UNIVERSITY OF EDUCATION WINNEBA

COLLEGE OF TECHNOLOGY EDUCATION, KUMASI

ASSESSING THE FINANCIAL PERFORMANCE OF GCB BANK USING ACCOUNTING RATIOS, (2006 - 2015)

BY

ODURO-OFRIKYI CALEB

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A DISSERTATION IN THE DEPARTMENT OF ACCOUNTING STUDIES EDUCATION, FACULTY OF BUSINESS EDUCATION, SUBMITTED TO THE SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD DEGREE OF MASTER OF BUSINESS ADMINISTRATION (ACCOUNTING) IN THE UNIVERSITY OF EDUCATION, WINNEBA

JULY, 2019

DECLARATION

STUDENT'S DECLARATION

I, Oduro-Ofrikyi Caleb, declare that this thesis, with the exception of quotations and reference contained in published works which have all been identified and duly acknowledged, is entirely my own original work, and it has not been submitted, either in part or whole, for another degree elsewhere.

Signature: …… Date: ……

ODURO-OFRIKYI CALEB

SUPERVISOR'S DECLARATION

I hereby declare that the preparation and presentation of this work was supervised in accordance with the guidelines for supervision of thesis/dissertation/project as laid down by the University of Education, Winneba.

Signature: …… Date: ……

MRS. RICHMELL AMANAMAH

(SUPERVISOR)

ACKNOWLEDGEMENTS

I am particularly grateful to Mrs. Richmell Amanamah, my supervisor for his guidance, counselling and contributions towards the success of this work. I wish to express my sincere gratitude to all my lecturers at the School of Business, University of Education, Winneba Kumasi campus during the MBA programme.

I ascribe special appreciation to Mrs. Kate Oppong Mensah (General Manager, S-class services Limited, VITO) and entire staff for their great love, care, understanding, patience, encouragement, contributions and prayers towards the successful completion of this dissertation and my postgraduate education. Worthy of praise is my family. My special appreciation goes to my wife Nana Akua Korankyewaa for the greatest love and care and the Hon. Oduro-Ofrikyi and Mr. Robert Korankye families for their love, care, support and encouragement.

DEDICATION

This dissertation is dedicated to my Dear wife Nana Akua Korankyewaa and my late parent's Hon. Oduro-Ofrikyi Philip and Madam Georgina Serwaa.

ABSTRACT

The study examined the financial performance of GCB Bank Limited from 2006 to 2015 using financial ratios and indicators. Annual data from financial reports and statements were employed from Ghana stock exchange on the internet to compute all performance indicators and ratios. The major financial ratios that was used to assess GCB Bank for the period was profitability and efficiency ratios, portfolio quality ratios, liquidity ratios, capital adequacy ratio. The results showed that GCB Bank was profitable. GCB Bank was more effective and sound in their use of deposits. The results further showed that GCB maintained good books in all activities. However, GCB Bank was sufficient in terms of their minimum capital adequacy ratio of 10% which was far higher than the legal requirement of banking sector.

Recommendations offered in the study were that the GCB bank should be creative and innovative in asset and product creation to be able to increase their total income. The bank should also try and reduce the cost of operations whiles increasing the total income. GCB bank should have a strong and well-resourced credit risk department and a loan monitoring and rigorous loan recovery team. Finally, GCB Bank should keep accurate update on the stock exchange to enable them raise enough capital and dilute the percentage of government's shareholding.

Recommendations for further studies and research is to is to use different accounting ratios to conduct detailed research in other area other than what has been discussed.

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CHAPTER ONE

INTRODUCTION

1.0 Introduction

1.1 Background to the Study

Assessing the health of an economy can be accomplished by studying the financial performance of it banks (Haque and sharma, 2011). The past decade has seen the world witnessing one of the most shocking financial meltdowns. The effects of the crisis were pervasive and hit almost every sector of global businesses; the most affected sector was the financial services industry, particularly the banking sector. The banking sector did not only witness the intense disappearance of the most renowned institutions like Leman-Brothers and Bear Stearns, it also became a regular target for tougher regulations, public anger and academic criticism (Torben 2009). There are numerous explanations on the causes of the current financial crisis. It seems that risk management has become an important tool, from which banks try to achieve legitimacy in the eyes of the public and regulators.

This triggering effect has given stakeholders in the Ghanaian banking industry cause not only to consider the returns made in the sector, but also critically examine frameworks used to manage risks in the sector and safeguard their interests (Valencia, 2010; Nocera, 2009). This is because the failures faced by the industry in recent times have been blamed largely on the weaknesses of the regulatory frameworks and the risk management practices of the financial institutions. The greatest impact of the crisis has been on the banking industry where some banks which was previously performing well suddenly announced large losses with some of them going burst.

The banking sector is considered to be an important source of financing for most businesses in most countries, including Ghana. Entrepreneurs obtain loans from the banks for the expansion of their existing businesses or commencing new ones (Weston & Copeland, 1996). The banks accept savings from the public and make money available for customers on demand and also serve as safe custodians of personal properties and documents of their clients. The banks again act as agents of payment on behalf of customers as well as providing them with advice concerning major investment and financial decisions (Rose, 1999). Technological development makes it possible that money could be transferred from within boundaries of a country or even from one country to another and the banks play key role in such transactions (Wood & Sangster, 2002).

Ghana has a diverse financial system, made up of foreign and local major banks, rural and community banks, savings and loans companies, microfinance institutions, leasing companies, discounting houses and insurance companies. Ghana's financial system is dominated by foreign-owned banks (BOG, 2010). Commercial banks account for 75% of the total assets of the financial system, pension funds follow distantly with a 12% share, and the insurance sector is small with 4%. The remaining percentage is held by the community and rural banks and other quasi-banking institutions and the securities industry.

Standard Chartered bank, formally known as Bank of British West Africa started operation in Ghana in 1885 with its first branch in Accra. Its success story paved way for other banks to troop into the then Gold Coast; Colonial Bank in 1918, the National Bank of South Africa and Barclays Bank. (www.bog.gov.gh). Until the establishment

of Ghana Commercial Bank in 1953, the period between 1920 and 1950 had only Standard Chartered and Barclays Bank in operation and this first indigenous bank was to curtail the overly control of the two foreign banks. The establishment of the Bank of Ghana followed in 1957 to manage all banks and be in charge of the currency. The banking sector expanded and in 1974, the country saw the establishment of Development Financial Institutions (DFI) to render financial services apart from commercial banking such as development/ investment, agriculture and merchant. With the passage of time, most of these banks have been privatized and others have gone into bankruptcy. Among the reasons alluded for the collapse and privatization of some of these banks were poor profitability performance, poor liquidity performance and poor credit quality/ performance (Prof. Omane-Antwi, 2013).

With the introduction of financial sector have experienced various changes in terms of regulations and technology from the central bank, influx of foreign and local banks, technological advancement, high cost of funds and the depreciation of the cedi. Notwithstanding, there have been an increase in cost and a growing competition for these banks and this has affected their financial performances. According to Bragg (2012), financial performance is the level of performance of a business over a specified period of time, expressed in terms of overall profits and losses during that time. Evaluating the financial performance of a business helps directors, managers, owners, prospective investors and the public at large to access the outcomes of the strategies employed by the business in terms of their monetary value. Financial analysis is a way of presenting the overall financial performance of a financial institution in a structured and a logical way.

1.2 Statement of the Problem

The measurement of bank efficiency is crucial because they play vital roles in the financial system of every economy, which contributes immensely to economic stability and development. Inefficiencies in the industry can impede economic growth, since they are the main financial intermediation channels between savings and investments in every economy.

A bank operating soundly financially is a sign of good standings not only to depositors but also to shareholders, employees and the whole economy. In line with this efforts have been put in place to efficiently and effectively measure the financial position of the bank (Din Sangmi, 2010). The stability of banks as a whole in the economy depends on better financial performance. Better financial performance level has tendency to absorb risks and shocks that banks can face. Better financial performance depends on the liquidity position, profitability performance, quality of credit and capital adequacy of the bank.

Banks financial statements are difficult to understand. It has therefore become a complex task for stakeholders without basic accounting knowledge to make meaning out of those statements (Bank for International Settlements, 2010). Most researchers (Boisjoly, 2009; Ayadi et al., 2009; Cetorelli & Goldberg, 2012) in developed countries have analysed financial statements of banks for the benefits of stakeholders. Only few researchers or studies have focused on analysing the financial statements of some of the financial institutions in developing countries such as Ghana. Since the macro and micro economic indicators and dynamics in developed and developing countries vary significantly (Cetorelli & Goldberg, 2012), there is the likelihood that

there will be significant difference in the performance analysis of respective banks' performance in these countries. Due to these challenges, it has become necessary that some selected financial statements are analysed and interpreted to the stakeholders to meet their peculiar circumstances within the cultural context of the Ghanaian economy.

1.3 Purpose of the Study

The purpose of the study was to assess the financial performance of GCB bank using accounting ratios (2006 – 2015) and to show how the analysis of the financial conditions of the banks will benefit the stakeholders of the bank and the country as well.

1.4 Objective of the Study

The main purpose of the study was to analyse the financial performance of GCB Ltd for the period of 2006 to 2015, using accounting ratios.

The specific objectives are to:

1. Use ratios to assess the profitability of GCB bank in terms of financial performance.
2. Use ratios to assess the liquidity position of GCB bank and to ascertain whether the bank can meet customers and creditors demand as and when required.
3. Assess credit quality of the GCB bank from 2006 to 2015.
4. Assess whether GCB bank meet the regulated minimum capital adequacy ratio.

1.5 Research Questions

1. To what extent is GCB Bank profitable for the period 2006 - 2015?

2. What is the liquidity position of the GCB banks for the period 2006 – 2015?
3. What are credit qualities of GCB Bank?
4. Does GCB bank meet the regulated minimum capital adequacy ratio?

1.6 Significant of the Study

The study is very significant in the sense that it would provide simple guidelines to those concerned with analysis of the financial conditions of banks. The study is intended mostly to guide bank customers, shareholders and other stakeholders with little or no knowledge in financial accounting to provide them with basic tools of financial statements analyses and to assist them ascertain the financial health of their banks. Also it is significant because it will help shape policy directions of the banks' management. This work will not only practical contribute to knowledge, but as well assist as evidence to policy makers, operators and regulations in the banking sector on how transform the Ghanaian Banking Sector into one of the safest and fastest growing banking sector among the emerging economies.

1.7 The scope of the Study

The scope of the study is to focus on evaluation of financial performance of GCB Bank, its profitability, liquidity, Investor and trend analysis in meeting the needs and satisfaction of customers. This study will also be limited to the financial statement of the GCB bank. In achieving the objectives of the study, the researcher will undertake calculations on the immediate ten (10) years (2006 - 2015) financial statement of GCB Bank on the stock exchange. It is expected that, this work would deliver very useful insights into the area of financial performance and contribute to general effectiveness in the banking sector.

1.8 Limitation of the Study

The limitation of the study spells out the restrictions that the researcher faced during the study which are finance, time and source of information and attitude of respondents.

- Finance: The research work is financed by the researcher alone without any financial support from both the school and the organization been researched into.
- Time: The researchers' work would carry out concurrently with the courses offered. The project therefore was competing with other academic activities for scare time.

1.9 Organisation of the Study

This study discusses accounting ratios, analysis and interpretation of financial statement in a business organisation and is divided into five chapters.

- Chapter one explains what the topic is about and why it is important to study it. The chapter covers sub-headings such as background to the study, statement of the problem, objective of the study, research question, significance of the study, scope of the study, limitation and organisation of the study.
- Chapter two provides literature support for the study. It covers review of existing literature on banking. Some of the sub-topics reviewed were evolution of banking, history of commercial banking in Ghana, legal perspectives of banking business in Ghana, functions of commercial banks, ratio analysis and financial performance. The study further reviewed on the liquidity, profitability,

investment ratios, capital adequacy and limitations to ratios as a tool for analysis.

- Chapter three contains discussions on the methodology, comprising the population, sample and sampling procedure, sources of data, ethical considerations and method of data analysis.
- Chapter four of the study analyse results and discuss findings
- Chapter five covers the summary, conclusions and recommendations of the study.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter reviewed the historical background of banking as an industry and also the history and legal perspective of banking in Ghana, including history peculiar to the two banks. It also reviewed commercial banks and their functions in general. The chapter goes on to review the theoretical references of some key ratios as a tool of analysing financial statements, their usefulness and limitations as literature support for the study are all found in this chapter. This chapter look into the key idea and theories around which the study is built, clarify, interprets and summaries these concepts and theories in relation to the study.

2.1 Financial Statement Analysis - Definition

According to Williams et al (2006) financial statement analysis involves the assessment of a company's accounting information to forecast risk and determine potential returns on the basis for economic decision making. Larson et al (1999) defined financial statement analysis as "the application of analytical tools to general financial statements and related data for making business decisions" (p. 774). Their explanation was that it leads to a higher degree of certainty since it reduces or minimizes reliance on guesses and intuition. They further referred to them as reports on the conditions in an organization and their performances financially.

According to Pinches (1994), the balance sheet of a firm reports not only its assets but also, liabilities and stockholder's equity whereas the income statement of the firm presents operations in a given period of time usually within a year. These reports usually gives information about the future cash flows and this analysis is pointed at understanding the trends that explain the risk, timing and magnitude of the future cash flows of the firm. Records that give indication of an individual organization's or businesses‟ financial status according to www.wisegeek.com is known as financial statement. A famous quote by Abraham Briloff in June 1999 that "**Financial statements are like fine perfume: to be sniffed but not swallowed."**http://www.investorhome.com/company, is one of the many calls for critical analysis of financial statements. This call has been vindicated by a number of corporate collapses of giant multinationals whose financial statements painted bright pictures until their unexpected demise. Enron and Worldcom are two classic cases of companies whose financial reports were significantly at variance with operational realities on the ground.

2.1.1 Components of Financial Statements

Many authors have defined components of financial statements to encompass the financial statement of a firm, retained earnings and cash flow as well as income statement and a statement that gives the financial position of a firm. Investor words list and defines four financial statements as follows:

- Income statement- An accounting of sales, expenses and net profit for a given period
- Statement of retained earnings- A document that reflects the amount of income received for the fiscal year.

- Statement of financial position- It includes assets, liabilities and net worth of company in a given period of time written in the form of a quantitative summary. A quantitative summary of a company's financial condition at a point in time, including assets, liabilities and net worth. The assets are displayed in the first of the balance sheet whereas the liabilities and shareholder's equity are presented in the second part.
- Cash flow statement- A summary of a company's cash receipts and payments over a given period.

Wild (2005) in his work explains income statement as descriptions of a company's revenue and expenses and explains statement of retained earnings as changes in the retained earnings from net income and dividends within a time frame. He also explains statement of a\financial position as a description of the financial position in terms of assets and liabilities in a given period and finally defines cash flow statement as receipts and cash outflows over a period of time. (p.17)

A more general definition covers the entire published accounts i.e. directors‟ and auditors‟ reports, audit committee reports, income statement, statement of financial position, statement of retained earnings, cash flow statements and notes to the accounts. Brigham et al (1999) submit that there are two types of information given in annual reports – verbal statements, describing the results from the firms operation over the past year and focuses on developing future operations.

The other type is a written report presented in four basic financial statements namely the income statement, statement of financial position, retained earnings statement and the statement of changes in financial position. Taken together, the financial statements report actual happenings in terms of earnings and dividends the verbal information

explain why things turned out the way they did. Brigham et al (1999) further contended that the real value of financial statements lies in the fact that they are most useful in predicting future earnings of the firm, dividends and riskiness of cash inflows.

Williams et al (2006) draw a distinction between classified financial statements in which items with certain characteristics are placed together in a group and comparative financial statements which show amounts for several periods side by side in a vertical column. Similarly Larson et al (1999) give two types of financial statements: a) general purpose financial statements, and b) comparative financial statements. They explain general purpose financial statements to include income statement, statement of financial position, and statement of changes in shareholders‟ funds, cash flow statement and notes related to the statements. According to them, comparative financial statements place amounts for two or more successive periods alongside each other for easy comparison.

In this study, „financial statements‟ refer to statement of financial position, income statement and retained earnings statements and cash flow statement. Analysis of financial statements involves a careful and critical investigation of the aforementioned reports to establish the financial health, comparable risks and returns of the selected banks.

2.1.2 Users and uses of Financial Statements

According to Larson et al (1999), financial statements are useful in revealing a snapshot of an organisation's financial health and performance to decision makers,

such as lenders, investors, managers, suppliers and customers. Dransfield (2002) outlines the following users and uses of financial statements:

Investors – individuals or institutions that buy shares in companies and become part owners. These people use financial statement to ascertain the commercial viability of the company they wants to invest in.

Employees – individuals or groups of individuals such as trade unions use financial statements to determine their job security as well as the prospects for improvement in their employment terms.

Lenders – banks, finance houses and other credit agencies study financial reports of companies in determining their credit worthiness as well as growth potentials.

Suppliers and other Creditors – ability of clients to pay for supplies in good time is a major determinant in the granting of credit. Suppliers are therefore very mindful of this in setting their supply and credit policies for their clients.

Customers – continuity of customers‟ business is largely dependent on the existence and continuity of their suppliers‟ business. For this reason customers will study critically, available financial reports of suppliers to ascertain the sustainability of their businesses.

Government – besides the tax assessment needs, governments and their agencies study critically financial statements especially of key companies which help drive and accelerate economic developments.

Public – the wider public use financial statements for research, assessment of a company's contribution to both the immediate and larger community

Journalists – financial and business journalists use such reports to ascertain the health of specific sectors in an economy and the economy as a whole. Through publication

of their findings, company promoters and investors at large obtain an indication of viable business avenues.

In spite of the usefulness of financial statements, they do not always provide answers to the many questions of stakeholders. In some cases answers provided may not reflect the reality for a number of reasons. The desire of directors to present favourable picture of their companies and by inference their stewardship may lead to disregard for the principles/ concepts of accrual, prudence and conservatism. In extreme cases this may lead to deliberate misinformation. Secondly, financial statements may just turn to be only an approximation of reality since it reports are mostly selective of economic events. It also employs the use of non-comparable accounting methods and estimates and as such may tend to lag reality.

2.2 Performance Measurement and Analysis

According to investorwords.com, performance measurements quantitatively give important indications of a company's products, services, the processes that produce them and the results from these processes. Performance measurements show;

- How well a company is doing
- If a company is meeting its goals
- If customers are satisfied
- If processes are in statistical control
- If and where improvements are necessary
- What the future holds for the company

They are mostly tools that aim in understanding, managing and improving what organizations do, providing information essential in making intelligent decisions

about a company. Two key financial performance measurement tools – ratio analysis and trend analysis will be discussed in this section.

2.3 Definitions of Accounting Ratios

Accounting: Accounting is the art of communicating financial information about a business entity to users such as shareholders and managers. The communication is generally in the form of financial statements that show in money terms the economic resources under the control of management.

Ratios: Ratio analysis can be applied to financial statements and other similar data in order to assess the performance of the company; to determine whether it is solvent and financially healthy; to assess the risk attached to its financial structure; and to analysis the returns generated for its shareholders and other interested parties. The term "accounting ratios" is used to describe significant relationship between figures shown on a balance sheet, in a profit and loss account, in a budgetary control system or in any other part of accounting organization. Accounting ratios thus shows the relationship between accounting data.

Ratio analysis is the most widely used technique for interpreting and comparing financial reports (Jennings, 2005). According to Jennings, it is simply one number expressed in terms of another number to show the relationship between the two numbers. Ratios are useful because they can be used to summarise briefly the relationship and results that are significant to and appreciation of critical business indicators and performance. Moreover, ratios are particularly useful for the purpose of comparing performance of different companies given that aggregate are always misleading.

Empirical figures have often been used as a means of measuring banks performance by either the use of profitability index, the stock price of the bank, and return on asset as a measure of performance (Rose, 1999). McNaughton and Barltrop (as cited in Barnes, 2005) posit that return on equity can be used for measuring a bank's performance. By the above authoritative views, profitability, return on assets, and return on equity and the performance of the shares on the stock exchange are the key indicators of banks performance this can be done by the use of ratio analysis.

Wild (2005) defines ratio analysis as an expression of a mathematical relationship between quantities expressed as percent (e.g. 25%) (2.5 times) or proportion (e.g. 2.5 to 1). He further contends that the significance of ratios can only be appreciated when referred to on occasionally as unequal relations. Financial ratio analysis is the calculation and comparison of ratios which are derived from the information in a company's financial statements. The level and historical trends of these ratios give indications of a company's financial condition, its operations, management efficiencies, prospects and attractiveness on an investment avenue.

Financial ratio is calculated from one or more pieces of information from a company's financial statements. For example, the "gross margin" is the gross profit from operations divided by the total sales or revenues of a company, expressed in percentage terms. In isolation, a financial ratio is a useless piece of information. In context, however, a financial ratio can give a financial analysis an excellent picture of a company's situation and trends that are developing.

Ratio analysis involves comparisons of company ratios with those of other firms in the same industry, and same year (Deakin, 2007). Also, managers usually go a step

further and compare their ratios with those of smaller set of leading companies in their industry. This technique is called benchmarking. With benchmark, ratios are calculated for each company and they are listed in descending order to know which company is more viable (Foster, 2009). The essence of the financial soundness of a company lies in balancing its goals, commercial strategy, product-market choices and resultant financial needs. The company should have financial capability and flexibility to pursue its commercial strategy.

According to (Butters 1981), ratio analysis is a very useful analytical technique to raise pertinent questions on a number of managerial issues. While assessing the financial health of a company with the help of ratio analysis answers to questions relating to the company's profitability, as sets utilization, liquidity, financing and strategies capabilities may be sought.

2.3.1 Essence of Ratios Analysis

According to Butters (1981), ratio analysis is a very useful investigative technique to raise appropriate questions on a number of managerial issues. While assessing the financial well-being of a company with the help of ratio analysis answers to questions concerning the company's profitability, as sets utilization, liquidity, financing and strategies capabilities may be sought. The essence of the financial reliability of a company lies in matching its goals, commercial strategy, product-market choices and resultant financial needs. The company should have financial capability and flexibility to pursue its commercial strategy.

2.3.3 Standards of Comparison

Ratio analysis involves comparison for useful interpretation of financial statements. A single ratio in itself does not indicate favorable or unfavorable condition. It should be compared with some standard.

According to Anthony and Reece (1975), standards of comparison may consist of:

- Past ratios**:** ratios calculated from the past financial statements of the same firm;
- Industry ratios: ratios of the industry to which the firm belongs.
- projected ratios: ratios developed using the projected or pro forma financial statements of the same firm and;
- competitors `ratios: ratios of some selected firms, especially the most progressive and successful competitor, at the same point in time

2.3.4 Time Series Analysis

This is the way used to evaluate the performance of a firm by comparing its current ratios with the past ratios. It gives an indication of the direction of change and reflects whether the firm's financial performance has improved, deteriorated or remained constant over time. (I. M Pandey, 1995)

2.3.4.1 Pro Forma Analysis

Sometimes future ratios are used as a standard of comparison. Future ratios can be developed from the pro forma financial statements. The comparison of current ratios and the future ratios shows the firm's relative strengths and weaknesses in the past ant the future ratios indicate weak financial position, corrective actions should be initiated. (I. M Pandey, 1995)

2.3.4.2 Industry Analysis

To determine the financial condition and performance of a firm, its ratios may be compared with average ratios of industry of which a firm is a member. This sort of analysis helps to ascertain financial standing and capability of the firm vis-à-vis other firms in the industry. Industry ratios are important standards in view of the fact each industry has its characteristics which influence the financial and operating relationship. (I. M Pandey, 1995).

2.3.4.4 Cross-Sectional Analysis

It consists at comparing ratios of one firm with some selected firms in the same industry at the same point of time. This kind of a comparison indicates the relative financial position and performance of the firm. A firm can hardly resort to such a comparison, as it is difficult to get the published financial statements of the similar firm. (I. M Pandey, 1995)

2.3.5 Benefits of Ratios Analysis:

Ratio analysis is an important and age-old technique of financial analysis. The following are some of the advantages / Benefits of ratio analysis:

1. Simplifies financial statements: It simplifies the comprehension of financial statements. Ratios tell the whole story of changes in the financial condition of the business
2. Facilitates inter-firm comparison: It provides data for inter-firm comparison. Ratios highlight the factors associated with successful and unsuccessful firm. They also reveal strong firms and weak firms, overvalued and undervalued firms.

3. Helps in planning: It helps in planning and forecasting. Ratios can assist management, in its basic functions of forecasting. Planning, co-ordination, control and communications.
4. Makes inter-firm comparison possible: Ratios analysis also makes possible comparison of the performance of different divisions of the firm. The ratios are helpful in deciding about their efficiency or otherwise in the past and likely performance in the future.
5. Help in investment decisions: It helps in investment decisions in the case of investors and lending decisions in the case of bankers etc.

2.3.6 Limitations to Ratios as a Tool for Analysis

The ratios analysis is one of the most powerful tools of financial management. Though ratios are simple to calculate and easy to understand, they suffer from serious limitations. This study is based primarily on usefulness of ratios in general and banks' stakeholders in particular. Wood and Sangster (2002) shared the same views that, ratio analysis has the following importance: It provides the framework for decision making, it is used by analyst to judge the performance of the company, it is used for credit analysis by banks to make judgments whether to grant credits, investors use them as a determining factor for their investment decisions.

However, Foster (2009) also pointed out some limitation that may hamper their usefulness. According to Foster (2009), ratios may be different according to operating practices of the commercial banks and can distort comparisons. For example, inventory valuation and depreciation methods affect financial statement; this may distort comparison among commercial banks because methods adopted differ from bank to bank. Foster (2009) added that it is difficult to generalise about whether or not

a particular ratio is good. For example, a high current ratio may indicate a strong liquidity position, which is good or excessive cash that is bad because excess cash in the bank is a non-earning asset.

Also, inflation may have badly distorted the company's balance sheet, that is, recorded values are often substantially different from true values (Salmi & Martikainen, 2009). Therefore, depreciation charges, inventory costs and profits may also be affected. When univariant analysis technique is used, some ratios look good while others may look bad making difficult to judge whether the company is performing good or bad (Ezzamel, Mar-Molinero 2009 & Beecher, 2007). Commercial banks also employ window dressing techniques to make their financial statement look better than they really are so as to attract interested parties such as investors and Financial Institutions.

According to Ezzamel and Mar-Molinero (2009), those ratios targeted to compare performance against the industrial standard may not be effective because the industrial standard may not exist. Thus although the ratios as bases of decision making is universally accepted as close to reality, it is not hundred percent safe therefore personal observation and judgment may also complement information got from the ratios.

2.3.7 Financial ratios as measurement indicator

The Net Profit to Capital Employed ratio mentioned measures the success of a company in using funds available to it. There are ratios to measure the company's:

- Financial health
- Operating performance

- Cash flows and liquidity

Under each category, there are multiple ratios that measure different aspects, and or fine adjust the measurements. More likely, different profitability ratios measure profit margins at different stage return on owners' funds.

Categories of different ratios this study looked at include the following:

a) Profitability ratios

b) Liquidity ratios

c) Investors ratio

d) Trend analysis

2.3.8 Categories of Ratios

Financial ratio analysis groups the ratios into categories which differentiate elements of a company's finances and operations. Like the ratios themselves, groupings or categories tend to vary widely depending on who is analysing and what the objective of the analysis is. As explained by Wild (2005), financial statement analysis focuses on one or more elements of a company's financial condition or performance and describes liquidity and efficiency, solvency, profitability and market as the four building blocks of financial statement. Brigham et al (1999) categorised financial ratios into liquidity, asset management, debt management, profitability and market value ratios.

In this study, four main groups or categories of ratios were reviewed. They are profitability, liquidity, credit quality and capital adequacy ratios. These ratios are examined in details one after the other in chapter three.

2.4 Measuring of Financial Performance

Financial performance evaluation entails the analysis of the level of financial and economic performance using both the qualitative and the quantitative data. In the case of qualitative they cannot be quantified but they basically influence the performance of the entities (Wood & Sangster, 2002). Financial performance can easily be calculated by looking at the components of the financial statement which are the income statements, balance sheet and the statement of equity changes (ACCA, 2007; Gorton, 2009).

These components help to depict the true picture of the business by relating the items of the components of the financial statement. A comparison of ratios of the same firm over time is important in evaluating changes and trends in the firm's financial condition including profitability. This comparison may be judged with those of similar firms in the same line of business. This seeks to establish the relationships with the set of financial statements at a point in time which will represent trends in these relationships over time (ACCA, 2007; Frecka & Hopwood, 2010).

Financial statements analysis involves the analysis and interpretations of financial statements in order to identify the strength and weakness of the company. The financial statements analysis is the process of establishing the relationship between various items of balances sheet and income statements (Lewellen, 2003). According to Lewellen, financial statement analysis is part of information processing system on which informed decisions can be based on. The evaluation of financial statement takes the historical information for the number of years. The evaluation can be trends analysis or cross sectional analysis.

Normally the historical financial statements provide the reliable source of information for predicting the future performance of the business. Financial statement analysis seeks to satisfy various parties such as existing and potential stakeholders, employees, suppliers, competitors, governments, and the public at large. The needs of the above groups are different and each group has its own set of need for example management needs financial statement for profit maximisation but the shareholders need financial statement for wealth maximisation and overall prospect of the company (Foster, 2009 and McLeay, 2010).

2.6 Corporate Governance and Financial Ratios

Accounting information is important for rationalizing the decision of users of corporate reports in banks. Among the most important of the users groups are investors and creditors. Those users read the contents of the financial statements and calculate a variety of financial indicators before they make credit and investing decisions, because they believe that financial indicators have productive power. Among the most widely used indicators are financial ratios. Financial ratios are used for a number of reasons, to value firms, to differentiate creditworthy companies from others, to identify acquisition targets and to indicate the process of organizational turnaround.

The usefulness of financial indicators depends on the integrity of the financial statements. The integrity of financial statements discloses is directly related to the quality of a firm corporate governance practices. Agency conflict encounter between controlling shareholders and minority investors are found to account for significant portion of earnings management in Ghana listed firms. Corporate governance

practices are also found to impact credit ratings the cost of debt and firm value (Gompers et al 2003). Another perspective comes from studies that survey actual users of corporate reports. Some of this research finds that credit analysis and financial analysts attach particular importance to corporate reports. If this is the case, readers of corporate reports need to use analytical approaches to evaluate the financial information. One of the most approaches is financial ratios, European Journal of Economics, Finance and Administrative Science (2008).

2.7 Evolution of Banking

Banking is as old as authentic history (Addo-Fening, 1996). According to Addo-Fening, as early as 2000 B.C Babylonians have developed a system of banks. In ancient Greece and Rome the practice of granting credit was widely prevalent. Credit by compensation and transfer orders were found in Assyria, Phoenicia and Egypt even before the system developed in Greece and Rome (Dyson, 1996). Also the book of the old Sanskrit law giver is full of regulations governing credit. Evidence show that, the Sanskrit sat in judicial proceedings in which credit instruments were called for and issues concerning interest on loans to bankers were resolved (Shekhar, 2005). In Rome the bankers were called Argentarii, Mensarii or Callybistoe, and the banks were known as Tabernoe Argentarioe. Some of the banks carried businesses on their own account while some represented the government to collect tax on her behalf. By means of cheques and draft people settled their accounts with their creditors. When the creditor also had an account with the same bank, the debt was settled by set-off (Shekhar, 2005).

During the early periods banking business was dominated by private people, some nation's established public banks for facilitating government business. The Bank of Venice for example was established in 1157, is supposed to be the most ancient bank mostly used for government business (Block & Hirt, 1992). In another perspective, Bank was said to have originated from French word 'banque' and Italian word 'banca' respectively (Rundell & Fox, 2002). The words used some centuries ago to mean 'bench' or 'money changers' The functions of banks today, coupled with historian accession of statements above are classical description of banks existence over 2000 years ago.

The first institution that functioned as bank originated from Greece. They provided their own capital but with time attracting depositors and receiving temporary loans from worthy customers for operating the bank such that loans were made available for needing, but credible customers (Rose, 1999). This is the history behind intermediation functions rendered by the banks nowadays. According to Shekhar (2005), another version of the history says that, as early as 1349, the business of banking was carried on by drapers of Barcelona which was subject to rigid official regulation in terms of providing sufficient security that is required in the banking sector today. During 1401 a public bank was established in Barcelona to perform all the functions of a bank on behalf of both citizens and foreigners. The bank of Amsterdam was established in 1609 to meet the business requirement of the merchants of that city (Barltrop & McNaughton, 1992; Shekhar, 2005).

Finally, the beginning of banking in England may correctly be attributed to the Goldsmiths in the capital, London. They used to receive their customer valuable and

fund for safe custody and issued receipts of same. These notes in course of time became payable to bearer on demand and hence enjoyed considerable circulation. The Goldsmiths notes may be seen as the prelude of the bank notes we use today. Therefore the Goldsmiths activities marked a positive turning-point in the history of English banking which resulted in the growth of private banking and the establishment of the 'Bank of England' in 1694 (Shekhar, 2005).

Both Collin (1993) and Jain (2010) registered different definitions of 'Bank'. According to Collin (1993) a bank is a business which holds money for its clients, which lends money at interest, and trades generally in money. Jain (2010) sees Bank as an establishment for lending, issuing, borrowing, exchanging, and safeguarding money together with all accompanying services. Both writers defined it in terms of functions performed by the bank especially viewing it from financial functions perspective. The combination of the two definitions is assertive of the fact that banking business originated as far as history.

2.7.1 History of Commercial Banking in Ghana

According to Rose (1999), commercial banks are the most important type of financial institutions in almost every nation in terms of aggregate assets. Rose posits further that commercial banking is one of the oldest industries and the first bank of its kind was first organised in the United States of America even before the federal constitution was adopted for the country. Collin (1993) defined commercial bank as a bank which offers banking services to the public, as opposed to a Merchant bank. The business of commercial banking is very broad and far reaching. The importance of

commercial banks can best be illustrated by the explanation of the major functions (Philips, 2002).

Historically, the first commercial bank to operate in Ghana was the Bank of British West Africa (BBWA) now Standard Chartered established in 1896 with only one branch in Accra (Fry as cited in Addo-Fening, 1996). In 1917 Barclays DCO now Barclays Bank of Ghana (BBG) Limited also join to finance the then booming foreign trade mainly between Ghana and Britain. These two banks were international banks incorporated in Britain with branches in Ghana. According to Addo-Fening (1996), though the two banks were responsible for handling all commercial banking services in the country, their extension of credit to the indigenous Ghanaians to undergo their farming and trade activities was a problem. This coupled with the fact that the country was becoming independent and there was the need for indigenous banks, the citizens agitated for it and the Bank for Gold Coast (BGC) was established.

When Ghana attained independence in 1957, it was decided that the BGC be split into two separate banks namely; The Bank of Ghana (BOG) and the Ghana Commercial Bank (GCB). The BOG shall be the Central Bank of Ghana. (Act 616 (2) 1), and shall support the general economic policy of the government, promote economic growth and effective and efficient operation of banking and credit system in the country. The BOG shall be independent of instructions from the Government or any other authority (Act 616, (3) 2). The GCB was so named because the split was intended to create it so that it can focus solely on commercial banking services (Anin, 2000).

The Commercial Bank from a humble beginning, pursued expansion projects that saw tremendous success through opening of more branches in all the ten regions in Ghana culminating in it being the largest commercial bank in terms of physical assets, branches and customer outreach over almost three decades until the proliferation of banks today (Anin, 2000). Consequently, the two original expatriate banks (Standard Chartered and Barclays Bank), and (the Ghana Commercial Bank) constitute the primary commercial banks in the country. The three have strong goodwill and have since dominated the commercial banking system in Ghana (Institute of Statistical, Social and Economic Research, 2012).

2.7.2 Functions of Commercial Banks

According to Ranlett (as cited in Allen et al., 2011), the term 'Commercial Bank' refers to those banks that maintain checking account or more properly demand deposits for the public. The functions rendered by the commercial banks are enormous. It is therefore the reason why their financial condition is crucial to stakeholders. These functions include the following:

Maintaining a safe-keeping of valuables: this is one of the oldest services provided by the commercial banks. They have vaults that are difficult to break and enter even by the best of burglars and have established a record of proper custody either by safe deposit boxes or safe-keeping (Barth, Caprio & Levine, 2001). Safe deposit box is the box that is lockable and located in a vault of a bank and can be leased out to a customer. Under such arrangement customers have control over their valuables at all times. The bank provides the vault, the box, and other facilities necessary for proper safety. The bank control access to the vault. The bank guarantees that the customer who had rented the box or his authorised agent is the only person permitted access to

the vault (Jain, 2010). Safe-keeping on the other hand differs from safe deposit box services in that the bank has custody of the valuables and act as an agent for custody. Safe-keeping is concerned primarily with caring for securities such as stocks and bonds (Reed & Gill, 2007).

Receiving time deposits at a low rate of interest and lend or invest in securities at a higher rate of interest. Such time deposits are kept in 'vaults cash' and are with drawable by customer's cheque. Receiving time deposits is an essential function of a commercial bank and form the principal part of assets of every commercial bank (Cetorelli & Goldberg, 2013). According to Cetorelli and Goldberg (2013), vault cash is the building of currency and coin in a bank.

Commercial banks also act as money changer. The banks sell and buy moneys of different nations to and from the customers and the general public when needed. They also sell bonds and other investment to customer. Customers of banks approach it as the best source of information for safe investments of personal and trust funds (Cetorelli & Goldberg, 2012). Under this arrangement large investments are made by engaging the services of brokers as specialist agent of the banks. According to Cetorelli and Goldberg (2012), commercial banks also act as trustees and business managers for investor customers especially as executors and administrators of estates or as guardian of minor successor.

Furthermore, commercial banks sell their credit and give promises to pay at some other place or some other time in return for a payment that yields profits (Cetorelli & Goldberg, 2013). According to Cetorelli and Goldberg (2013), one of the most important primary functions of a commercial bank is the extension of credit to

credible and worthy borrowers. Because of these important functions rendered by the commercial banks to their customers and the public, coupled with the huge investment and trust repose in them, it is important that their financial statements are analysed properly by expects to inform the stakeholders and the general public about their financial health.

2.7.3 Legal Perspectives of Banking Business in Ghana

According to the Government of Ghana (2004), the main reference of banking business in Ghana is the Banking Act (Act 673) and Banking Act Amendment (Act 2006). The abrogated earlier banking act of 1970 defines the business of banking as the acceptance of lending or investment purposes of deposits of money from the public repayable on demand and withdrawal by cheques, draft, orders or by other means. Also, the financing whether in whole or in part or by way of short, medium or long term loans or advances of trade, industry, commerce or agriculture (Government of Ghana, 2006). This definition has been preserved by the new act of 2004. The said definition embraces the activities of the Bank of Ghana, the Commercial Banks, the Merchant Banks, the Development Banks, the Rural and Community banks.

According to the Bank of Ghana Act, Act 616, (2002) the BoG shall be the bank for the Government of Ghana, and the bank for all other banks operating, in Ghana. Also the Banking Act, Act 673, (2004) is another set of act governing the business of banking in Ghana. The said law states among other things that the BoG shall have an overall supervisory and regulatory authority in all matters relating to banking business and is responsible for promoting an effective banking system, dealing with an unlawful or improper practice of banking, considering any proposing reform of the

laws relating to banking business and ensuring the soundness and stability of the financial system in the country (Bank of Ghana, 2009). The two laws, BoG Law: Act 616, (2002) and The Banking Law: Act 673, (2004) (as amended in 2006), coupled with the authority vested in the BoG, by those laws, are the laws guiding banking business in Ghana. The guidelines and principles of banking set up by the Institute of Bankers have also influence banking business in Ghana (Anin, 2000).

2.7.4 Economic Environment of Banking in Ghana

The past few years have seen a phenomenal growth in the Ghanaian banking sector. Ghana's financial sector according to the Bank of Ghana, hereafter (BoG) is well capitalised, very liquid, profitable and recording strong asset growth. The total banking system assets at the end of October 2009 were ¢78,353.0 billion, representing an annual growth of 35.5 percent, as against 16.6 percent as of the end of October 2009 (Ghana Statistical Service [GSS], 2010). The banking sector has emerged from severe financial and reputational damage resulting from economic recession and government debt in the 1980s and 90s, when Ghanaian banks and other financial institutions stopped lending to the private sector. The banking sector has seen major capital injection partly because of the political stability, attainment of micro and macro-economic stability and the government's desire to make Ghana the "financial hub" of the Sub-region (BoG, 2010).

Notwithstanding the current phenomenal growth in the financial sector, interest rates are still too high for the average Ghanaian worker and a great majority of Ghanaians are unbanked (BoG, 2011). High interest rates deter people from borrowing from the banks. The role of the global financial institutions is changing and so are the banks

operating in Ghana. The banking sector should explore ways in which they can take advantage of the government's policy of making the "private sector the engine of growth" to market their products. Further, there should be unwavering commitment to domestic resources mobilisation.

A concerted effort must be made to reverse the declining trends in the levels of savings. According to BoG (2011), over 75 percent of total currency issued by the BoG in 2010 is in the homes of citizens. A large pool of funds therefore circulates outside the formal financial system. Many Ghanaians still refer to keep disposable per capita income under beds, in metal boxes, or buried underground. Fire outbreak at Ghanaian markets are too numerous to list. The latest incident happened on March 15, 2013 at the Takoradi Market popularly referred to as the Market Circle. Billions of cedis (cash) were consumed in the fire. Savings culture is critically lacking in the Ghanaian society partly because of our history of military rule and sheer ignorance (GSS, 2010). The BoG should therefore begin to educate the population of the benefits associated with depositing monies with the banks. The "on-site cash collection" introduced by the BoG should be intensified to achieve it intended objective.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter discusses the methodology for the study. It explains methods and instruments used to collect, analyse and to test the hypothesis the use of accounting ratios to assess the financial performance of GCB bank for effective decision making. This chapter dilated on the study design, study area, population, sample size used and sampling procedure, sources of data, data collection and techniques, data processing and analysis. This section covers the methods that the researcher is going to use to acquire the necessary data to achieve the objective and to come up with appropriate conclusion.

3.1 Research Design

Research design refers to sketch, plan or strategy stipulating the technique to be used in scrutinizing the research problem. Saunders (2007) defines research design as the general plan of how the research questions would be answered. It is the conceptual structure within which research is conducted. It constitutes a blue print for the collection, measurement and analysis of data.

According to (Jill and Roger Hussey, 1997) the analytical research design is continuation of the descriptive research. The researcher goes beyond merely describing the characteristics to analysing and explaining why and how it is happening. Descriptive research often involves collecting information through data review, surveys, or observation, to ascertain and describe the characteristics of the pertinent issues of the problem under consideration. Descriptive research aims to

achieve the following goals: provide an accurate profile of a group or situation; give description to a process, mechanism or relationship; provide a verbal or numerical picture of the situation; source for information to stimulate new explanations; contextual presentation of basic background information; and categorization of the problems and documentation of information that contradicts prior beliefs about a subject. Explanatory research on the other hand is a continuation of descriptive research. The researcher goes beyond merely describing the characteristics of the situation or problem, to analysing and explaining the why or how the phenomenon being studied is happening. Thus, while descriptive research may be employed to identify and obtain information on the characteristics of a particular problem or issue, explanatory research aims to understand phenomena by discovering and measuring causal relations among them. Explanatory research is conducted when there is already a hypothesis as to why something is happening.

Secondary data was used for this research and it is where data already exist and it is also the most appropriate method. The research is plans to assess the financial performance of GCB banks using accounting ratios.

Secondary data are used because of the advantage of time saving and cost savings involved in data collection. More over secondary data techniques are used since majority of previous researchers tend to use them. Due to the nature of the study, descriptive design and survey research were adopted. Descriptive research involves collection of data in other to founds answers to unanswered questions concerning the current status of a subject (Lambert. 2012)

The study analysed the audited accounts of GCB bank on the stock exchange. This involves use of financial accounts of the GCB bank under assessment for the period; 2006-2015. This research study is designed to adopt the descriptive and analytical research methods. This is because it involves investigating, recording, analysing and interpreting data gathered from financial report of GCB bank. The study talks of the ratio's analysis approach adopted for this study. Thus, this research aims to understand the use of accounting ratios by measuring causal relation among the banks for decision making. The ratio analyses that were adopted for the work were some aspect of profitability, liquidity and gearing ratios used in the estimation and also through the use of other statistical instruments to investigate the financial performance of GCB bank.

3.2 Population

A population can be defined as the totality of persons or objects with which a study is concerned. The population of the study was GCB Bank. The study evaluated financial statement of GCB Bank between 2006 and 2015 on the stock exchange.

3.3 Sampling Technique and Sample Size

Purposive sampling was employed to enables the researcher to use his judgment to select cases that will best enable him to answer his research questions, and to meet the objectives of the study. The researcher's decision to use purposive sampling was that, looking at the large nature of the study area and the fact that the sample selected will help the researcher achieve its objective. The researcher used own judgment on the elements to be selected. The researcher deliberately selected the GCB banks

because it is one of the major state own banks in the country and it has the entire requisite information needed

3.4 Data Source

The study depended on secondary data. The data were collected from the financial statement of GCB banks selected for a period of ten year (2006 - 2015) for the study. This forms both academic and theoretical foundation of this research. The secondary data was sourced from the audited annual reports and financial statements of the GCB bank on Ghana Stock Exchange. Ratios analysis was used as a major tool in analysing the audited annual report and financial statements of GCB bank.

3.5 Data Collection Technique

This sub-section of the methodology chapter spells out how data has been collected for this study. Once the sample for the study has been chosen, the researcher downloaded all the financial statement of GCB bank from 2006 to 2015 from the Ghana Stock Exchange.

3.6 Data Reliability

Reliability refers to a measures ability to yield consistent results each time it is applied. In other words, reliable measures do not fluctuate from time to time unless the thing being measured has changed. The intent and purpose of the study was together an accurate data that will help to generate more empirical evidence from the study for policy decision in future and add knowledge to the subject area of this study. The study vexed as much as possible to ascertain the reliability and validity of the data collected for analysis from reliable source to support the study. For this reason,

the researcher made sure that the information obtained from GCB bank was relevant for the study as well as the ratio analysis made was properly checked.

3.7 Data analysis

Nachimias (1976) argue that data processing and analysis involves the transformation of data gathered from the field into a systematic categories and the transformation of these categories into codes to enable quantitative and qualitative analysis, tabulation; the data collected was classified into a meaningful manner for easy interpretation and understanding. The whole exercise involved calculations of different types of ratios to analyse, liquidity profitability, credit quality ratios and capital structure for numerous discriminant analysis for the secondary sources. Quantitative and qualitative analyses of data were employed. Various statistical analytical tools were used to analysed and these tools includes Microsoft Excel spread sheet and Stata.

In conclusion, the methods, processes, materials and tools that were employed for the execution of this study is so chosen to facilitate the most effective and efficient delivery of the study objectives.

The following ratios were calculated for the study;

1. Profitability ratios (return on equity, profit after tax margin, return on assets, and total operating income to total assets, cost income ratio, non-interest income to operating income and non-interest income to earning asset).
2. Liquidity ratios (liquid assets to total deposits, liquid assets to total assets, liquid assets to earning assets, net loans to total deposits and net loans to total assets).
3. Credit/portfolio quality ratios (NPL‟s to total loans, impairment charges to gross loans and loan portfolio profitability).
4. Capital structure (capital adequacy ratio)

3.7.1 Profitability Ratios

Profitability is the mostly used measure of a bank's performance. These ratios are used to determine the firm's ability in generating earnings whiles comparing it to its applicable expenses incurred within a particular time frame. These ratios show the firm's profitability after taking deducting all expenses and income taxes, the efficiency of operations, firm pricing policies, profitability on assets and to shareholders of the firm.

In finding out how well a bank is performing in terms of profits, the profitability ratios are mostly considered as the basic bank financial ratio. The higher the profitability ratio, the better in terms of performance of the bank. Ratios that were considered for measuring profit adequacy or otherwise of the GBC Bank include Return on equity, Profit after tax margin, return on assets, total operating income to total assets, cost income ratio, non-interest income to operating income and non-interesting to earning assets.

3.7.1.1 Return on Equity (ROE)

This is the yield on shareholders‟ investment after all obligations such as fixed interests have been taken. It is a measure of how well a company has used its reinvested earnings to generate additional earnings. It is generally used as a measure of a company's efficiency, in order words, how much profit a firm is able to generate given the resources provided by its shareholders. Investors usually look for companies with higher returns on equity.

$$\frac{\text{Net profit or profit after tax}}{\text{Shareholders fund or equity}} \times 100$$

3.7.1.2 Profit after Tax Margin

Represents that portion of total sales that is available to shareholders. This shows the percentage of income that a company actually earns per unit of amount of its sales. The higher the value of profit after tax margin, the better for the bank.

$$\frac{\text{Net profit or profit after tax}}{\text{Total income}} \times 100$$

3.7.1.3 Return on Assets (ROA)

Return on Assets is the yield or return on total assets invested in the operations of an organisation. It measures a company's profitability, equal to a fiscal year's earnings divided by its total assets expressed as a percentage. Investors usually looks for banks with higher return on assets.

$$\frac{\text{Net profit or profit after tax}}{\text{Total assets}} \times 100$$

3.7.1.4 Cost to Income Ratio

The cost income ratio is a key financial measure, particularly important in valuing banks. It shows a company's cost in relation to its income. The ratio gives investors a clear view of how efficiently the company is being run. The lower it is, the more profitable the bank will be. Changes in the ratio can 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.

$$\frac{\text{Non-interest expenses}}{\text{Operating income}} \times 100$$

3.7.1.5 Non-Interesting Income to Operating Income

Non-interest income is an income derived primarily from commissions and fees. Transaction fees, service fees, and monthly account service charges are examples of non-interest income. This ratio seeks to know the proportion of non-interest income to the total operating income of the banks. Banks charge fees that provide non-interest income as a way of generating revenue and ensure liquidity in the event of increased default rates.

$$\frac{\text{Non-interesting income}}{\text{Operating income}} \times 100$$

3.7.1.6 Non-Interest Income to Earning Assets

Earning assets are assets that generate income (interest, dividend, rent etc) for the bank.

$$\frac{\text{Non-interest income}}{\text{Earning assets}} \times 100$$

3.7.2 Liquidity Ratios

Liquidity indicates the ability of the bank to meet its financial obligations in a timely and effective manner. Samad (2004) states that *"liquidity is the life and blood of a commercial bank".* Liquidity ratios give a picture of a company's short-term financial situation or solvency, that is, they seek to assess the ease of raising cash or cash equivalents for the payment of immediate or short-term liabilities. The ratios which were be used are discussed in details.

3.7.2.1 Liquid Assets to Total Deposits

These are assets that are easily convertible to cash if there is the need to meet urgent financial obligations. It indicates that the bank is liquid enough to pay off its depositors in times of emergency such as sudden withdrawals. A higher ratio shows a better liquidity position of the bank as well as enhanced trust and confidence reposed by depositors.

$$\frac{\text{Liquid assets}}{\text{Total deposits}} \times 100$$

3.7.2.2 Liquid Assets to Total Assets

This ratio gives a picture of how liquid the total asset of the bank is. It normally does not show a picture of more than half of the total assets being liquid because most of the assets are loans and advances, other assets and fixed assets which are mostly huge.

$$\frac{\text{Liquid assets}}{\text{Total assets}} \times 100$$

3.7.2.3 Liquid Asset to Earning Assets

This ratio analysis shows how much of the earning assets are liquid that are easily convertible to cash to meet debt obligations. It must be noted that not all the liquid assets are earning assets.

$$\frac{\text{Liquid Assets}}{\text{Earning Assets}} \times 100$$

3.7.2.4 Net loans to Total Deposit Ratio

This measures total advances or loans granted by the bank in relation to its total deposits. A lower LDR means there is excess liquidity and hence less risky the bank is. Banks are primarily in business to mobilize deposits and grant loans. Out of the total deposit mobilized, banks are supposed to keep 10 percent as primary reserve with the Central Bank. The remaining 90 percent is available for assets creation and other things. This ratio assesses how much of the total deposits mobilized have been converted to loans.

$$\frac{\text{Net Loans}}{\text{Total deposit}} \times 100$$

3.7.2.5 Net Loans to Total Assets

This is a measure of the percentage of the bank's assets that are tied up in loans. It is a measure of the liquidity of the bank in terms of its total assets. A lower ratio means the more liquid the bank is.

$$\frac{\text{Net loans}}{\text{Total assets}} \times 100$$

3.7.3 Portfolio/Credit Quality Ratio

This ratio measures the risk that is associated with the bank's asset portfolio which is the quality of loans issued by the bank. These include Nonperforming loans to total loans, impairment charges to gross loans and loan portfolio profitability.

3.7.3.1 Non-Performing Loans to Total Loans

A non-performing loan is the sum of loans which customers have not made their scheduled payment. This ratio is the percentage of total loans that have been either in default or close to being in default. The higher the nonperforming loan the poorer the credit quality of the bank.

$$\frac{\text{Nonperforming loans}}{\text{Gross loans}} \times 100$$

3.7.3.2 Impairment Charges to Gross Loans

Impairment charge is the allowance for bad debt. it is a measure of the portion of a bank's loan portfolio that is likely to go bad. When a loan becomes uncollectible, it is taken off the books and the impairment is charged for the book value of the loan. The lower the impairment charges to gross loans the better.

$$\frac{\text{Impairment charges}}{\text{Gross loans}} \times 100$$

3.7.3.3 Loan Portfolio Profitability

This ratio measures the profitability of a bank's loan portfolio and its contribution to the total profitability of the bank. Negative percentage indicates that the loan portfolio at that point in time was not profitable.

$$\frac{\text{Int. income (Loans \& adv.)} - \text{prov. bad \& doubtful loans}}{\text{Net loans}} \times 100$$

3.7.4 Capital Structure

This looks at the capital structure and capital adequacy of banks. The ratio that was used is capital adequacy ratio.

3.7.4.1 Capital Adequacy Ratio (CAR)

This is the ratio of the bank's capital to risk. Regulators track a bank's CAR to ensure that it can absorb a reasonable amount of loss and compliance with statutory requirement. The regulated minimum CAR is 10%.

$$\frac{\text{Tier 1 Capital + Tier 2 Capital}}{\text{Risk weighted assets}} \times 100$$

CHAPTER FOUR

RESULTS/OUTCOME OF THE STUDY/FINDINGS AND DISCUSSION

4.0 Introduction

This chapter deals with the results and discussion of the findings. The findings have been obtained using variables and measurements shown in chapter three which produced ratios upon which analysis were premised, and the calculations were done from appendices provided. The ratios were interpreted to address the needs of the stakeholders of the banks as stated in the objectives of the study. The analysis was limited to ten years (2006 – 2015). The ratios used for the evaluation of their performance are mainly profitability ratios with some efficiency ratios, Portfolio Quality Ratios, Liquidity Ratios and Capital Structure & Financial Ratios which were used to assess managerial performance. The analysis is presented in the following sequence; first the descriptive analysis of the bank followed by the financial ratios analysis.

4.1 Descriptive Statistics

Descriptive statistics are conducted to state the mean differences among the variables within the observed period; and the descriptive results of these measures are reported in table 4.1. For the standard deviation, the higher the number, the more variance it is whiles the lesser the standard deviation, the more consistency it is among the years. The mean value of ROE is 24.6530 this shows that percentage of ROE is 25 % which is low while the standard deviation is 13.64226. The mean value of Profit after Tax margin (NPM) is 18.8080, this shows that percentage is 19% which indicate low value of profit margin while the standard deviation is 9.48667. The mean of ROA

ratio reads 2.8450 and its standard deviation is 1.64207, meanwhile, the mean of Total operating income/total assets is 14.6300 and its standard deviation is 3.02015. The mean of Cost Income Ratio is 54.7510 and its standard deviation is 19.97835. The mean of Non-interest income to operating income reads 27.6760 and its standard deviation is 6.92778. The mean of Non-interest income to earning asset is 4.8430 and its standard deviation is 1.40828. The mean value of Non-performing loans to total loans is 12.4920 this shows that its percentage as 13% which is low while the standard deviation is 7.95128. The Impairment charges to gross loans recorded a mean of 1.7200 which is very low and standard deviation of 1.77793.

Loan portfolio profitability recorded an average and standard deviation of 9.4420 and 6.37873 respectively. Liquid asset to total deposits, Liquid asset to total asset and Liquid assets to earning asset recorded a mean score of 58.1140, 44.4230 and 54.5790 respectively. They were checked for how variance they are and they recorded a standard deviation of 20.65803, 17.48406 and 22.91030 respectively. Net Loans to total deposit mean score reads 68.2630 this shows that percentage of 68% which is very high while the standard deviation is 29.81292 which means that its not consistent with its scores. However, the mean of Net Loans to total asset reads 49.9840 and its standard deviation is 18.01997; and the mean of Capital adequacy ratioreads 15.7240 and its standard deviation is 6.46772.

Table 4.1 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Return on equity (ROE)	10	9.11	49.07	24.6530	13.64226
Profit after tax margin	10	5.77	35.23	18.8080	9.48667
Return on assets (ROA)	10	.68	5.93	2.8450	1.64207
Total operating income/total assets	10	10.49	19.71	14.6300	3.02015
Cost Income Ratio	10	23.31	86.06	54.7510	19.97835
Non-interest income to operating income	10	15.45	38.73	27.6760	6.92778
Non-interest income to earning asset	10	3.13	7.30	4.8430	1.40828
Non-performing loans to total loans	10	2.00	26.00	12.4920	7.95128
Impairment charges to gross loans	10	.24	6.33	1.7200	1.77793
Loan portfolio profitability	10	-1.11	17.50	9.4420	6.37873
Liquid asset to total deposits	10	28.82	85.19	58.1140	20.65803
Liquid asset to total asset	10	18.93	66.50	44.4230	17.48406
Liquid assets to earning asset	10	21.66	85.53	54.5790	22.91030
Net Loans to total deposit	10	33.64	115.27	68.2630	29.81292
Net Loans to total asset	10	28.25	75.73	49.9840	18.01997
Capital adequacy ratio	10	10.00	32.56	15.7240	6.46772
Valid N (listwise)	10				

4.2 Bank Financial Performance and Financial Ratios

The significant that have occurred in the financial sector industry in all advanced economies has increased the importance of performance analysis for modern banks. Performance analysis is an important tool used by various agents operating either internally to the bank (e.g. managers) or who form part of the bank's external operating environment (e.g. regulators). Who is interested in bank's performance? the answer is that depositors, shareholders, regulators, managers, direct competitors, credit-rating companies, financial markets, and other market participants (Casu et al 2006). Performance measurements play an important role in understanding the determinants of successful performance of firms, such as banks. A bank's financial statements are valuable information sources to evaluate financial strengths and weaknesses of a bank and its business trends. Although the birr amounts found on these statements provide valuable insights into the financial performance and condition of the bank, the researcher typically use data from them to develop financial ratios to evaluate the bank financial performance.

4.2.1 Profitability & Efficiency Ratio

Profitability is a management concept with the objective of assessment bank's results from efficiency point of view both for entirely activity and for differently management compounds. From conceptual point of view, profitability represents the modality to achieve the major goal of bank's activity, respectively the maximization of profit in minimization risk conditions. In order to see how GCB Bank has been profitable ten years under the study, the study uses various profitability ratios. In banking the risk-reward trade-off is constantly present Risk taking generates higher expected earnings through various mechanisms For example granting high margin

loans to risky customers may increase earnings in the short term but it also increases the credit risk profile and the probability of future losses (KPMG, 1998).

Table 4.2 Profitability & Efficiency Ratio

Ratios	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Profitability & efficiency ratio										
Return on equity (ROE)	25.89	44.99	49.07	9.84	27.65	9.11	18.15	15.08	28.69	18.06
Profit after tax margin	20.47	35.23	32.99	5.77	14.49	9.01	19.94	16.95	20.94	12.29
Return on assets (ROA)	4.04	5.93	4.66	0.68	2.31	0.95	2.25	2.18	3.29	2.16
Total operating income/total assets	19.71	16.84	14.14	11.79	15.95	10.49	11.28	12.83	15.71	17.56
Cost Income Ratio	51.31	47.35	52.65	86.06	57.88	23.58	23.31	67.83	66.92	70.62
Non-interest income to operating income	28.37	19.47	22.64	28.51	15.45	34.48	28.84	38.73	28.31	31.96
Non-interest income to earning asset	7.30	3.86	3.92	4.32	3.13	4.14	3.86	5.84	5.16	6.90

Source: Computed from data presented in Annual Report

4.2.1.1 Return on Equity (ROE)

Return on Equity (ROE) is net profit to total equity. ROE is the most important indicator of the bank profitability and growth potential. ROE shows how well the firm had used resource of owners measured in percentage on each Ghana cedi of equity held in the bank. The findings and assessment of the study with regard to the number of years posits that ROE is the most important profitability indicator in the financial analysis. The results in table 4.2 shows that the ROE of GCB bank has been of more increase from 18.06% in 2006 to 28.69% in 2007 as compare in 2014 and 2015 which ROE was slightly less from 44.99% in 2014 to 25.89% in 2015. This is as a result of an increase in sales turnover by selling more business product or services in 2014. Again, it may be seen that the company increase profit margin between the years 2012 to 2013. However, the trend of ROE of GCB bank indicates that the bank is generating profit on Shareholders investment.

4.2.1.2 Profit after Tax Margin

Profit after Tax Margin ratio indicates profitability of the firm with regard to its total expenses. A high value of this ratio indicates that bank could make high profit with a given expenses (Gitman, 2004). During the period under review, GCB recorded its least margin of 5.77% in 2012. This is because the bank recorded a low income which could not significantly absorb the expenses. The bank had a margin of 35.23% in 2014 which was the highest percentage during the period under review, this is as a result of a constants expenses or a decrease in expenses. Aside the bank recording its highest net profit after tax in 2014, it made high income to cater for the operational expenses incurred during the year.

4.2.1.3 Return on Assets (ROA)

Return on Assets (ROA) is defined as the ratio of profit after tax to total asset. It reflects the efficiency with which banks deploy their assets. The higher the ROA, the most profitable is the bank. It was realized from Table 4.2 that GCB Bank recorded the lowest ROA score of 0.6% in 2012 and the next was recorded in the year 2010 with the ratio of 0.95%. The highest ROA ratio was recorded in 2014 with the ratio of 5.93% and was then reduced to 4.04% in 2015.

4.2.1.4 Cost Income Ratio

Cost Income Ratio is the cost per unit output of the banks. In other words, how much cost per Ghana cedi incurred in producing a unit output. This indicates how expensive or cheaper it is for the bank to produce a unit of output. The lower the (C/I) the better the performance of the bank is. From Table 4.2, GCB Bank performed well in year 2009 because it had the least C\I ratio (23.31%) and the next was in 2010 with a ratio of 23.58%. GCB Bank did not perform well in the year 2012 since it recorded the Cost Income Ratio of 86.06%.

4.2.1.5 Non-Interest Income to Operating Income Ratio

From table 4.2, GCB had its lowest Non-interest income to operating income ratio of 15.45 percent in 2011. The highest ratio was 2008 when it recorded 38.73%. GCB‟s ratios show that most of the banks income was coming from interest income from loans and investment.

4.2.1.6 Non-Interest Income to Earning Assets

The highest non-interest income to earning assets of GCB was 7.30% in 2014 and the lowest was 3.13% in 2010.

4.2.2 Portfolio Quality Ratios

Table 4.3 Portfolio Quality Ratios

Portfolio Quality Ratios	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**
Non-performing loans to total loans	13.50	12.42	17.00	26.00	15.00	19.00	2.00	2.00	3.00	15.00
Impairment charges to gross loans	1.75	0.96	1.07	1.74	6.33	2.78	0.80	1.09	0.44	0.24
Loan portfolio profitability	12.16	7.90	-0.98	-1.11	17.50	12.11	11.21	7.51	11.33	16.79

Source: Computed from data presented in Annual Report

4.2.2.1 Non-Performing Loans to Total Loans

Figures from table 4.3 above it was indicated that GCB Bank recorded impressive ratios. It recorded its highest ratio of 26.00% in 2012. It could be seen that GCB maintained good books in terms of loans and advances between the years 2007 and 2009. It recorded the least ratio of 2.00% in the years 2008 and 2009 and a rate of 3.00% in 2007.

4.2.2.2 Impairment Charge to Gross Loans

GCB Bank recorded low ratios. The highest ratio was recorded in 2011 and it was 6.33%. A significant portion of the loans slipped from performing to non-performing. The lowest ratio of 0.24% was recorded in the year 2006 and it was then increased by a 0.20% in the year 2007.

4.2.2.3 Loan Portfolio Profitability

GCB Bank`s loan portfolio was not profitable in the years 2012 and 2013. The highest loss recorded was 1.11% and that was in 2012. The lowest profitability was recorded in 2008 with a percentage of 7.51.

4.2.3 Liquidity Ratios

Liquidity ratios in a bank demonstrate the ability to pay its current obligations. Generally, but not always, the higher the value of the ratio, the larger the margin of safety that a bank possesses to cover short-term obligations (Fabozzi & Peterson, 2003). For liquidity position to be ascertained, certain liquidity indicators were used as basis. Maintenance of adequate liquid assets by banks is a requirement of the Bank of Ghana (the banking regulator). Section 31, sub section (1) (a) of the Banking Act, 2004 state that the Bank of Ghana may prescribe that a bank shall hold liquid assets of a specific amount and composition (b) the amount provided for under paragraph (a) either as a certain percentage of all of the bank's deposits liabilities or in any other manner and (c) different percentages for different classes of deposits or assets as the Bank of Ghana may determine in any particular case. All the liquidity ratios have been calculated from appendices (Financial statements of the banks) using variables,

measurement and formulas in chapter three. The various liquidity ratios as used in the study are set below.

Table 4.4 Liquidity Ratios

Liquidity Ratios	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Liquid asset to total deposits	85.19	78.15	80.26	79.19	50.68	28.82	41.66	37.92	45.40	53.87
Liquid asset to total asset	61.95	60.62	63.04	66.50	38.66	18.93	26.08	27.87	37.13	43.45
Liquid assets to earning asset	80.87	71.42	77.11	85.53	49.08	21.66	30.96	32.74	43.03	53.39
Net Loans to total deposit	43.79	43.00	37.94	33.64	74.18	115.27	111.08	91.06	70.74	61.93
Net Loans to total asset	31.85	33.35	29.81	28.25	56.59	75.73	69.53	66.93	57.85	49.95

Source: Computed from data presented in Annual Report

4.2.3.1 Liquid Asset to Total Deposits

GCB Bank recorded significance figures with respects to liquid assets to total deposits. It`s highest ratio was in 2015 when it recorded 85.19% and the lowest was 28.82% in 2010. The highest ratio was as a consequence of huge deposits the bank had with Bank of Ghana and other investments that the bank has made. The reason for the low figure in 2010 was as a result of increasing deposits from customers due to an attractive investment rates offered by the bank for its fixed deposits.

4.2.3.2 Liquid Asset to Total Asset

This expression shows the most liquid asset held by the bank. It usually does not picture more than half of the total assets being liquid for most of the assets are loans and advances, other assets and fixed assets which are mostly huge. Table 4.4 above shows the details of liquidity position of GCB bank. Judging from the liquid assets to total assets ratio in Table 4.4, GCB Bank was of its highest in 2012 when the bank recorded 66.50% and lowest in 2010 at 18.93%, and 26.08% in 2009 respectively.

4.2.3.3 Liquid Assets to Earning Asset

GCB had a higher percentage of 80.87% in 2015. This happened as a result of the bank keeping an amount of GH¢462 million in cash and balance with Bank of Ghana. It was 216% in excess of the 10 percent of primary reserve to be kept at the Bank of Ghana. The lowest ratio of 21.66% was recorded in 2010. It was mainly due to more loan creation in the year.

4.2.3.4 Net Loans to Total Deposit

This ratio is a commonly used measure for assessing liquidity and credit risk, which measured by dividing the banks total loans or total financing by its total deposits. The above expression represents the relationship between total loans and advances granted by the GCB Bank as against total deposits received from the public within the periods. This is another key liquidity indicator.

On the other hand, a high loan to deposit ratio may indicate several things, but from liquidity's viewpoint, a high value of such ratio indicates a potential source of illiquidity and insolvency due to deposits are quite stable source of funding for a bank and loans are riskier asset than other financial assets because of lower market

liquidity. Therefore, a higher loan deposit ratio means more financial stress by making excessive loans. So, the lower loan deposit ratio is always favourable to the higher one. This ratio was too high in the year 2010 (115.27%) and also in 2009 (111.08%). In 2013 the GCB Bank gave out 37.94% of every deposit received as loans and advances while in 2014 only 43% was given as loans and advances. In 2015, 43.79% of it`s deposit as loan and the least percentage was given in the year 2012.

4.2.3.5 Net Loans to Total Asset

The loans to assets ratio measure the total loans outstanding as a percentage of total assets. The higher this ratio indicates a bank is loaned up and its liquidity is low. The higher the ratio, the riskier a bank may be to higher defaults (Mikhan & Jain, 2007). Table 4.4 shows that, net loans to total asset ratio of GCB bank is on increasing trend from 2006 to 2010 except it`s decrease in the year 2014 and 2015 under the study. This increasing trend of GCB Bank et loans to total asset ratio during the period is palpable evidence of more financial stress, which GCB Bank is taking by making excessive loans and holding lesser liquid assets during the periods. It recorded 29.81%and 28.25% in 2013 and 2012 respectively.

4.2.4 Capital Structure & Financial Ratios

Table 4.5 Capital Structure & Financial Ratios

Capital Structure & Financial Ratios	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Capital adequacy ratio	32.56	18.17	14.9	11.00	10.00	12.86	15.85	16.00	14.90	11.00

Source: Computed from data presented in Annual Report

4.2.4.1 Capital Adequacy Ratio

The capital adequacy ratio is the ratio of the Bank's capital to risk. Regulators track Bank's Capital adequacy ratio to ensure that it can absorb a realistic amount of loss and compliance with statutory requirement. The minimum Capital adequacy ratio required by regulation is 10%. From table 4.5 above GCB Bank recorded the lowest ratio in 2011 though it was not below the regulated required minimum percentage. It recorded the highest ratio of 32.56% in 2015. The major contributing factor of highest ratio was the 92.18% increase in the retained earnings from GH¢197,280,000 in 2014 to GH¢379,141,000 in 2015.

CHAPTER FIVE

SUMMARY OF FINDINGS

5.0 Introduction

The previous chapters dealt with the background of the study, statement of the problem, objectives of the study, research questions and significance of the study. Related relevant literature on financial statement analysis and performance measurement analysis were also reviewed. Similarly, the methodology of the study, discussions, analysis and interpretation of the findings were also presented. This chapter summarizes the research study and also presents a summary of the findings of the study as well as conclusions drawn from the findings. Based on the findings and conclusions drawn from the study, recommendations are also made to help enhance the financial performance of commercial banks such as GCB Ltd

5.1 Summary of Findings

The general objective of the study was to assess the financial performance of GCB bank using accounting ratios from 2006 to 2015 and to show how the analysis of the financial conditions of the banks will benefit the stakeholders of the bank and the country as well. Specifically, the study was intended to:

1. Evaluate and assess the profitability of GCB bank in terms of financial performance from 2006 to 2015.
2. Analyse liquidity performance of GCB Bank between 2006 and 2015.
3. Assess Portfolio/credit quality of the GCB Banks from 2006 to 2015.
4. Assess whether GCB bank meet the regulated minimum capital adequacy ratio.

The study population was on GCB Bank. The research adopted descriptive financial ratio analysis to measure, describe and analyse the financial performance of GCB Bank between the period 2006 and 2015. Qualitative and Quantitative research techniques were use to conduct the study. The research relied solely on secondary data as described in detail under the "sources of data" section.

The following findings were made:

Firstly, GCB consistently made profit during the period. The revenue for the bank consistently grew during the years and the bank was adequately making fewer expenses which gave them profit during the years.

Secondly, the bank recorded a consistent cost income ratio. They kept swinging significantly. GCB's highest recording was as a result of an increase in operating expenses. It came down in 2008 and 2009 but grew up again in the preceding years. GCB Bank could not make enough income to cover up the operating cost in 2008 and 2009 and hence recoded its highest ratio in 2011.

Furthermore, it came out that GCB"s non-interest income to operating income was not the best during the period under review. This shows that most of the total income of GCB was from loans and advances and as such if customers fail to pay their loans, it will affect their liquidity and hence their operations.

Also, GCB bank did well in terms of liquidity. The Bank maintained a good level of liquidity which came as a result of the bank going for borrowed and managed funds. Most of the liquid funds were converted into liquid earning assets like government securities and overnight money market borrowings. This put the bank in a position to pay off their financial obligations when they are due and again make returns from those invested in earning assets.

Banks are primarily in business to mobilize deposits and grant loans. Out of the total deposit mobilized banks are supposed to keep 10% as primary reserve with the Central Bank. They invest between 15% to 25% in government securities and other liquid assets to serve as the secondary reserve. The remaining 75% to 65% are left for loan creation and other things. During the period under review GCB bank showed a positive signs. However, the bank at some point in time recorded a ratio of more than 100%. They were as a result of borrowing by the bank during those years.

In assessing portfolio/credit quality of the three banks between 2004 and 2014, the results showed that GCB maintained good books among all the three banks. This was due to effective and efficient monitoring and recovery of facilities granted by the bank. Analysis of the financial statements pointed out that NIB wrote off significant amount of their non-performing loans off from 15% in 2005 to a single digit in 2006 to 2008 but recorded the highest figure in 2011.

The data also pointed out that GCB Bank had the best impairment charges to gross loans and advances over the 10 year period which most of the year recording less than 1%. This means that most of their loans were classified as current and OLEM (Other Loans Exceptionally Mentioned). GCB ratios for the period under consideration were lower meaning most of its loans slipping from non -performing to performing.

The results indicated that out GCB's loan portfolio profitability was better during the years of review. For three (3) years, GCB Bank recorded negative ratios. The fact that the bank made negative portfolio profitability does not mean they did not make profit, they made profit but these profits were not coming from loans but other non-core banking operations such as interest from investments, dividends etc.

Furthermore, the study sought to determine whether all the GCB bank meet the regulated minimum capital adequacy ratio by the Bank of Ghana. Analysis of the data shows that, the bank met the regulated required minimum capital adequacy ratio of 10% over the period under review. The major contributing factor of highest ratio was the 92.18% increase in the retained earnings from GH¢197,280,000 in 2014 to GH¢379,141,000 in 2015 which gave the capital adequacy ratio to 32.56%.

5.2 Conclusions

The analyses of the financial performance of GCB bank show that GCB bank performance as a whole was more significant and virtuous. The findings clearly revealed similarities and differences at both company and industry levels. While some strengths and weaknesses were industry specific, others related specifically to the banks. In terms of liquid fund to total assets GCB bank was averagely more liquid and the bank performed lower than the sector average.

Management of costs and resources played a vital role in the financial performance of the banks. For instance during the period under review all the banks did a better job at maximizing returns on equity and assets.

The study also confirmed the importance of liquidity management. The trend showed that GCB bank was in an impressive liquidity position to meet their financial obligations when they are due. A good percentage of deposits where used in loan creation. The study also concluded that good credit portfolio has a good impact on banks financial performance. GCB bank showed good credit quality portfolio in the study.

Lastly, it was noted that all the Banks met the regulated required minimum capital adequacy ratio of 10%. There was an increase in the retained earnings in 2015 gave the capital adequacy ratio to 32.56% which is far above the required margin of 10%

5.3 Implication/Recommendations

In view of the findings of the study, the following recommendations are made:

Firstly, the bank should be creative and innovative in asset and product creation to be able to increase their total income. The bank should use technology to improve their works and services efficiently.

Not all, GCB bank should try to reduce the cost of operations whiles increase their total income to be able to meet their cost income ratio.

Furthermore, the bank should ensure that they are able to meet the Bank of Ghana 10% of total deposits as primary reserve, make self-imposed secondary reserve of between 15-25% of total deposits. The remaining should be used for loan creation. The bank should have the self-imposed secondary reserve to create enough liquid earning assets that they can easily convert to cash in terms of liquidity challenges.

In addition, the bank should have a strong and well-resourced credit risk department that will review credit papers to eliminate all the credit risks before the credit papers are approved and disbursed. There should also be constant loan monitoring and rigorous loan recovery.

To be able to consistently meet the regulated minimum capital adequacy ratio, the shareholders (Government) should be investing capital into GCB bank.

GCB Bank should keep accurate update on the stock exchange to enable them raise enough capital and dilute the percentage of government's shareholding.

Finally, Bank of Ghana should strictly audit and monitor all banks.

5.4 Recommendations for Further Studies/Research

In view of the recommendation, this section discusses areas for further research which can pick up where this project leaves off.

Firstly, the financial performance indicators, i.e. financial ratios, the four calculated ratios independently are not enough to measure the performance of commercial banks. Thus, alternative financial accounting ratios other than what have being worked and discussed by the researcher shall be considered by further researchers.

Secondly, the research did not cover the satisfaction level of stakeholder's and customers of commercial banks which could be found as crucial for the success of these banking industries in Ghana. Research should be conducted into the problem faced by users of accounting information on financial performance of banks as they make attempt to join or do business with those banks.

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