on Equity (ROE); high cost of operations; and instances of low recovery of loans; and low asset utilization. To stimulate financial growth, the banks should intensify savings mobilization; reverse the declining trend of Return on Earnings (ROE) by improving upon net profit margin, asset turnover and financial leverage; enhance efficiency in cost management; strengthen credit management and internal control; and take steps to mobilize shares and increase equity capital and fast track management decision to replace the existing SCS banking system with emerging systems. The financial performance of financial institutions is well advanced in its measurement within the field of finance and management (Shahid *et al*, 2012). The importance of rural and community banks in the development of the rural economy of a country cannot be over emphasized. The rural financial system seeks to meet the financial needs of the micro, small and medium enterprises and also provide viable answers to the rural poor, more especially rural small-scale operators. The ability of rural dwellers to access financial services from formal financial institutions impacts positively in their economic activities.

Empirically, bank performance has often been measured by either the use of a profitability index (Rose, 1981; Agu, 1992) and/or the stock price of the bank (Pettway and Sinkey, 1980; Simons and Cross, 1990). Bourke (1989), and Abdulla (1994) used return on assets as a measure of performance. McNaughton and Barltrop (1992) add to this return on equity. There are other measures of bank performance, such as real growth in bank assets. Economic conditions, managerial and operational factors, demographic factors, location factors and market structure all tend to be important. Eraser *et al*. (1974) added urban, rural population ratios and population density as additional factors, the reason given being that urban locations had higher levels of economic activity and consequently a larger volume of funds for intermediation and raising profitability. Economic factors used by these same authors were growth in aggregate bank deposits, taxable non-farm income and retail sales. Pantallone and Platt (1987) found growth in disposable income and residential construction to be relevant for bank performance. Agu (1992) found per capita income to have an important association with profits in the Nigerian banking sector. Market structure variables relate primarily to market concentration, bank size, bank ownership, and number of branches.

Market concentration, which is the extent to which most of the market's output is produced by a few banks, has been found to be an important determinant of bank performance (profitability).
Abdulla (1994) found significant positive evidence of bank assets being an important factor for bank performance in Bahrain. Agu (1992) found the profit-capital ratio to be positively correlated with the number of bank branches. Molyneux and Thornton (1992), for example, found a significant positive relationship between the deposit concentration ratio and bank performance. Civelek and Al-Alami (1991) also confirmed such a relationship for Jordan’s banks.
There are number of indicators for evaluating financial performance of banks on the basis of the financial measures. Usually the financial performance of the institutions has been measured by using a combination ratio analysis, benchmarking, and measure performance against budget or a mix of these methods (Avkiran 1995). Deposits are key factor of banks that affects the return of banks. On the one hand deposits are the chief source of funds by which banks are able to operate their business, enable to lend more and get profit and on the other hand banks have to pay interest on deposits. Advances and investment are other major source for earning revenues. The operating efficiency has an effect on the size of the bank. According to the Pilloff and Rahodes (2002) there exist a positive relation between profitability and bank size.

The empirical study of Tarawneh (2006) showed that a company having better efficiency does not mean it will show better effectiveness. Elizabeth and Elliot (2004) explained that all financial measure such as ROA, Capital Adequacy interest margin is calculated positively with score of customer service quality. Many researchers have been focusing on liability and assets management in banking sector Ruth 2001, Caddy 2000, and Richard &James 2003. Tektas and Gunay (2005) argued that maximizing bank profit, lowering and controlling various risks are obligatory for assets and liability management

1.2 Statements of Problem

The level of competitiveness, potentials of a business, economic interests of the entity's management and reliability of both present and future customers and suppliers is based on the financial performance of the entity (Dufera, 2010). Financial performance analysis and identification of their weaknesses and strengths using financial performance indicators has its contribution to the management, shareholders, the public (customers of the bank), the regulator (the government), the financial sector, and the economy as a whole. In a competitive financial market, bank performance provides signal to depositors and investors whether to withdraw or invest funds respectively from the bank. Similarly, it flashes direction to bank managers whether to improve its deposit service or loan service or both. Regulators are also interested in the financial health of banks for regulation purposes.

Ownership and control is separated in limited liabilities companies. Shareholders as owners do not get involved in the day to day running of the company. This all important activity is left in the hands of managers who act as stewards. Shareholders are given information in the form of annual financial statements and reports to enable them assess the performance of the company during the period. However, for both existing and potential shareholders to be able to make more informed economic decisions there is the need to assess the financial performance of a company over a period of time to reveal the trend of various performance indicators. However, most stakeholders and shareholders do not know how to assess their banks in the economy. This research therefore seeks to evaluate the performance of Nwabiagya Rural Bank and Amenfiman Rural Bank over the past two years (2015 to 2017) to enable shareholders make informed economic decisions.

1.3 Objectives of the Study

The general aim is to assess the financial performance of Nwabiagya Rural Bank and Amenfiman Rural Bank. However, specific aims are to:

1) Evaluate the banks performance using profitability and liquidity ratios.
2) Analyze the trend of both companies' financial performance using investment ratios.

1.4 Research Questions

1) What has been the banks performance using profitability and liquidity?
2) What is the trend of both companies' financial performance using investment ratios?

1.5 Brief Methodology

Since the major emphasis in this study was on the description of data and insights into the facts, the research design most appropriate for the study was case study, Quantitative and Descriptive Research Design. Also, collecting data was collected through interview is collecting primary data. The issue of sampling in this study has little significance, as the main aim of this study was a case study to examine financial performance of Nwabiagya Rural Bank and Amenfiman Rural Bank. The source of data for this study was predominantly from secondary sources. The audited annual financial reports for the selected bank during the year 2015 to 2017 were used as a source of secondary data in order to compare and evaluate the financial performance of Nwabiagya Rural Bank and Amenfiman Rural Bank Limited. The collected data was analyzed using the techniques of ratio analysis to find out the true picture of the financial performance of Nwabiagya Rural Bank and Amenfiman Rural Bank over the recent two years.

1.6 Significance of the Study

The successful completion of the study help people especially students to know more about how to assess the performance of the rural banks in Ghana. Moreover, it will help both banks and customers in banking sectors to examine how a well assessed financial performance can increase their profit levels. Finally, the research work will help customers to be updated to the recent information about the financial performance of Nwabiagya Rural Bank and Amenfiman Rural Bank.Rural Bank.

1.7 Scope of the study

There are several ways to measure the performance of a bank. Calculation of average cost and presenting it through curvature is one of the means to judge the efficiency of commercial bank (Abdus, 2004). Curves can demonstrate a relationship between bank size and unit of production. Unfortunately, because of insufficiency of data and difficulty in accessing data, data covered only the recent four years (2015 to 2017) of audited annual financial statements using, ratio analysis. In addition, independent valuation of attributes such as politics, economic cycle, inflation that could affect the financial performance of the company was not considered.

1.8 Organization of the study

The research work is structured into five chapters. Chapter one, the current chapter illustrates the background of the study. This chapter looks into issues such as Introduction, Background, statement of problem, research questions, objectives of the study, organization of the study, scope of the study, limitations of the study and the organization of the study.

The second chapter is concerned with literature review. Literature review is conducted to map and assess the existing intellectual territory to help specify the research topic or problem to develop the existing body of knowledge further. According to Foster and Young (1997), confirms that conducting literature review gives insight into topics that has been researched and helps detect weaknesses or areas that require further investigation or clarification. It also helps us to develop a good understanding of, and insight into, previous research (Saunders *et al*., 2007).

The chapter three of the research is concerned with research methodology which entails the methodology, research design, data collection method, data analysis and resources. The fourth chapter of the study focuses on the presentation and analysis of data collected. The last chapter, chapter five has the ends the summary, recommendations and conclusions.

1.9 Limitations of the Study

This study like all other studies cannot be without some limitations. In the first place, the banks' financial statement is entirely used for data analysis, therefore if there are any inherent mistakes or errors, it might affect the outcome of the analysis. This may be an impediment for the research to get accurate statistical and quantitative data for the study. More so, the number of years used for the analysis would not necessarily be a true representation of the entire population size of the rural banks.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter describes other author’s perspective about the assessment of financial performance. It also undertakes a review of related literature of the financial performance of rural banks. And it has been carried out under the following headings: The concept of Financial Performance, rural banking, measurement of financial performance, Benefits of proper assessment of financial performance, Problems associated with improper financing.

2.2 The Concept of Financial Performance

Financial performance refers to the act of performing financial activity. In a broader sense, financial performance refers to the degree to which financial objectives being or has been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. There are many different ways to measure financial performance, but all measures should be taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales. A review of financial performance helps in reassesses business goals and plan effectively for improving the business. Nimalathasan (2008) stated that the common reason which supports much of the financial performance research and discussions is that, increasing financial performance analysis will bring about improvement in functions and processes of the organisation. The concept of financial performance and research into its measurement is well advanced within finance and management fields. An array of performance indicators is necessary to expose the different aspects of the performance of a bank as in Gibson and Cassar (2005).

2.3 The Concept of Financial Performance Analysis

This concept involves measuring the results of a firm's policies and operations in monetary terms. These results are reflected in the firm's return on investment, return on assets, value added. Financial performance analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing the relationship between the items of the balance sheet and profit and loss account. Financial performance analysis is also the process of determining the operating and financial characteristics of a firm from accounting and financial statements. The goal of such analysis is to determine the efficiency and performance of the firm's management, as reflected in the financial records and reports. The analyst attempts to measure the firm's liquidity, profitability and other indicators that the business is conducted in a rational and normal way; ensuring enough returns to the shareholders to maintain at least its market value. It also helps in short-term and long term forecasting and growth can be identified with the help of financial performance analysis. The dictionary meaning of 'analysis' is to resolve or separate a thing into its element or component parts for tracing their relation to the things as whole and to each other. The analysis of financial statement is a process of evaluating the relationship between the component parts of financial statement to obtain a better understanding of the firm's position and performance. This analysis can be undertaken by management of the firm or by parties outside the namely, owners, creditors, investors. The process of critical evaluation of the financial information contained in the financial statements in order to understand and make decisions regarding the operations of the firm is called 'Financial Statement Analysis'. The term "Financial Analysis," also known as analysis and interpretation of financial statements refer to the process of determining financial strength and weaknesses of the firm by establishing a strategic relationship between the items of the balance sheet, income statement and other operational data. According to Metcalf and Titard, “Analyzing financial statements is the process of evaluating the relationship between the component parts of the financial statements to obtain a better understanding of a firm’s position and performance.” In the words of Myers, “Financial statement analysis is largely a study of relationship among the various financial factors in a business as disclosed by a single set of statements, and a study of the trend of these factors as shown in a series of statements.”

2.3.1 Objective of Financial Statement Analysis

Analysis of financial statements reveals important facts concerning managerial performance and the efficiency of the firm. Broadly speaking, the objectives of the analysis are to apprehend the information contained in financial statements with a view to know the weaknesses and strengths of the firm and to make a forecast about the future prospects of the firm, thereby enabling the analysts to take decisions regarding the operation of, and further investment in, the firm. (Khan, 2007). To be more specific, the analysis is undertaken to serve the following objectives:

i. To assess the current profitability and operational efficiency of the firm as a whole as well as its different departments so as to judge the financial health of the firm.
ii. To ascertain the relative importance of different components of the financial position of the firm.
iii. To identify the reasons for change in the profitability/financial position of the firm
iv. To judge the ability of the firm to repay its debt and assessing the short-term as well as the long-term liquidity position of the firm through the analysis of financial statements of

various firms, an economist can judge the extent of concentration of economic power and pitfalls in the financial policies pursued. The analysis also provides the basis for many governmental actions relating to licensing, controls, fixing of prices, ceiling on profits, dividend freeze, tax subsidy and other concessions to the corporate sector. It also helps the management in self-appraisal and the shareholders (owners) and others to judge the performance of the management.

2.4 Financial Performance

In a study conducted by Collis and Jarvis (2006) on financial information and the management of small private companies in the U.K., the most useful sources of information are the periodic management account (i.e. the balance sheet and income statement), cash flow information and bank statements (of course bank statement are another form of cash flow information but generated externally). These sources of information are used by eight (80) percent of companies and this demonstrates the importance of controlling cash, which previous research (Bolton, 1971, Birly & Niktari, 1995, Jarvis et al, 1996) suggest is critical to the success and survival of a small business.

In the same research eight-seven (87) percent of small companies' prepared profit and loss accounts and seventy-eight (78) percent, balance sheet. These key financial statements allow management to monitor profitability of the business as well as its net assets. Confirming the usefulness of cash flow information, the analysis shows that seventy-three (73) per cent use bank reconciliation statement and more than fifty-five (55) percent use cash flow statements and forecast. However, other competitive performance measures perceived in literature such as ratio analysis, industry trends and inter-firm comparison are not widely used. Collis and Jarvis (2002) then states that this may indicate that small companies experience problems in gaining access to appropriate benchmarks, but could also be the results of competitors filing abbreviated accounts which reduces the amount of information available for calculating ratio and making comparison. In addition, as many small companies operate in the service sector, they occupy niche markets and may be less concerned with competition than those in other markets.

Melse (2004), reports that ratio analysis provides an insight into the financial health of a firm by looking into it liquidity, solvability, profitability, activity and capital and market structure. Jooste (2004) investigates that many authors agree that cash flow information is a better indicator of financial performance than traditional earnings. Largay and Stickney (1980) and Lee (1982) show that profits were increasing, W.T. Grant and Laker Airways had severe cash flow problems prior to bankruptcy. Jooste (2004) further states that users of financial statements around the world evaluate the financial statements of companies to determine the liquidity, assets activity, leverage, profitability and performance. Users of financial statements use traditional balance sheet and income statements ratios for performance evaluation. Therefore, along with traditional ratios, operating cash flow is also important when evaluating a company's performance (Jooste, 2004). Various literature states that the primary purpose of the cash flow statement is to assess a company's liquidity, solvency, viability and financial adaptability. According to Everingham et al (2003) operating cash flow ratios are indicators of performance. They determine the extent to which a company has generated sufficient funds;

i. **To repay loans;**
ii. **To maintain operating capabilities;**
iii. **To pay dividend; and**

iv. **To make new investments without using external financing, (Jooste, 2004).**

Cash flow ratios can be used to answer questions on a company's performance since debt obligations are met with cash. Such an analysis will result in adequate lines of credit, unrestricted cash availability, debt maturity schedules with respect to financing requirements and the willingness to issue common equity. It will allow an analyst to examine a company's financial health, and how the company is managing its operating, investment and financing cash flows (Palepu et al, 2000). A lack of cash flow data has caused problems for investors and analysts in assessing a company's performance, liquidity, financial flexibility and operating capability (Figlewicz and Zeller, 1991). Cash flow may be viewed as the lifeblood of a company and the essence of its very existence (Rujoub et at, 1995). The cash flow statements offer measures to evaluate performance. If cash flow information is useful but unused, the logical conclusion is that analysts are not analyzing available data properly (Carslaw and Mills, 1991).

2.5 Types of Analysis

Financial statements can be subjected to two types of analysis. They are:

1. **Trend analysis or dynamic analysis,** which is made by analyzing the financial statements over a period of years. This indicates the trend of such variables, as sales, cost of production (or operation) profits, assets, and liabilities. For this purpose, comparative financial statements are prepared horizontally.
2. **Structural analysis or static analysis,** which is made by analyzing a single set of financial statements as are prepared on a particular date. It is called structural analysis, because the

relationship between different accounting variables is studied as, for example, the ratio of net profit to sale s or the ratio of liquid assets to current liabilities.

2.5.1 Limitations of Financial Statement Analysis

Financial statement analysis is a very important device, but it has certain limitations which are to be kept in mind. Following are the limitations of financial statement analysis.

1. **Based on past data:** The nature of financial statements is historical. Past cannot be the index of future estimation, forecasting, budgeting and planning.
2. **Financial statement analysis cannot be a substitute for judgment:** Analysis is tools which can be utilized usefully by an expert may lead to erroneous conclusions by unskilled analysis. Thus the result analysis cannot be considered as a judgment or conclusion.
3. **Reliability of figures:** The accuracy and reliability of analysis depend on the reliability of figures derived from financial statement.
4. **Different interpretation:** The result of the analysis may be interpreted differently by different user
5. **Change in accounting methods:** Analysis will be effective if the figures taken from financial statements comparable. If there are frequent change in accounting policies and method, figures of different periods will be different and comparable.
6. **Price level change**: The ever rising inflation erodes the value of money in the present day economic situation, which reduces the validity of the analysis.

2.6 Methods of Analysis and Interpretation

The analysis and interpretation of financial statement is used to determine the financial position and result of operation as well. The following are the tools that are used for analyzing the financial position of the company:

i. Ratio Analysis
ii. Comparative balance sheet
iii. Common size balance sheet
iv. Trend analysis

2.6.1 Ratio Analysis

Ratio analysis is an important and age-old technique. It is a powerful tool of financial Analysis. It is defined as "The indicated quotient of two mathematical expressions" and as "the relationship between two or more things". Systematic use of ratio is to interpret the financial statement so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined.

A ratio is only comparison of the numerator with the denominator. The term ratio refers to the numerical or quantitative relationship between two figures. Thus, ratio is the relationship between two figures and obtained by dividing a former by the latter. Ratios are designed show how one number is related to another.

The data given in the financial statements are in absolute form and are dumb and are unable to communicate anything. Ratios are a relative form of financial data and are very useful technique to check upon the efficiency of a firm. Some ratios indicate the trend or progress or downfall of the firm. In the view of the requirements of the various users of ratio, it is divided in to the following important categories.

1. Liquidity ratios
2. Activity ratios
3. Profitability ratios
4. Earnings ratios

2.6.1.1 Liquidity Ratios

Liquidity ratios measure the ability of the firm to meet it's a current obligation. In fact, analysis of liquidity needs the preparation of cash budgets and cash and fund flow statements; but liquidity ratios, by establishing a relationship between cash and other current asset to current obligations provide a quick measure of liquidity.

A firm should ensure that it does not suffer from lack of liquidity, and it does not have excess liquidity. The failure of the company to meet its obligations due to its lack of liquidity, will result in a poor creditworthiness, loss of creditor's confidence, or even in legal tangles resulting in the closure of the company a very high degree of liquidity is also bad idle assets earn nothing. The firms fund will be unnecessarily tied up in current assets. Therefore, it is necessary to strike a proper balance between high liquidity and lack of liquidity.

2.6.1.2 Activity Ratio or Turnover Ratio

Activity Ratio highlights the activity and the operational efficiency of the business concern. Activity ratio measures the relationship between the sales and the assets. Turnover ratios are employed to evaluate the efficiency with which the firm manages and utilizes s its assets. Their ratio indicates the speed with which assets are brought converted as turn over into sales.

2.6.1.3 Profitability Ratios

Profitability reflects the final result of the business operations. Profit earning is considered essential for the survival of the business. There are two types of profitability ratios, profit margin ratio and the rate of return ratios. Profit margin ratio shows the relationship between profit and sales. Popular profit margin ratios are gross profit margin and net profit margin ratio. Rate of return ratio reflects between profit and investment. The important rates of return measures are rate of return on total assets and rate in equity.

2.6.1.4 Earnings Ratios

Earnings are income to the shareholders of the share invested by them. Hence the earnings ratio will be useful to the investors in the value of the shares that is being held by them.

2.7 Comparative Balance Sheet

The comparative balance sheet is helpful in analyzing and evaluating the financial position of the firm over a period of years. The comparative balance sheet analyze is the study of the trend of the same items, group of items, and computed items in two or more balance sheet of the same business enterprises on different dates.

The changes in periodic balance sheet items reflect the conduct of a business. The changes can be observed by comparison of the balance sheet at the beginning and at the end of the period and these changes can help in forming an opinion about the progress of an enterprise.

2.8 Trend Analysis

The 'trend' signifies a tendency and as such the review and appraisal of tendency in accounting variables are nothing but the trend analysis. Trend analysis is carried out by calculating trend ratio. Trend analysis is significant for forecasting and budgeting. Although measuring financial performance is considered a simpler task, it also has it specific complications. Here, too, there is little consensus about which measurement instrument to apply. Many researchers use market measures (Alexander and Buchholz, 1978; Vance, S. C., 1975), others put forth accounting measures (Waddock and Graves 1997; Cochran and Wood 1984) and some adopt both of these (McGuire, J. B., Sundgren, A., Schneeweis, T., 1988). The two measures, which represent different perspectives of how to evaluate a firm's financial performance, have different theoretical implications (Hillman and Keim, 2001) and each is subject to particular biases (McGuire, Schneeweis, & Hill, 1986). The use of different measures, needless to say, complicates the comparison of the results of different studies.

2.9 Measures of financial Performance

Profitability Performance

The most common measure of bank performance is profitability. Generally, accounting profits are the difference between revenues and costs. Profitability is considered to be the most difficult attributes of a firm to conceptualize and to measure (Ross, Westerfield, and Jaffe 2005). These ratios are used to assess the ability of the business to generate earnings in comparison with its all expenses and other relevant costs during a specific time period. More specifically, these ratios indicate firm's profitability after taking account of all expenses and income taxes, the efficiency of operations, firm pricing policies, profitability on assets and to shareholders of the firm (Van Horne 2005). Profitability ratios are generally considered to be the basic bank financial ratio in order to evaluate how well bank is performing in terms of profit. For the most part, if a profitability ratio is relatively higher as compared to the competitor(s), industry averages, guidelines, or previous years' same ratios, then it is taken as indicator of better performance of the bank. Profitability is measured using the following criteria:

1. ***Return on Assets (ROA) = net profit/total assets. ROA*** shows the ability of management 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. Return on assets indicates the profitability on the assets of the Bank after all expenses and taxes (Van Horne 2005). It is a common measure of managerial performance (Ross, Westerfield, Jaffe 2005). It measures how much the firm is earning after tax for each cedi invested in the assets of the firm. That is, it measures net earnings per unit of a given asset, moreover, how banks can convert its assets into earnings (Samad & Hassan 2000). Generally, a higher ratio means better managerial performance and efficient utilization of the assets of the firm and lower ratio is the indicator of inefficient use of assets. ROA can be increased by Banks either by increasing profit margins or asset turnover, but they can't do it simultaneously because of competition and trade-off between turnover and margin. So bank maintains higher ROA will make more the profit.

2. ***Return on Equity (ROE) = net profit/ total equity.*** ROE is the most important indicator of a bank's profitability and growth potential. It is the rate of return to shareholders or the

percentage return on each cedi of equity invested in the bank. Return on equity indicates the profitability to shareholders of the Bank after all expenses and taxes (Van Horne 2005). It measures how much the firm is earning after tax for each cedi invested in the Bank. In other words, ROE is net earnings per dollar equity capital. (Samad & Hassan 2000). It is also an indicator of measuring managerial efficiency [(Ross 1994), Sabi (1996), Hassan (1999), and Samad (1998). By and large, a higher ROE means better managerial performance; however, a higher return on equity may be due to debt (financial leverage) or higher return on assets. Financial leverage creates an important difference between ROA and ROE in that financial leverage always magnifies ROE. This will always be the case as long as the ROA (gross) is greater the interest rate on debt (Ross, Westerfiled, Jaffe 2005). Usually, there is higher ROE for high growth companies.

3. ***Cost to Income Ratio (C/I) = total cost /total income*** measures the income generated per cedi cost. That is how expensive it is for the bank to produce a unit of output. In managerial aspects its show how much a manager can efficiently operate the bank activity as much as lower cost against income generate from operation. 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 a timely and effective manner. Samad (2004:36) states that ''*liquidity is the life and blood of a commercial bank*''. Financial liabilities are attracted through retail and wholesale distribution channels. Retail generated funding is considered less interest elastic and more reliable than deposits attracted from wholesale distribution channels (Thygerson, 1995). The following ratios are used to measure liquidity.

1. ***Cash & Portfolio Investment to Deposit Ratio (CPIDR) = Cash & Portfolio Investment / Deposits***. This ratio indicates the percentage of short term obligations that could be met with the bank's liquid assets in the case of sudden withdrawals. The measure of liquidity of the bank is the cash and portfolio investments to deposit ratio. The higher the ratio the better is the liquidity position of the bank, therefore, the more is the confidence and trust of the depositors in the bank as compared to the bank with lower CPIDR. This ratio serves two purposes. First, it boosts the trust of the depositors in the bank as the depositors know that bank is not only having enough cash, but also made some investments in securities portfolio and supposedly earning some positive returns on those portfolio investments. Secondly, they feel confident that in need of cash bank may sell these portfolio investments at any time in the secondary market which is readily available for this purpose.
2. ***Net Loans to total asset ratio (NLTA) = Net loans/total assets*** NLTA measures the percentage of assets that is tied up in loans. Net loan to total assets ratio (NLTA) is also another important ratio that measures the liquidity condition of the bank. Whereas Loan to Deposits is a ratio in which liquidity of the bank is measured in terms of its deposits, NLTA measures liquidity of the bank in terms of its total assets. That is, it gauges the percentage of total assets the bank has invested in loans (or financings). The higher is the ratio the less the liquidity is of the bank. Similar to LDR, the bank with low NLTA is also considered to be more liquid as compared to the bank with higher NLTA. However, high NLTA is an

indication of potentially higher profitability and hence more risk. The higher the ratio, the less liquid the bank is.

3. ***Loans to deposit Ratio (LDR) = Loans/total deposits.*** Loan to deposit is the most important ratio to measure the liquidity condition of the bank. Here, loan means the *advances* for the conventional banks. Bank with Low LDR is considered to have excessive liquidity, potentially lower profits, and hence less risk as compared to the bank with high LDR. However, high LDR indicates that a bank has taken more financial stress by making excessive loans and also shows the risk that to meet depositors' claims bank may have to sell some loans at a loss. A high figure denotes lower liquidity.

Asset Credit Quality (Credit Performance)

Credit performance evaluates the risks associated with the bank's asset portfolio, i.e. the quality of loans issued by the bank. Several ratios can be used for measuring the credit quality; however, not all information on the loans is always available. Non-performing loans is available for National Banks Limited; therefore, this paper use the following ratio:

Leverage on Bank Performance

The use of fixed-charged funds, such as debt and preference capital along with the owner's equity in the capital structure is described as financial leverage or gearing (Dare and Sola, 2010). Financial leverage takes the form of a loan or other borrowing (debt), the proceeds of which are (re) invested with the intent to earn a greater rate of return than the cost of interest. If the firm's marginal rate of return on asset (ROA) is higher than the rate of interest payable on the loan, then its overall return on equity (ROE) will be higher than if it did not borrow (Laurent, 2005). Leverage allows a greater potential returns to the investor than otherwise would have been available, but the potential loss is also greater: if the investment becomes worthless, the loan principal and all accrued interest on the loan still need to be repaid (Andy *et al*, 2002). The primary motive of a firm in using financial leverage is to increase shareholders‟ return under favorable economic conditions. Financial leverage will enhance shareholders‟ return on the condition that fixed charge funds (such as long term loans from financial institutions and other sources) can be obtained at a cost lower than the firm’s rate of return on net assets (RONA or ROI). Favorable leverage is a situation in which EPS rises as a result of introduction of debt into the capital structure. Unfavorable leverage is a situation in which EPS falls as a result of debt introduced into the capital structure. Theoretically, the firms with the highest leverage should be the most incited to improve their performance. However, on the other side, a higher leverage means higher agency costs because of the diverging interests between shareholders and debt holders: this moral hazard problem suggests that leverage may be negatively linked to performance (Jensen and Meckling (1976), Myers (1977). Thus, literature provides opposite arguments on the relationship between leverage and performance.

2.9.1 Liquidity versus profitability

There is always a trade-off between liquidity and profitability. An attempt to gain more in any of them means giving up some of the other. For a company to ameliorate its performance, it must pursue both liquidity and profitability. This is in line with Charles W. assertion cited at (National Bureau of Statistics, 2011) that the determination of a bank's portfolio policy requires a balancing act between its cash and income. Michalski (2008) shares the same believe that liquidity management requires that sufficient cash balance and other working capital assets are maintained in a balance. He further argued that liquidity could contribute to the firm's fundamental aim of creation of value. According to Barfield and Venkat (2011) the collapse of Northern Rock and Bear Stearns showed that profitability and adequate capital are no defense against liquidity risk. In the quarter before their disappearances, both made profits and were well- capitalized businesses. However, their inability to deal with liquidity risk issues caused them to be swept away. Goodhart (2007) believed that liquidity and insolvency are intertwined and often indistinguishable.

2.9.2 Financial Accounting

Financial accounting is the process of systematic recording of the business transactions in the various books of accounts maintained by the organization with the ultimate intention of preparing the financial statement there from. These financial statements are basically in two forms. One, profitability statement which indicates the result of operations carried out by the organization during a given period of time and second balance sheet which indicates the state of affairs of the organization at any given point of time in terms of its assets and liabilities. The main purpose of financial accounting is to ascertain profit or loss and to indicate the financial position of an enterprise. Two fundamental statements of financial accounting are income and expenditure statement and balance sheet. The profit and loss account or income and expenditure account are prepared for a particular period to find out the profitability of the firm and the balance sheet is prepared for a particular date to determine the financial position of the firm. Financial accounting summaries transactions taking place during a period with the objective of preparing the financial statement.

2.9.3 Financial Statements

'Financial Statement' refers to formal ad original statements prepared by a business concern to disclose its financial information. According Meyer (2012), "The financial statement provides a summary of the accounts of a business enterprise, the balance sheet reflecting assets, liabilities and capital as on a certain date and the income statement showing the result of operation during a certain period". The financial statements are prepared with a view to depict the financial position of the concern. They are based on the recorded facts and are usually expressed in monetary terms. The financial statement is prepared periodically that is generally for the accounting period.

2.9.4 Limitation of Financial Statement

The information shown in financial statement is not precise since it is based on practical experience and the conventions and rules developed therefore. Financial statements do not always disclose the correct financial position of the business concern as they are influenced by the personal opinions, judgment, subjective view and whims of accountant of each concern. Balance sheet of a concern is a statics document it disclose the financial position of a concern on a particular date. Information disclosed by profit& loss a/c may not be the real profit as many items shown in the profit & loss a/c may not the real. Financial statements are dumb, because they speak themselves. The statements require further detailed analysis and interpretation. Financial statement of the one period may not be comparable. Financial statement does not disclose the contribution of man towards the efficiency of the business.

2.9.5 Analysis and Interpretation of Financial Statement

The various tools of financial statement are used for decision-making process. The financial statement becomes a tool for future planning and forecasting. The analysis of these statements involves their division according to similar groups and arranged in the desired form. The interpretation involves the explanation of financial facts in a simplifier's manner.

3.0 Rural Banking

Rural banks are profit making organization. They are joint stock companies whose aim is to make profits for shareholders. The profits are either in the form of dividends, or retained to build capital (net worth). Rural banks traditionally have the broadest varieties of assets and liabilities. Their historical specialties have been commercial lending to businesses and helping farmers. However, rural banks also give loans to customers for automobiles and other goods as well as assisting farmers and businessmen and women for both commercial and industrial businesses. Rural banks are owned by private investors called shareholders or by companies. The bank holding companies could engage in activities above that permitted in banking. These include offering investment advice, underwriting securities and engaging in other investment activities. 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 checks instead of cash payment to cocoa farmers – though with adverse consequences for their financial performance (Nissanke and 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 in 1996 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 financial system in Ghana falls into three main categories: formal, semi-formal, and informal:

Formal financial institutions: are those incorporated under the Companies Code 1963 and licensed by the Bank of Ghana (BOG) under either the Banking Law 1989 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), the Savings and Loans Companies (S&Ls), which are restricted to a limited range of services, are most active in micro and small-scale financial intermediation using microfinance methodologies.

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.

The informal financial system covers 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 moneylenders, trade creditors, and self-help groups, and personal loans from friends and relatives. Moneylenders are supposed to be licensed by the police under the Moneylenders Ordinance 1957. The commercial banking system is dominated by a few major banks (among the 17 total) 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 micro enterprises, and hence different regulatory and supervisory instruments may be appropriate.

3.1 Role of Rural Banking

If current agricultural trends continue, by the year 2020 sub-Saharan Africa's food shortage will increase twenty times, to 250 million tonnes (**Pinstrup-Anderson 1993)**. The lower calorie intake could lead to poverty, malnutrition and hunger. In an attempt to alleviate some of these potential problems, several institutional and non-institutional sources of rural credit have been made available to Africans. It is hoped that, in the long term, credit will enable the poor to invest in agricultural and non-agricultural productive assets, to adopt new technologies and farming methods and to minimize environmental degradation.

Ghana, like other sub-Saharan countries, has traditionally experienced low productivity, low income levels, low domestic savings, unemployment, and malnutrition. In 1976, the Ghanaian government, through the Bank of Ghana, established Rural Banks to channel credit to productive rural ventures and promote rural development. Rural development is a strategy intended to improve the economic and social life of the rural poor (World Bank 1975). Rural credit has been used in Ghana to enable the poor to weather shocks without selling the productive assets the poor need for protection against future shocks (FAO 1994).

According to the **Moshi Conference (1969),** the purpose of rural development is a rise in the standard of living and favorable changes in the way of life of the people concerned. However, there is some anecdotal evidence that many beneficiaries of Rural Bank credit are salaried workers, whose likelihood of loan repayment is believed to be better than that of the small-scale rural producer. There is also some evidence that loan recipients use the credit for purposes other than those for which the loans are intended. Much analysis has not been done on the effectiveness or the impact of the Ghanaian Rural Banks on rural farmers.

3.2 Evaluating the Financial Performance of Rural Banks

Aboagye and Otieku (2009), in their study measures financial performance based on the function that rural banks perform as banks. They claim, rural banks mobilize funds and make loans, which they expect to be repaid with interest and on time. To continue in business, rural banks must make enough money to cover their operational and financing costs, and retain earnings to finance future operations so that the rural banks can grow. Thus, they discuss financial performance along several dimensions, namely;

i. **Size of rural bank**. As the real value of total assets increases over time the more business it is doing or in position to do.

ii. **Deposits mobilization**. Savings are a stable source of funds for financing loan portfolios and helping the economic growth of local communities and of the economy as whole. They compute the real value of deposits and deposits as proportions of total assets.

iii. **Loan portfolio**: Granting of loans is a major function of rural banks. But such loans must be paid back if the institutions are to continue to be in business. Thus, rural banks whose loan portfolio is of acceptable quality and growing must be doing good business. They compute the real value of loans, loan portfolio as a proportion of total assets, and quality of the loan portfolio using the ratio of provision for loan losses and doubtful accounts to gross loans.

iv. **Profitability**: Rural banks are in business to make profits. All things being equal, higher profitability is preferred. They measure annual profit/average total assets (return on assets).

v. **Expenses:** Rural banks are expected to encourage savings among their clientele. It would help if they paid high interest on savings. They compute the ratio of interest paid on savings to savings mobilized (interest expense ratio). A higher value of this ratio is preferred. Rural banks expenses may also be analyzed by focusing on its efficiency (control over cost). They investigated the ratio of rural banks non-interest expenses to the sum of net interest income and all other income (the operating expense ratio). For this ratio, the lower the better.

vi. **Risk:** Risk is uncertainty associated with the expected value of a variable. Given historical data, one computes the standard deviation of the historical means. Generally, lower volatility is preferred.

3.3 Empirical Review

A work done by Kumbirai et al (2010) on "A Financial Ratio Analysis of Commercial Bank Performance in South Africa" has been reviewed to provide an insight into the financial performance of banks. Using descriptive financial ratios as a measure of bank profitability, liquidity and credit quality of five commercial banks in South Africa from 2005 to 2009. The study revealed that the overall performance of banks in South Africa improved in terms of its profitability and liquidity in the period under review and this was partly responsible for the nation's preparations for the World Cup. An increase in the operating cost of banks and the global financial crisis explained the deterioration in in profitability in the period 2008 to 2009.

This research also uses financial ratio analysis but the period of study between 2004 and 2014 is more widely and revealing as compared to the research conducted by Kumbirai et al (2010) used five-year period.

Overview of the Outreach and Financial Performance of Microfinance Institutions (MFI) in Africa by Brown et al, April 2005 Employing 127 Microfinance Institutions in Africa on how does performance vary among African MFIs and the study revealed that the overall financial performance of MFIs in Africa lags behind other global regions. In measuring the financial performance, the study used Return on Asset 16 (ROA) as a measure but this research not only uses ROA but also uses other financial ratios to measure the financial performance of state owned banks in Ghana.

A research done by Kiyota Hiroyuki (2011), on Efficiency of Commercial Banks in Sub-Saharan Africa: A Comparative Analysis of Domestic and Foreign Banks. The study did a comparative analysis of profit efficiency and cost inefficiency of commercial banks in 29 sub-Saharan African countries. The study revealed that the foreign banks in terms of profit efficiency outperform domestic banks. In terms of banks size, the smaller banks tend to be more efficient compared to the medium or relatively large banks. Credence could be given to the researcher for the use of Tobit regression to assess the impact of environmental factors on the efficiency of commercial banks.

This research continues to add to knowledge by conducting a comparative analysis of the profitability of the three state owned banks in Ghana to show happenings in the banking sector in the country.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 Introduction

This chapter focuses on the various methods used in research, which includes the population of the study, and sampling techniques used in determining the sample size for the research, data analyze technique, among others. The main objectives of this research were achieved through quantitative methods, as inferential statistics were used to measure the level of accuracy and validity of the information gathered in accordance with the objectives of the research.

3.2 Research Methodology

This research is a case study that examined the financial performance as reflected in the efficiency of the Nwabiagya Rural Bank and Amenfiman Rural Bank, the types and sources of data used in this research is primary and secondary data. *Primary data* is *data* that is collected by a researcher from first-hand sources, using methods like surveys, interviews, or experiments. Secondary data is data reported by organization, this organization is not directly collect own but obtained from other parties who have collected and published advance (Djarwanto, 1998/9). In that case, this research also uses published secondary data in period 2016-2017 as the main data, such as statement of financial position, income statement and Statement of changes in equity, and information of some of financial ratio.

3.3 Research Design

Since the researcher seeks to assess the financial performance of Nwabiagya Rural Bank and Amenfiman Rural Bank Limited, secondary data was used for the study. This study is descriptive-quantitative in nature and it will be conducted in Kumasi city which is a central business area, the whole bank's annual report will be collected for sampling and analysis. In this study, data will be analyzed by resort to tabular and graphical representation of data to ease comparing and to enable readers visually appreciate the finding from the study.

3.4 Sources of Data

Data sources are either primary or secondary. Collecting data through interview is collecting primary data. Interview is a face to face meeting between a questioner and a respondent. The interview was used for the study since the response rate is high and issues can be clarified. The financial statements of the Nwabiagya Rural Bank and Amenfiman Rural Bank Limited between 2015 and 2017 were scrutinized for the study.

Further, the researchers sought and obtained relevant secondary data in the form of annual financial statements, reports and other vital publications. These form the basis upon which empirical data was gathered to help answer the research questions. Interview and documents analyses were chosen as data collection techniques for good reason. The former affords respondents the advantage of flexibility and expression of one own opinion without undue interruptions whereas the latter gives credence to verifiability ease of reference and consistency.

3.5 Sampling Technique

Purposive and convenience sampling techniques were used for this research. Kumekpor (1989) as cited in Mensah (1997), in purposive sampling, the sample units are not randomly selected but rather deliberately picked for the study.

3.6 Sample Size

As stated by Mason et al. (1999), a sample refers to a set of people or objects chosen from a larger population in order to represent that population. In lieu of the above, the sample size for the case study consists of two (2) rural banks in Ghana which are Nwabiagya Rural Bank and Amenfiman Rural Bank.

3.7 Data Analysis

Various analytical tools and software such as bar charts, tables, and Excel software were used in analyzing data for this study. Data collected were analyzed using frequencies and percentages. These frequencies and percentages enabled the researcher to clearly represent true data characteristics and findings with the bank.

3.8 Organizational Profile.

Amenfiman Rural Bank limited, one of the leading Rural Banks in Ghana was the first Rural Bank established in the western region and the fourth in Ghana in 1980 to provide essential banking services to rural and peri-urban communities in which we operate. The bank was incorporated under the Ghana companies code 1963 (Act 179) and received its certificate to commence business in May 1980 and also licensed under the banking Act 2004 (673) to engage in the ordinary business of banking.

Nwabiagya Rural Bank Limited (NRB) is a community owned financial institution established in 1987 and located in the Ashanti region. NRB works through nine outlets and is regulated by the Bank of Ghana and supervised by the ARB Apex Bank Limited (an umbrella financial institution owned by the rural banks). NRB is owned by approximately 6000 members (owning about 68%), its directors (9%) and the management (4%). Goodwell West Africa Microfinance Company Ltd (an external investor) 19% shares

The first Branch started at Barekese with seven (7) members of staff made up of a Manager, an Accountant, a Clerk, a Teller, a Driver, a Security man and a Janitor. By dint of hardwork, the Bank now has nine (9) branches and staff strength of Two Hundred and one (201).

The Bank's vision is to become the best managed and leading Rural Bank in the provision of competitive and affordable financial services in the country.

The mission of the Bank is to provide efficient and effective financial services by adopting appropriate technology, increase market share, enhance optimal realization of stakeholders' interest, human resource development and product innovations.

CHAPTER 4

DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.1 Introduction

This chapter presents and discusses the analysis of the findings from the study. The findings are presented in tabular and graphical form. In the tables, the findings on performances of Nwabiagya Rural Bank and Amenfiman Rural Bank have been expressed under the headings of the categories of ratios calculated. The categories of the ratios calculated are presented in the following tabular forms; profitability ratios, investment ratios and gearing ratios.

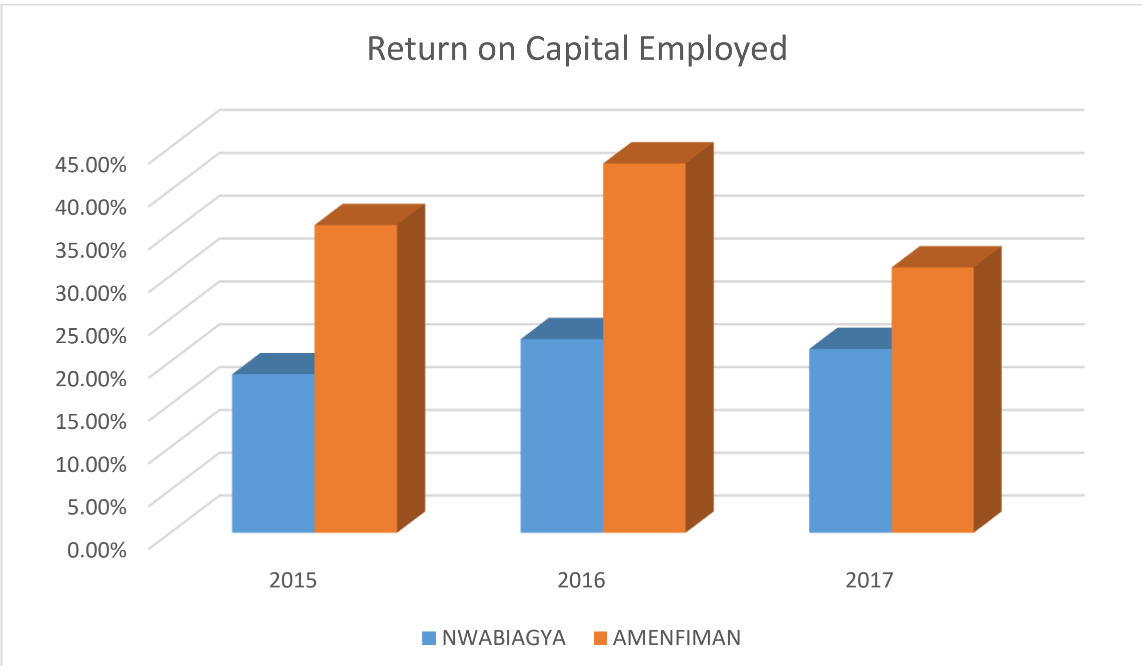
4.2 Analysis Using Profitability Ratios

Profitability indicates the extent to which the entity uses its inputs to generate income, how the entity manages its costs incurred in making sales and the relationship between profit figures and other elements in the financial statements such as sales, total assets, net assets, capital employed, etc. Profitability reflects the final result of the business operations. Profit earning is considered essential for the survival of the business. Popular profitability margin ratios are gross profit margin and net profit margin ratio. Rate of return ratio is a reflection between profit and investment. For the purpose of the study, the following ratios were used for the analysis:

This ratio expresses the relationship between the net profit generated by the business and the long term capital invested in the business. The ROCE is expressed in percentage terms as: $\frac{Net\ Profit\ before\ Interest\ and\ taxation}{Total\ Assets - Current\ Liabilities} \times 100\%$

However, the researcher based on the financial statement of the both banks for the research, only the total assets and current liabilities and net profit before interest and taxation were used for the analysis for the ROCE.

Figure 4.1: ROCE from 2015 to 2017



Source: Authors' analysis based on the financial statements of Nwabiagya Rural Bank and Amenfiman Rural Bank from 2015 to 2017

The return on capital employed reflects the return earned on every unit of currency employed as capital by the bank. It tells of the overall profitability of the bank on its capital employed in the business. The returns on capital employed (ROCE) from 2015 to 2017 of Nwabiagya Rural Bank are as follows; 18.52%, 22.62% and 21.47% respectively and the ROCE of Amenfiman Rural Bank from 2015 to 2017 are 35.93%, 43.11% and 30.99%. This shows that in 2016 both banks recorded the highest returns on capital employed (ROCE) which is 21.89% by Nwabiagya and

42.27% by Amenfiman and in 2017, both Nwabiagya Rural Bank and Amenfiman Rural Bank had a fall in ROCE from 22.62% to 21.47% and 43.11% to 30.99% respectively. In 2016, it was clear that the contributions or inputs from shareholders who are deemed to be the owners of both banks were efficiently applied or used by management in generation of ROCE as returns on their investment.The investment activities taken by the both bank yielded a fall in returns. This was due to the fact that certain bills and bonds purchased by the bank had a lower benefit rate. Example the rate of interest on treasury bills was low.

In 2015, Nwabiagya Rural Bank recorded a lowest percentage of 18.52% while Amenfiman Rural Bank recorded the second lowest percentage of 35.93%. Though the lower performance of the Nwabiagya Rural Bank in 2015 had a bearing on weak management performance, when one looks around most farmers could not fulfill their loan obligations. This was a result of weather failure. In Ghana most farmers depend on the usual seasonal rainfall. In addition, asset is seen as a crucial part in calculation of return on capital employed (ROCE), therefore there is a need to stress heavily on investment activities undertaken by the Nwabiagya Rural Bank Limited during the number of years under reviewed.

For instance, in 2016 which marks the most profitable year the bank turned its total assets over into sales while generating a positive operating margin resulting in a product (the ROCE) of approximately 22.62% by Nwabiagya and 43.11% by Amenfiman, at all point in time. The entity's overall profitability can be improved by earning more as operating profit on turnover made and more of net assets turnover. The fall in ROCE reported in 2017 by both banksare highly positioned to garner for the main reason for the huge cut in the level of distribution in totality, both banks profitability has been reasonable; a good look at the year 2017 suggests that fall had mostly occurred due to one-off "miscontrolled" expenditure.

Table 4.1: Computation of Net Profit Margin

COMPANY/ YEAR	2015	2016	2017
NWABIAGYA RURAL BANK	30.53%	36.37%	45.29%
AMENFIMAN RURAL BANK	28.97%	36.92%	26.99%

Source: Authors' analysis based on the financial statements of Nwabiagya Rural Bank and Amenfiman Rural Bank from 2015 to 2017

The Net Profit Margin shows the efficiency with which costs have been controlled in the generation of profit from sales. From 2015 to 2017 the net profit margins of Nwabiagya Rural Bank were as follows; 30.53%, 36.37% and 45.29% respectively. Also the net profit margins of Amenfiman Rural Bank were as follows; 28.97%, 36.92% and 26.99% respectively. From this performance, Nwabiagya Rural Bank Limited was able to efficiently control cost in the generation of profit from sales by 30.53% in 2015 and in 2016 and it increased to 36.37% and 45.29% in 2017. This indicates that Nwabiagya Rural Bank was able to control its cost and provide services at a price significantly higher than its sales.

Amenfiman Rural Bank on the other hand recorded a net profit margin of 28.97% in 2015 and increased to36.92% in 2016 indicating that management were able to control effectively its costs. In 2017, the net profit margin recorded was 26.99% which indicates a decline compared to 2016.

The low net profit margin recorded in 2017 by Amenfiman Rural Bank means that the company uses an ineffective cost structure thereby increasing expenses.

4.3 Analysis Using Liquidity Ratios

Liquidity ratios measure the ability of the firm to meet it's a current obligation. In fact, analysis of liquidity needs the preparation of cash budgets and cash and fund flow statements; but liquidity ratios, by establishing a relationship between cash and other current asset to current obligations provide a quick measure of liquidity. A firm should ensure that it does not suffer from lack of liquidity, and it does not have excess liquidity, the failure of the company to meet its obligations due to its lack of liquidity, will result in a poor creditworthiness, loss of creditor's confidence, or even in legal tangles resulting in the closure of the company a very high degree of liquidity is also bad idle assets earn nothing. The firms fund will be unnecessarily tied up in current assets. Therefore, it is necessary to strike a proper balance between high liquidity and lack of liquidity. Three key financial ratios are employed to appraise the group's liquidity positions at the year-ends of all the five years involved. For the purpose of the study, the researcher will do the analysis of the bank's financial statement using current ratio and acid test ratio.

Table 4.2: Computation of Current Ratio

BANK/ YEAR	2015	2016	2017
NWABIAGYA	1.20 times	1.15 times	1.14 times
AMENFIMAN	1.13 times	1.13 times	1.08 times

Source: Authors' analysis based on the financial statements of Nwabiagya Rural Bank and Amenfiman Rural Bank from 2015 to 2017

4.3.1 Current Ratios

The current ratio measures a company's ability to meet its financial obligations as and when they become due. From the computation of the current ratio the number of times that the Nwabiagya Rural Bank Limited and Amenfiman Rural Bank can meet its short term financial obligation as when they fall due from 2015 to 2017 are as follows; 1.20, 1.15 and 1.14 all in times and 1.13, 1.13 and 1.08 all in times respectively, as compared to the normal current ratio which should be 2 times. So from the observation, in 2015 and 2017 the Nwabiagya Rural Bank was able to meet its short term financial obligation as they become due by 1.20 times which was the highest from 2015 to 2017 and 1.13 times for Amenfiman using the same scope.

We can say that the performance was not bad but, the standard current ratio as compared with the performance of both banks; the banks did not do well in terms of meeting its financial obligation as and when they fall due.

4.3.2 Acid Test Ratios

This represents a more stringent test of liquidity. It can be argued that for many businesses, the stock in hand cannot be converted to cash quickly. As a result it may be better to exclude this particular asset any measure of liquidity. The acid test ratio is based on this idea and is calculated as follows; Acid Test Ratio = $\frac{Current\ Assets - Inventory}{Current\ Liabilities} : 1$

The researcher will not analyze the financial statement using the acid test ratio because, the bank used as a case study does not have trading inventory, therefore the acid test ratio would be the same as the current ratio.

4.4 Analysis Using Investor Ratios

Investor ratios are used to measure the ability of a business to earn an adequate return for the owners of the business. The owners have money tied up in the business and need a return commensurate with the risk involved.

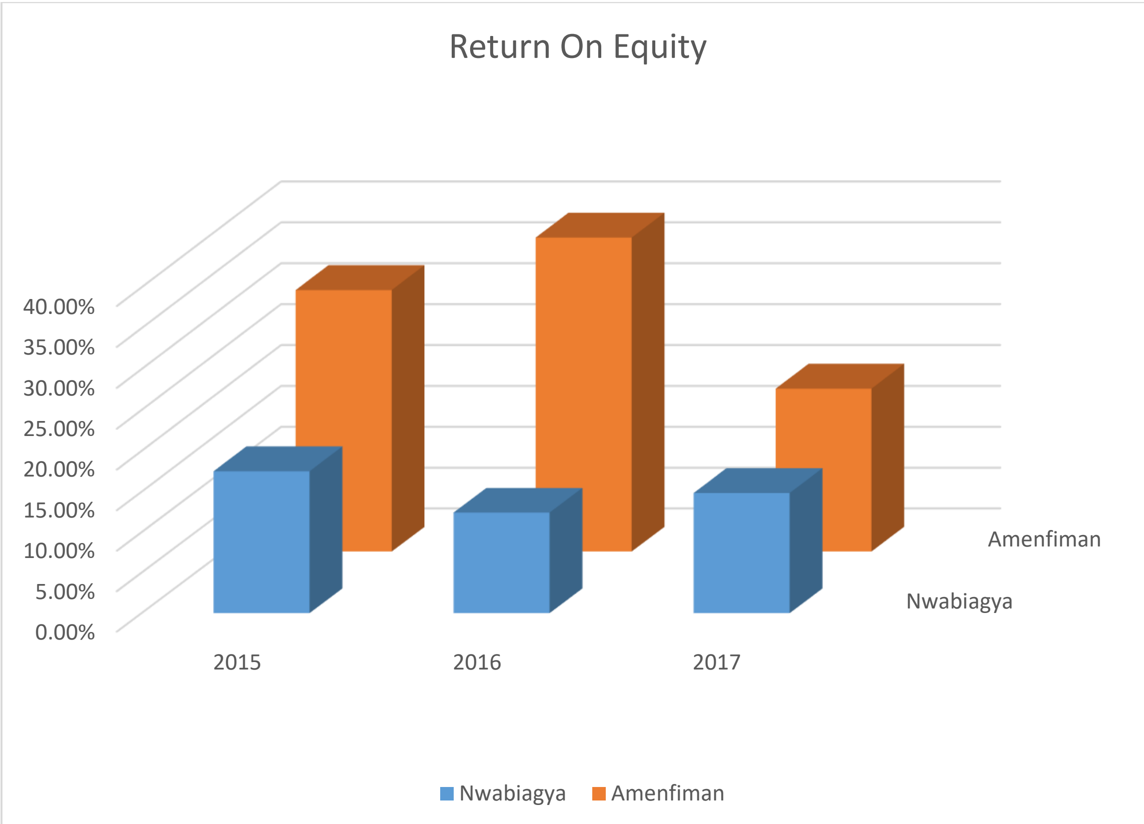
4.4.1 Return on Equity

Return on equity (ROE) is more than a measure of profit; it's a measure of efficiency. A rising ROE suggests that a company is increasing its ability to generate profit without needing as much capital. It also indicates how well a company's management is deploying the shareholders' capital. In other words, the higher the ROE the better. Falling ROE is usually a problem.

However, it is important to note that if the value of the shareholders' equity goes down, ROE goes up. Likewise, a high level of debt can artificially boost ROE; after all, the more debt a company has, the less shareholders' equity it has (as a percentage of total assets), and the higher its ROE is.

The return on equity measures the amount of net income earned by utilizing each cedi of total common equity. By this we can find out how much the shareholders of Nwabiagya Rural Bank and Amenfiman Rural Bank Limited are going to get for their shares. The highest return on equity for 2016 addresses how efficient management of Amenfiman Rural Bank was in utilizing its equity base. The increase in ROE on 2017 by Nwabiagya Rural Bank measures how effectively management is using a company's assets to creates profits. In 2017, the return on equity was low with a percentage of 19.99%; this was due to long term debt paid off.

Figure 4.2: ROE from 2015 to 2017



Source: Authors' analysis based on the financial statements of Nwabiagya Rural Bank and Amenfiman Rural Bank from 2015 to 2017

The bar graph above is a graphical representation of Returns on Equity of Nwabiagya Rural Bank and Amenfiman Rural Bank Limited. From the bar graph drawn, 2015and 2016 show the highest level of returns on equity by Nwabiagya Rural Bank and Amenfiman Rural Bank respectively.as well the 2016 and 2017 show the worst outlook on returns on equity by Nwabiagya Rural Bank and Amenfiman Rural Bank respectively. The graphical representation adds and confirms to the explanation above.

4.5 Analysis Using Gearing Ratios

Gearing ratios represent a group of financial ratios that compare some form of owner's equity (or capital) to debt, or funds borrowed by the company. Gearing is a measurement of the entity's financial leverage, which demonstrates the degree to which a firm's activities are funded by shareholders' funds versus creditor's funds. Gearing ratios are a measure of financial leverage that demonstrates the degree to which a firm's operations are funded by equity capital versus debt financing.

4.5.1 Interest Cover Ratio

The interest coverage ratio is used to determine how easily a company can pay their interest expenses on outstanding debt. The ratio is calculated by dividing a company's earnings before interest and taxes (EBIT) by the company's interest expenses for the same period.

4.5.1 Table 4.3: Computation of Interest Cover Ratio results from 2015 to 2017

Bank/ Year	**2015**	**2016**	**2017**
Nwabiagya	0.26 times	0.28 times	0.27 times
Amenfiman	0.27 times	0.38 times	0.36 times

Source: Authors' analysis based on the financial statements of Nwabiagya Rural Bank and Amenfiman Rural Bank from 2015 to 2017

The calculation of interest cover of Nwabiagya Rural Bank shows the following result from 2015 to 2017; 0.26 times, 0.28 times and 0.27 times respectively, all in times. Also the calculation of interest cover of Amenfiman Rural Bank shows the following result from 2015 to 2017; 0.27 times, 0.38 times and 0.36 times respectively, all in times. From the calculation of interest cover ratio, the both banks are highly burdened by debt expense. This is because, the calculations show a lower interest coverage ratio and making its ability to meet its interest expenses very questionable. Interest coverage below one (1) indicates that both banks are not generating sufficient revenues to satisfy interest expenses.

4.5.2 Debt to Equity Ratio

The debt-to-equity ratio shows the proportions of equity and debt a company is using to finance its assets and it signals the extent to which shareholder's equity can fulfill obligations to creditors, in the event a business declines.

A low debt-to-equity ratio indicates a lower amount of financing by debt via lenders, versus funding through equity via shareholders. A higher ratio indicates that the company is getting more of its financing by borrowing money, which subjects the company to potential risk if debt levels are too high. Simply put: the more a company's operations rely on borrowed money, the greater the risk of bankruptcy, if the business hits hard times. This is because minimum payments on loans must still be paid even if a company has not profited enough to meet its obligations. For a highly leveraged company, sustained earnings declines could lead to financial distress.

Table 4.4: Computation of Debt to Equity results from 2015 to 2017

BANK / YEAR	2015	2016	2017
NWABIAGYA	5.55	5.90	6.62
AMENFIMAN	5.65	5.87	6.11

Source: Authors' analysis based on the financial statements of Nwabiagya Rural Bank and Amenfiman Rural Bank from 2015 to 2017

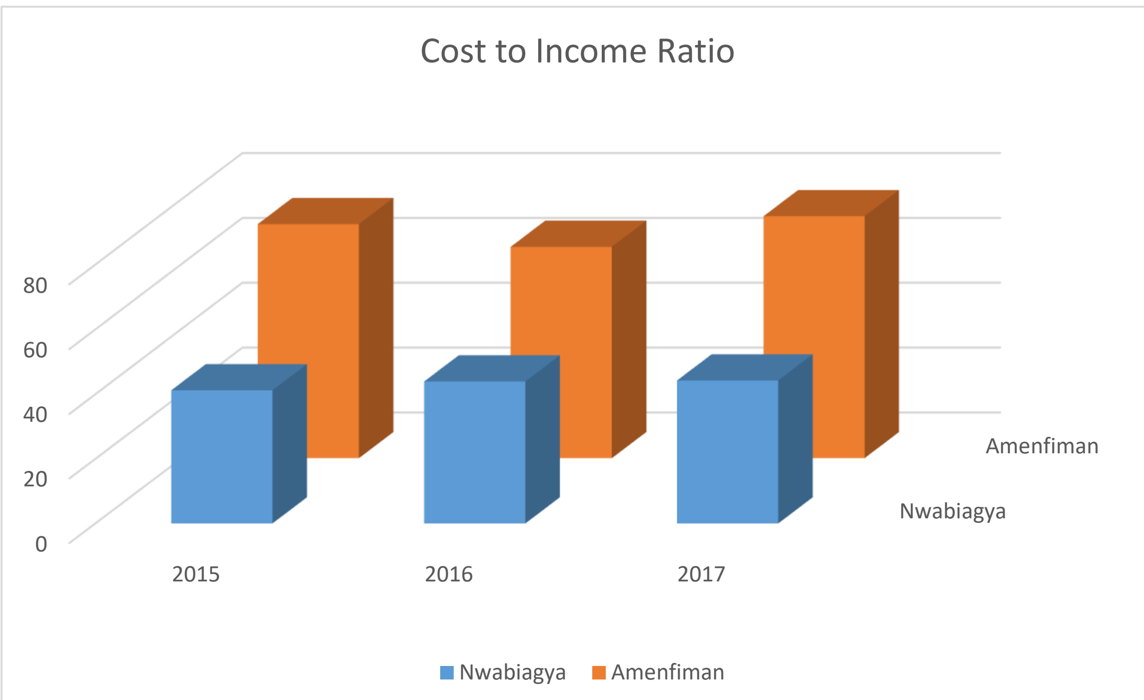
From the calculations of Debt/ Equity Ratio from 2015 to 2017, it shows the following results; 5.55, 5.90 and 6.62% respectively for Nwabiagya Rural Bank. Also, Amenfiman Rural Bank recorded 5.65, 5.87 and 6.11 from 2015 to 2017 respectively. The calculation of debt/equity ratio in 2015 for both banks shows a lowest as compared to the other years. This means that in 2007 both bank did not borrow a lot of funds, which means low risk. One can attest to the fact that the banks did depend on its internally generated funds. (Examples are customers' deposit, bank charges and other returns from the bank's investments).

Moreover, the demands for assessing loans by customers were on the highest side. In 2017, the bank recorded the highest debt/equity ratio among the calculated in 2017 there was a heavy dependence by the banks on borrowed funds which means more risk ahead of the bank in subsequent years. In this case, the banks are obliged and will need to perform and have sufficient operating profit from the first year itself in order to meet the interest cost and repay the year loan installment. If all attempts to repay the first year's loan installment fail, the bank can strike a deal to start repayment of the loan after a couple of years. This will help the bank to have enough time periods for growth and mobilization of fund for loan repayment.

4.6 Cost to Income Ratio

Cost to income ratio is important for determining the profitability of a bank. The ratio gives a clear view of how efficiently the bank is being run. The lower the ratio, the more profitable the bank. Changes in the ratio also highlight potential problems. If the ratio rises from one period to the next, it means that costs are rising at a higher rate than income. Thus there is an inverse relationship between the cost to income ratio and the bank's profitability.

Figure 4.4: Computation of Cost to Income Ratio results from 2015 to 2017



From the bar chart above, it could be deduced that in 2016, Amenfiman Rural Bank was more profitable than 2015 and 2017. The reason is that in 2016, the company had lower ratio than 2015 and 2017.

The cost to income ratio of Nwabiagya Rural Bank keeps on increasing year after year. Therefore, it can be concluded that costs are rising at a higher rate than income. Thus there is an inverse relationship between the cost to income ratio and the bank's profitability.

4.7 Discussion of Findings

The first research objective investigated the banks performance using profitability and liquidity ratios. A number of conclusions can be drawn from the results presented in the findings and which pertains to the first research objective. According to Figure 4.1, The returns on capital employed (ROCE) from 2015 to 2017 of Nwabiagya Rural Bank are as follows; 18.52%, 22.62% and 21.47% respectively and the ROCE of Amenfiman Rural Bank from 2015 to 2017 are 35.93%, 43.11% and 30.99%. It was clear that the contributions or inputs from shareholders who are deemed to be the owners of both banks were efficiently applied or used by management in generation of ROCE as returns on their investment in 2016. The investment activities taken by the both bank yielded a fall in returns. This was due to the fact that certain bills and bonds purchased by the bank had a lower benefit rate. Example the rate of interest on treasury bills was low.

From Table 4.2, it can be deduced that A firm should ensure that it does not suffer from lack of liquidity, and it does not have excess liquidity, the failure of the company to meet its obligations due to its lack of liquidity, will result in a poor creditworthiness, loss of creditor's confidence, or even in legal tangles resulting in the closure of the company a very high degree of liquidity is also bad idle assets earn nothing.

Return on equity (ROE) is more than a measure of profit; it's a measure of efficiency. A rising ROE suggests that a company is increasing its ability to generate profit without needing as much capital. However, it is important to note that if the value of the shareholders' equity goes down, ROE goes up. Likewise, a high level of debt can artificially boost ROE; after all, the more debt a company has, the less shareholders' equity it has (as a percentage of total assets), and the higher its ROE is. ROE also indicates how well a company's management is deploying the shareholders' capital. In other words, the higher the ROE the better. Falling ROE is usually a problem.

When cost to income ratio keeps on increasing year after year, it means that costs are rising at a higher rate than income. Thus there is an inverse relationship between the cost to income ratio and the bank's profitability. Cost to income ratio is important for determining the profitability of a bank. The ratio gives a clear view of how efficiently the bank is being run. The lower the ratio, the more profitable the bank.

4.7 Interview Analysis

Based on the interview of both Managers it was established that the performance of rural banks is influenced by the five factors namely; Clientele, Competition, Sources of funds, Leadership and Promotional strategies. The study further established that among these factors, Clientele significantly influenced performance, followed by competition. Sources of funds and then leadership and promotional strategies in that order. More importantly the study established that Banks will formulate their policies bearing in mind the need to increase revenue to their institutions. It therefore follows that if clients can be made aware of these factors that affect them, then they would service their loans so as to conform to the credit requirements and this will improve their credit rating. Improved credit rating will result in more credit being allocated to clients. The clients would be economically empowered and this would result in increased commercial operations necessary to stimulate economic growth. The study also established that although financial institutions use information obtained from credit reference reporting bureaus in assessing clients' loan applications, they are unwilling to inform the clients about such information. It is important that financial institutions inform their clients whenever they are seeking information relating to their past loan serving from the credit reference reporting Bureaus. This will encourage their customers to seek for more credit allocation and the necessary awareness thereby lowering the default rate.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

Financial performance analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing the relationship between the items of the statement of financial position, income statement and the cash flow statement of an institution. It also helps in short-term and long term forecasting and growth can be identified with the help of financial performance analysis. According to Oxford Advance Learner dictionary the meaning of 'analysis' is to resolve or separate a thing into its element or components parts for tracing their relation to the things as a whole and to each other. The analysis of financial statement is a process of evaluating the relationship between the component parts of financial statement to obtain a better understanding of the firm's position and performance. This analysis can be undertaken by management of the firm or by parties outside the firm namely, owners, creditors, investors. Therefore the purpose of the study was to assess the financial performance of Nwabiagya Rural Bank Limited and Amenfiman Rural Bank Limited. These assessments were done by using financial ratios to analyze the financial statements of the bank from 2015 to 2017 in order to evaluate how the firm is felling with regards to ***Profitability ratios, Liquidity ratios***, ***and Investment ratios.***

5.2 Summary of Findings

It was found out that there was no consistency in the performance of the both banks under the profitability ratio. Figure 4.1 for example shows the return on capital employed of both banks for 2015 decreased, which increased in 2015 and also decreased in 2017. This shows inconsistency in the profitability level of the bank. This was a result of weather failure and lower interest rate on bills and bonds purchased by the bank.

The study also showed or brought to light based on how and when the bank meets its short term financial obligation when they fall due. The study showed that as the performance under current ratio, the bank was not liquid when compared with the standard current ratio.

Moreover, the study also showed from the calculation of interest cover ratio, both banks are highly burdened by debt expense. This is because, the calculations show a lower interest coverage ratio and making its ability to meet its interest very questionable. Interest coverage below one (1) indicates that Nwabiagya Rural Bank Limited and Amenfiman Rural Bank Limited are not generating sufficient revenue to satisfy interest expenses.

More so, the study brought to light based on the calculation for returns on equity under the investors/shareholders ratio. It showed for every cedi invested by the shareholders yield profit, with this ratio is of great importance to the present and prospective shareholders as well as management of the bank.

Therefore, the assessment of the financial statement of Nwabiagya Rural Bank Limited and Amenfiman Rural Bank Limited have highlighted the facts and relationships concerning managerial performance, corporate efficiency, financial strength and weakness and credit worthiness of the company.

5.3 Conclusions

On the basis of the findings of the study, it can be concluded that;

Financial ratios help institutions to determine their financial strength. (i.e. whether it is solvent or financially healthy.)

It also helps present shareholders and prospective shareholders or investors to make sound decisions to hold shares, buy additional shares or to sell their shares. Also, it shows how the management are performing based on the shareholders or investors inputs.

Financial ratios help to assess the risk attached to a company's financial structure and analyze the returns generated to its shareholders and other interested parties.

Financial ratios also provide useful information to investors, company management and financial institutions.

5.4 Recommendations

From the findings and conclusions, it can be recommended that;

Much effort should be put in by management of both banks towards its performance to continue to have either constant or increase in their performance under the profitability ratio, especially for return on capital employed (ROCE).

Also, the liquidity ratio showed that the both banks were not able to pay its short term financial obligation. The researcher recommends that, when those measures stated in the second point is apply properly, the bank will be able to get enough funds to finance their short term financial obligation as and when they fall due.

The interest cover ratio under the gearing ratio shows that the bank is not generating sufficient revenue to satisfy interest expenses. The bank should therefore put its funds in investments that will yield good returns.

The returns on equity under the shareholders or investors ratios showed that, there was a return for every cedi that the investors or shareholders put in the business. From the management performance, it was good and when much effort is put in they can get better returns.

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