UNIVERSITY OF CAPE COAST

# AN ANALYSIS OF THE FINANCIAL PERFORMANCE OF GCB LTD AND SG–SSB LTD, 2009 – 2011

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BY

AFEAFA LIFE DOKU

DISSERTATION SUBMITTED TO THE DEPARTMENT OF ACCOUNTING AND FINANCE OF THE SCHOOL OF BUSINESS, UNIVERSITY OF CAPE COAST, IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF MASTER OF BUSINESS ADMINISTRATION DEGREE IN GENERAL MANAGEMENT

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# DECLARATION

Candidate's Declaration

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

Candidate's Signature: ……..… Date: ……

Name: Afeafa Life Doku

Supervisor's Declaration

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

Supervisor's Signature: ……..…… Date: ……

Name: Prof. Edward Marfo-Yiadom

## ABSTRACT

This study analysed the financial performance of Societe Generale-Social Security Bank Limited and Ghana Commercial Bank Limited for the period 2009-2011, using the banks respective financial statements. The study employed the case study design. The sample was Ghana Commercial Bank Limited and Societe Generale-Social Security Bank Limited. These two banks were selected purposively. The data were primarily secondary and quantitative in nature. Both descriptive and inferential statistics were used to analyse the data. In addition, graphs were used to present the data.

When the two banks were compared, Ghana Commercial Bank Limited was found to be more liquid than Societe Generale-Social Security Bank Limited. However, profitability indicators showed that Societe Generale-Social Security Bank Limited utilised its assets better than Ghana Commercial Bank Limited resulting in the bank's higher scores over the period. The findings show further that Ghana Commercial Bank Limited showed higher ratios for investment in the future while Societe Generale-Social Security Bank Limited showed higher ratios of higher dividend immediately.

However, Societe Generale-Social Security Bank Limited capital adequacy level was far higher than the legal requirement of Banking sector while its counterpart fell slightly below it in terms of average. Based on the main findings and conclusions, it is recommended that Ghana Commercial Bank Limited should find a means of reducing its expenditure, introducing prudent assets management, should be cautious when assisting government in time of economic difficulty, and operate as an independent entity.

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## DEDICATION

To my friend and brother, Guggisberg Kumadoh

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| | |
|---|---|
| ACCA | Association of Chartered Certified Accountant |
| BBG | Barclays Bank of Ghana |
| BBWA | Bank of British West Africa |
| BGC | Bank for Gold Coast |
| BOG | Bank of Ghana |
| C/I | Cost Income ratio |
| DC | Dividend Cover |
| EPS | Earnings per Share |
| ERP | Economic Recovery Programme |
| GCB | Ghana Commercial Bank |
| ISSER | Institute of Statistical, Social and Economic Research |
| NPAS | Net Profit Attributable to Shareholders |
| PER | Price Earnings Ratio |
| ROA | Return on Assets |
| ROE | Return on Equity |
| SG-SSB | Societe Generale-Social Security Bank |
| SSNIT | Social Security and Natural Insurance Trust |
| TOR | Tema Oil Refinery |

# CHAPTER ONE

# INTRODUCTION

## Background to the study

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).

The services rendered by banks to individuals, businesses and the economy as a whole are enormous. In view of these numerous functions performed by banks, it is imperative that their financial health is guaranteed not only to its customers but equally to shareholders, employees, and largely the entire national and international stakeholders, and the whole economy at large (Edward & Mellett, 2005). According to Edward and Mellett, financial statements

are produced not merely for their own sake but for the uses to which they are put by the various parties interested in different aspects of these statements. Financial statements analysis is very helpful in scanning bank's internal operation and its relation with the outside world (Rose, 1999; Jennings, 2005).

Most investors in the world rely on the financial statements to judge the performance of a bank to decide on their investments. The financial institutions also use these statements as a tool for granting loans to the banks (Reed & Gill, 2007). The debenture holders, creditors, employees and government also use the statements for different purposes. The bank itself and outside providers of capital (creditors and investors) all need financial statements analysis for various reasons. The type of analysis varies according to the specific interest of the party involved (Ayadi, Adebayo & Omolehin, 2009; Bank for International Settlements, 2010).

According to the Bank for International Settlements (2011), creditors for instance, are always interested primarily in the liquidity of a bank. Their claims are short-term and the ability of the bank to pay those claims is best judged by an analysis of the bank's liquidity. Bond holders are more interested in the cash flows ability of the bank to service debt over a long period of time. The current study attempts to analyse the financial statements of Ghana Commercial Bank Limited (GCB Ltd) and SG-SSB Limited. Both banks are listed on the Ghana Stock Exchange.

Weston and Copeland, (1996) intimated that banks are reluctant to disclose vital information in their financial statements. It therefore becomes a complex task for stakeholders without basic accounting knowledge to make

meaning out of those statements. It is important that such financial statements are analysed and interpreted to the above mentioned stakeholders to meet their peculiar circumstances. Consequently, efforts have been made from time to time to measure the financial performance of banks and manage it effectively and efficiently so that the stakeholders may be adequately informed about the financial health of their banks at a given time (Boisjoly, 2009; Cetorelli & Goldberg, 2012; Institute of Statistical, Social and Economic Research, 2012).

It is universally accepted that banks play important role in nations' economy, is the reason why they are regulated by legislations and bodies. In Ghana for example the main legislation is the Banking Act of 2004 (Act 673) and Banking Act Amendment Law 2006. The main regulating body is the Bank of Ghana. The constitution of the Republic of Ghana (Article 183 (3)) spells out the functions of the Bank of Ghana among others is: the bank shall be the bank for the government of Ghana, and shall be the bank for all other banks (Government of Ghana, 2004; Bank of Ghana, 2009). According to the Bank of Ghana Act 2002 (Act 616), a bank cannot be established in Ghana without the permission of Bank of Ghana and without adhering to, and conforming to the provision of the banking law (Government of Ghana, 2006). In view of the heavy public stake in the banks, it is important that their financial performance is evaluated to ascertain their liquidity, profitability, investment worthiness and their capital adequacy for operation (Bank of Ghana, 2010).

Again the government of Ghana is divesting full control in most state owned banks pushing ownership into the hands of the public. This paradigm shift

puts the banks at public periodic scrutiny to enable the public take prudent investment decisions (Bank of Ghana, 2011). Also, operational activities undertaken by banks are presented in their annual final account. Stakeholders with little or no knowledge in financial statements analysis may find it extremely difficult to comprehend issues represented by figures. Effective analysis of liquidity, profitability, investment prospects, and overall financial performance will enable the public have confidence in the said banks (Institute of Statistical, Social and Economic Research, 2012).

According to the Institute of Statistical, Social and Economic Research (2012), GCB Ltd and SG-SSB Ltd are two of the most dominant commercial banks in Ghana with wider customer outreach and reputation. Therefore, it is important that the stakeholders and the general public is informed about the financial health of the two banks so that they are not treated slavishly due to lack of knowledge of key financial indicators. Also, vital information are shrouded in the said financial statements such that it is difficult for most stakeholders to deduce meaning behind the absolute figures without the help of a professional accountant or an expert. These and other implicit reasons make this study imperative, to explain the figures stated in the financial statements for vivid comprehension.

**Statement of the problem**

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.

Absolute figures in the financial statements of a bank are not in themselves sufficient to explain the bank's financial performance but when those figures are measured and expressed in relation to other figures they make sense and show some appreciable level of satisfaction (Ayadi et al., 2009). The absolute figures do not reveal the ability of the said banks to pay a depositor on demand, tell shareholders of efficient utilisation of assets of the bank, earnings on their investment, stock values or sufficient reserves with the Bank of Ghana to fall on in time of difficulty and other relevant information (Bank of Ghana, 2011).

Since these information are shrouded in the financial statements coupled with the lack of financial knowledge of most interested parties, the ratios and asset management such as non-performing loans need to be calculated, analysed

and compare with different years' and related firms to make them more understandable. Moreover, according Richard, Chijoriga, Kaijage, Peterson and Bohman (2008), the banking industry in Ghana has witnessed a worsening asset quality of banks due to weak macro-economic factors like the depreciation of the local currency, high inflation rate and interest rate, which results in default repayment of loan. These challenges motivated the researcher to analyse the financial performance of GCB Ltd and SG – SSB Ltd for the period of 2009 to 2011. More current years were not considered because at the time of the study, the most current annual report was that of 2011 for both banks.

**Objectives of the study**

The main purpose of the study was to analyse the financial performance of GCB Ltd and SG – SSB Ltd for the period of 2009 to 2011, using their respective financial statements. The specific objectives were to:

1. Measure the liquidity of GCB Ltd and SG-SSB Ltd for the period, 2009-2011.
2. Determine which of the two banks (GCB Ltd and SG-SSB Ltd) was more profitable.
3. Assess the investment prospects of GCB Ltd and SG-SSB Ltd.
4. Ascertain capital adequacy of GCB Ltd and SG-SSB Ltd.
5. Examine the growth prospect of GCB Ltd and SG-SSB Ltd.

**Research questions**

The specific objectives of the study were used to formulate research questions to guide and give the study direction. The research questions that were formulated were:

1. What is the liquidity position of the two banks for the period 2009 – 2011?
2. Which of the two banks (GCB Ltd and SG-SSB Ltd) is more profitable?
3. Which of the banks' investors earned more income on their investment?
4. How are GCB Ltd and SG-SSB Ltd complying with the Bank of Ghana's capital adequacy policy?
5. What is the growth prospect of GCB Ltd and SG-SSB Ltd?

**Significance 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.

**Delimitation of the study**

The main delimitation of the study has to do with the fact that the study relied on secondary data from the SG-SSB Ltd and GCB Ltd respectively and deduction from the ratios calculated from those secondary data such that result may not necessarily be generalised on all banks. Obtaining industry averages from the banking sector is another problem uncounted in that some of the averages were not available. Finally the study is limited to only information available, and received within the period covered by the study (ie. 2009 – 2011).

**Organisation of the study**

The study comprises of 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 and delimitation 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 talks about results and discussion of findings to see whether the findings satisfy the objectives and solve the research questions. Chapter five covers the summary, conclusions and recommendations of the study.

# CHAPTER TWO

# REVIEW OF RELATED LITERATURE

## 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 of commercial banks, their usefulness and limitations as literature support for the study are all found in this chapter.

## 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.

**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).

**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 withdrawable 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).

**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.

**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.

**Non performing loans**

The term Non-Performing Loans (NPLs) is used interchangeably with Bad loans and impaired loans as identified in Fofack (2005). Fofack (2005) further describes these types of loans as "problem loans" In broad context, loans that are outstanding in both interest and principal for a period of time contrary to terms and conditions spelt out in the loan agreement are considered as non performing loans. Available literature gives varied descriptions of non performing loans. Some researchers observe that whilst certain countries use quantitative criteria, e.g the number of days the credit facility is overdue, others rely on qualitative

criteria such as information about the customer's financial status and management judgment about future payments (Bloem & Gorter, 2001).

Alton and Hazen (2001) described non performing loans as loans that are ninety days or more past due or no longer accruing interest. Fofack (2005) consider non performing loans as loans which for a relatively long period of time do not generate income, that is both the principal and interest on these loans remain unpaid for at least 90 days. A non performing loan may also refer to one that is not earning income and full payment of principal and interest is no longer anticipated, principal or interest is 90 days or more or the maturity date has passed and payment in full has not been made (Pollio & Obuobi, 2010). The above descriptions of non performing loans indicates that loans for which both principal and interest have remained unpaid for at least 90 days are considered non performing loans.

The interest income generated from loans contributes significantly to the profitability performance of the banks. However, when loans become delinquent, it has a serious negative effect on the health and operations of the bank. One of the reasons is that, in line with the Bank of Ghana regulations, the lending institution has to make provision and charges for credit losses (bad debt/impairment) which ultimately reduce the profit level. Again, large non performing loan portfolio tends to undermine banks' ability to grant more credit (BoG, 2011). This is because the loanable funds tend to deplete when repayment of loans delays or fail to come.

Furthermore, non performing loans affect banks negatively huge amounts are written off as bad debt which adversely affect the growth of the shareholders wealth since the profit which is re-invested (ploughed back) into the business to grow the capital base is reduced as a result of provision for credit losses (Pollio & Obuobi, 2010). In a similar token, dividend payment is equally negatively affected because the provisions for credit losses are deducted before dividends are declared.

Some foreign literatures indicate that failing banks have huge amount of non performing loans prior to failure and that asset quality is a significant predictor of insolvency (Bloem & Gorter, 2001). Indeed in Ghana, most commercial banks face problems mainly on the account of non performing loans. The issues discussed above show the gravity of the implication of non performing loans on the operations of banks.

**Ratio analysis**

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.

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).

**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 indentify 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; McLeay, 2010).

**Liquidity**

This refers to the ability of commercial banks to pay their obligations as they fall due (Bruno & Shin, 2011). A good liquidity position of a commercial bank is an indicator to the general public to have confidence in the said bank's credibility and viability. Both depositors and investors are interested in the liquidity of their bank. The regulator and the managers in the administration of the bank are as well interested in the liquidity of the bank (Pandey, 2004). According to Edward and Mellett (2005), liquidity in commercial banking refers to the reserve of cash, securities, a bank's ability to convert an asset into cash, and unused bank lines of credits. The faster the conversion the more liquid is the asset hence the bank. If a bank is regarded as liquid implies that it must be sufficient to meet all maturing secured or unsecured debt obligations due within a stated period (Khwaja & Mian, 2008).

**Profitability**

Analysis of banks profitability or earnings is an excellent assessment of the bank's management efficiency (Barltrop & McNaughton, 1992). A higher earnings ratio is an indicator of a bank's ability to compete favourably in the industry and raises investor confidence. According to Barltrop and McNaughton (1992), profitability ratios are major rating factors for banks' sustainability and viability. Again, Rose (1999) reiterated that profitability ratios determine the performance of share price of the firm. However, it is objected that the above

indicator is not dependable in the banking business. This is particularly true because not all banks could raise the minimum capital to list.

Barltrop and McNaughton (1992), and Rose (1999) pointed out more vivid performance indicator ratios which are used as tools for analysing performance of the two banks and indeed more suitable for non-listing banks namely: Return on Assets (ROA), Return on Equity Capital (ROE) and Cost/ Income ratio.

**Investment ratios**

The ratios examined previously are probably of interest to all stakeholders of banks such as creditors, employees, managers, shareholders, tax officials and so on. However, there are some other ratios which are primarily, although not exclusively, of interest to investors and prospective investors. These ratios are referred to as investment ratios. Investment ratios are those that help equity shareholders and other investors to assess the value and quality of an investment in the ordinary shares of a company (Dyson, 1996; ACCA, 2007). The overall objective of calculating the various investment ratios is to assess the banks in terms of its potential and stability as an entity and give impetus to investor public that it is worth investing in.

**Capital adequacy**

In terms of capital adequacy, the Banking Act 2004, Act 673 and Amendment 2006 stated the legal position of what capital adequacy is. It is enshrined in sections (1, 2 and 3) of the above act as:

- A bank shall at all times while in operation maintain a minimum capital adequacy ratio of ten percent.

- The Bank of Ghana may by directive prescribe a higher capital adequacy ratio with respect to a particular bank, or all banks for a period that the Bank of Ghana may prescribe.
- The capital adequacy ratio shall be measured as a percentage of the adjusted capital base of the bank to its adjusted asset base in accordance with regulations made by the Bank of Ghana.

The capital adequacy guarantees a bank's solvency and its ability to continue operating even during difficult economic times. The BoG reserve the right to vary the capital adequacy often higher than the bank may desire in order to protect the market (Bank of Ghana, 2009). Barltrop and McNaughton (1992) intimated that capital adequacy reduces leverage forcing banks to push up margins and fees in order to generate a fair return to investors. Basically, the residual value after liabilities have been subtracted from assets represent capital adequacy. According to Chen and Shimerda (2011), and Fieldsend, Longford and McLeay (2012), it will be a misjudgement to declare a bank as insolvent from only one period ratio of inadequacy of capital hence the study has spanned over a period of three years to observe whether the trend declares any of the two banks insolvent.

**Limitations to ratios as a tool for analysis**

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 & 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 .

**Selected empirical studies on the issues**

With regard to the cash flow implications of managing working capital and capital investment, Russell and Boisjoly (2009) used means of five financial ratios of interest: accounts receivable turnover, inventory turnover, accounts payable turnover, working capital per share, and cash flow per share to analyse the sample firms. As expected, Russell and Boisjoly study revealed that account receivable turnover and inventory turnover increase monotonically over the 15 year time period.

Corporations have focused on improving these measures using a variety of managerial techniques. In managing accounts receivable corporations have utilised techniques such as employing more vigorous collection procedures, offering more generous cash discounts to early payers, paying early and taking discounts even when discounts are not offered, factoring receivables, improving product quality to reduce disputed receivables which tend not to be paid while the dispute remains unresolved, and so on (Chen & Shimerda, 2011).

In managing, inventory firms have utilised just-in-time procedures with suppliers to reduce storage while awaiting production; make-to-order procedures to reduce work-in-process inventory, lean manufacturing initiatives to reduce the order-to-ship cycle time, quality programs that emphasise design for manufacture

to reduce the number of parts, supplier rationalisation to reduce the number of suppliers which reduces the number of different parts, and so on.

Ezzamel and Mar-Molinero (2009) also found in their study that there are significant shifts in the means of the accounts payable, working capital per share and cash flow per share measures over the investigation period. These are important results because they confirm that the prevailing wisdom is called into question, because the shift of financial ratio distributions which opens up the argument about benchmark measures, and there is motivation to expand this subject of inquiry to the entire Fortune 500 and to perform separate analysis of separate industries or industry clusters.

Ezzamel and Mar-Molinero (2009) further found significant shifts in shapes of the ratio distributions for the cash flow per share and investment ratios. It appears that the distributions have been altered significantly by management practices with cash flow per share becoming more positively skewed and working capital becoming less positively skewed during the 1990-2004 study period. These results question the use of regression analysis using the ratios which exhibited significant shifts in shape. Therefore, empirical studies need to adjust their data before using statistical procedures which require a normality assumption.

# CHAPTER THREE

# METHODOLOGY

## Introduction

This chapter explains how the study was conducted. It guided the researcher in data collection and method of analysing data collected from the field. It also discussed the various methods that were employed in generating research data to answer the research questions. Sub-headings discussed were the profile of both banks, study design, source of data, data collection procedure, ethical consideration and data analysis which focuses on liquidity ratios, profitability ratios investments ratios as well as capital adequacy as stated in the objectives. The research is a case study that focuses on the SG-SBB Ltd and the GCB Ltd out of the total population of all commercial banks in Ghana with the time frame (2009-2011).

## Profile of Ghana Commercial Bank Limited

The initial name for Ghana Commercial Bank (GCB) was the Bank of Gold Coast. The bank from its humble beginning in 1953 with only one branch continued to expand through the opening of new branches in all the 10 regions of Ghana. It is the largest commercial bank in Ghana in terms of physical assets, number of staff, number of customers, and customer outreach (GCB, 2010). The bank offers products and services for a variety of customers including loans, overdrafts, deposits, investments, money transmissions, and international services.

As at December 31, 2011, the bank still boasted of 149 live branches in Ghana, and agencies in some important cities all over the world (GCB, 2011).

Initially, the bank was wholly owned by the Government of Ghana until 1996 when the government decided to divert her ownership interest under the Economic Recovery Programme (ERP). Consequently the bank got listed on the Ghana Stock Exchange in the same year. At the end of 2005, the government decided to reinstate her ownership interest and had acquired 34.31% share of the bank while institutions and individuals had a total of 65.69% all together (GCB, 2012a). It is the widest networked bank in Ghana as at December 31st 2011. Its ownership as at that date is presented in Table 1.

The Ghana Commercial Bank together with the two expatriate banks, the Standard Chartered and Barclays bank, are the primary banks in Ghana. According to Rose (1999), a primary bank is a bank in existence before the independence of that country therefore the said banks are primary banks in Ghana.

**Table 1: Ownership structure of GCB limited**

| Rank Shareholding | Name of Shareholder | Percentage |
|---|---|---|
| 1 | Social Security and National Insurance Trust (SSNIT) | 29.81% |
| 2 | Government of Ghana | 21.31% |
| 3 | Individuals and Institutions | 48.88% |
| Total | | 100.00 |

Source: GCB (2012b).

**Profile of Societe Generale-Social Security Bank Limited**

SG-SSB is a secondary bank. Secondary banks are banks which were established after the independence of a country (Rose, 1999). According to the bank's official position, the bank started in 1975 as a Trust namely: Security Guarantee Trust Ltd and in the following year 1976, changed its name to Social Security Bank Ltd (SSB) and owned wholly by the Social Security and National Insurance Trust (SSNIT). In 1994 the bank and another bank namely, National Saving and Credit Bank merged under a World Bank programme to increase the efficiency of staff and assets of the two banks. The Government of Ghana was then holding 21% of the merger while SSNIT was holding 79% of the merger which bear the name SSB Ltd. In 1995 Government of Ghana diverted her 21% interest and the bank was converted to Public Ltd Liability Company and subsequently got listed on the Ghana Stock Exchange (GSE) in the same year (SG-SSB, 2009).

In 2004 the bank got rebranded as SG-SSB Ltd after Societe Generale had acquired 51 percent controlling interest in the institution (SG-SSB, 2010). The bank is so called because it is now a member of Societe Generale group of banks with twelve subsidiaries nine of which were domiciled in African countries of Benin, Boukena Faso, Cameroun, Chad, Cote d' Ivoire, Guinea, Ghana, Equatorial Guinea, and Senegal. SG-SSB's stock is listed on the Ghana Stock Exchange with the ownership as at December 31, 2011 is depicted in Table 2. As at December 31, 2011; the bank had 38 branches dotted in big towns and cocoa

growing and mining areas in all the ten regions of Ghana with its head office at Ring Road Central in Accra.

**Table 2: Ownership structure of SG-SSB Limited**

| Rank Shareholding | Name of owner | Percentage |
|---|---|---|
| 1 | SG Financial Service Holding | 52.24% |
| 2 | SSNIT | 22.14% |
| 3 | Daniel Ofori (individual) | 7.31% |
| 4 | Others | 8.31% |
| Total | | 100.00 |

Source: SG-SSB (2012).

**Research design**

The research design is a case study. Case study design, as observed by Merriam (2008), is employed to gain an in-depth understanding of the situation and meaning for those involved. The interest is in the process rather than the outcome, in context rather than a specific variable, in discovery rather than confirmation. Insights gleaned from case studies can directly influence policy, practice and future research (Carson, Gilmore, Perry & Gronhaug, 2010). According to Carson et al., case studies are differentiated from other types of research in that they are intensive descriptions and analysis of a single unit or bounded system. In a similar discourse, Creswell (2010) explains that a case study research involves the study of an issue explored through one or more cases within a bounded system.

The strength of a case study design depends on the nature of the research problem and questions being asked (Gravetter & Forzano, 2006, Saunders, Lewis & Thornhill, 2007). Again, case study offers a means of investigating complex social units consisting of multiple variables of potential importance in understanding the phenomenon. Furthermore, it is anchored in real-life situation and results in a rich and holistic account of a phenomenon, offers insights and illuminates meaning that expand its reader's experience and prove effective in investigation, problems and programmes, evaluating programmes and for informing policies (Malhotra & Birks, 2007). The research design focused on case study approach because of its strength over others in examining and analysing the financial performance of GCB Ltd and SG – SSB Ltd for the period of 2009 to 2011, using their respective financial statements.

**Population, sample and sampling procedure**

The population for the research was GCB and SG-SSB banks. The researcher intends to examine the liquidity, profitability, capital adequacy, and growth prospect of the commercial banks in Ghana. The GCB was seen as primary bank while that of SG-SSB was secondary bank (Rose, 1999). According to Rose (1999), primary banks are banks that were in existence before the independence of that country while secondary banks are banks that were established after the independence of a country.

The sample for the study was the two banks which were selected using the purposive sampling procedure. The purposive sampling procedure was the best option for the population. One primary bank (GCB) and one secondary bank (SG-

SSB) were handpicked for the study. These banks were selected purposively because they have the required characteristics that the researcher was interested in. the two banks used was enough to help the researcher in finding answers to the various research questions formulated from the objectives of the study.

**Sources of data**

The data collected were basically quantitative that were obtained from the banks financial statements. Meaning, the study sources of data were predominantly secondary. They were data collected from the banks documents and constitute the financial statements of the two banks chosen for the study spanning over three years (2009-2011). In addition industrial averages of commercial banks from 2009-2011 were also used where figures were available. Finally data issued by Institute of Statistical, Social and Economic Research (ISSER) on the state of Ghanaian Economy during the periods of the scope of the research were also useful.

**Ethical considerations**

An introductory letter was obtained from the School of Business, Department of Accounting to introduce the researcher to the two banks. To gather data from the banks, permission was sought from the management. A research is expected to be free from any biases and it must be scientifically sound and reported honestly, thoroughly and completely (Malhotra & Birks, 2007). Management of the two banks were informed about the purpose of the research and what objective it sought to achieve. This research and its associated methodology adhered to all of these ethical considerations. An organisational

entry protocol was observed before the data were collected. The management were informed of the reason for the whole exercise and the tremendous benefit the banks would derive if the research was carried out successfully.

**Liquidity ratios**

Liquidity refers to the ability of business entities to pay their debt obligations such as creditors, loans expenses, redeemable preference stocks and debts as they fall due for payment (Adrian & Shin, 2010). Public confidence in Banks is mainly reckoned on their liquidity. Table 3 summarises the liquidity ratios applied in the study, their method of measurement, significance and effects.

**Table 3: Liquidity ratios, method of measurement, significance and effects**

| Ratio | Method of measurement | Significance | Effects |
|---|---|---|---|
| Core liquidity | $\frac{\text{LCH + CB with BOG}}{\text{Total assets of the bank}} \times 100$ | most liquid asset held by the bank; shows how ready the bank is to use cash from core business | Higher ratios mean higher liquidity |
| Broad liquidity | $\frac{\text{AD + L + OA + T}}{\text{TA of the bank}} \times 100$ | readiness to pay liabilities using cash from core business as well as other idle funds | The higher the % the more liquid |
| Total credit to total deposit | $\frac{\text{TLA}}{\text{TD}}$ | whether loans can be met by customers deposit; shows Public confidence | Higher ratios are desired; shows higher liquidity |
| Hot money ratio | $\frac{\text{STGS}}{\text{TCL}}$ | Shows whether the bank has been able to absorb borrowing by lending made to the public in the money market | Higher ratio preferred |

Source: Bank of Ghana, 2011.

*Where LCH = Liquid cash held by the bank, CB = Cash balances, TA = Total assets, AD = Amount due from other banks, L = Loans, OA = Other assets, T = Taxation, TLA = Total loans and advances, TD = Total deposits, STGS = Short term Government securities, and TCL = Total current liabilities*

**Profitability ratios**

Profitability ratio also refers to as earnings ratio. Users of financial statements will want to know how much profit a business had made and to compare it with previous periods or with other entities in the industry. Profit is basically, the excess of income over expenses. However the absolute level of accounting profit will not be of much help, because it needs to be related to the size of the entity and how much capital had been invested in it. Higher profits of a bank are a motivating factor for the public to do business or invest in it. Three key Profitability ratios applicable in banking business are summarized in Table 4.

**Table 4: Profitability ratios, method of measurement, significance and effects**

| Ratio | Method of measurement | Significance | Effects |
|---|---|---|---|
| Return on Assets (ROA) | $\frac{\text{Pb (after)tax}}{\text{TA}} \times 100$ | Indicates benefits obtained by resource owners | Higher ratio represent higher profitability |
| Return on Equity (ROE) | $\frac{\text{Pa tax}}{\text{SF}} \times 100$ | Key to investment and management decisions | Higher ratio preferred |
| C/I total operating expense as ratio to total operation income | $\frac{\text{TOE}}{\text{TOI}} \times 100$ | how much cost incurred / GH¢1.00 income generated by the bank | Lower ratio represents higher profitability |

Source: Bank of Ghana, 2011.

*Where TA = Total assets, Pb = Profit before, Pa = Profit after, SF = Shareholders' fund, TOE = Total operating expenses, and TOI = Total operating income*

**Investment ratios**

Investment ratios help equity shareholders to assess the quality of their investment so as to make decisions. Bank investors use these ratios as an indicator of potential growth and stability as an entity worth investing. The table below tells more key investment ratios: used.

**Table 5: Investment ratios, measurement methods, significance and effects**

| Ratio | Measurement methods | Significance | Effects |
|---|---|---|---|
| Dividend yield | $\frac{DPS}{MPPS} \times 100$ | Helps equity and potential equity shareholders to make decision; measures cost of shares with dividend receivable | Higher dividend ratio motivates an investor to venture into an investment |
| Earnings per share | $\frac{NPES}{NESI} \times 100$ | Compares one year's earnings to another year's relative to number of shares in issue | Higher earnings per share woe investors to invest in a company |
| Price earnings ratio | $\frac{MPPS}{EPS} \times 100$ | Indicates how equity shares are faring on the stock market and whether dividends paid is fair | Higher ratio compare to related entities in the sector is favourable |
| Dividend cover | $\frac{NPES}{PD}$ | Measures no of times dividends could be paid out of current earnings | Higher number of times desired |

Source: Dyson, 1996.

*Where DPS = Dividend per share, MPPS = Market price per share, NPES = Net profit attributable to equity shareholders, NESI = Number of equity shares issued, EPS = Earning per share, and PD = Paid-up or proposed dividends*

**Capital adequacy**

Section 23 of Banking Act, Act 673 (2004) indicated that while in operation a bank shall maintain a minimum capital adequacy ratio of ten percent

computed in the manner that the Bank of Ghana may determine.. This subsection 1 applies to banks described in subsection 2 as class 1 banks which SG-SSB and GCB Ltd belong. However, the Bank of Ghana's Research Department had inform users of Banks accounting information that computation of capital adequacy should be the adjusted capital base as a percentage of asset base. This satisfies the legal position in subsection 3 of the section 23 of Act 673.

Thus, the percentage mentioned in subsection1 may be varied and determined by the Bank of Ghana from time to time. Interestingly, certain information are necessary for the adjustment of the capital and the assets bases are shrouded in the Financial Statements presented by the said banks. In that respect the study, in the quest of calculating capital adequacy of the studied banks ignored those adjustments because those information were unavailable. Thus the mandatory percentage by the BOG shall be applied as a means of calculating capital adequacy and

- Comparing capital adequacy for the two banks for the research period.
- Comparing capital adequacy ratios of the two banks to that of mandatory 10 percent as established by law regulating banking industry in Ghana.

**Data analysis**

The research used statistical based approach to analyse the data obtained from the banks documents. This was because the financial statements of the banks were statistical in nature. This helped in displaying the information the study required analytically which assist thinking about evidence. It allows in describing the data, making comparisons, understanding causality, assessing credibility of

data and analysis (Malhotra & Birks, 2007). Furthermore, the said method helps best organise, and summarises the data into ratios such that result were easily communicated, and understood by people who need it.

Specifically, ratios were the main tools used for the analysis of the study and were carefully picked so as to satisfy the study objectives. They included liquidity ratios, profitability ratios, investment ratios and capital adequacy ratio. Banks ratios are somehow different from ordinary accounting ratios calculations therefore difficult for stakeholders to understand. The study seeks to explain the above ratios in a form so that the stakeholders will have vivid understanding about those ratios.

# CHAPTER FOUR

# RESULTS AND DISCUSSION

## 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 three years (2009 – 2011). Banking industry averages were used when figures were available for comparing the performance of the two banks with the rest in the industry.

## Liquidity analyses

Liquidity had been explained to mean the degree to which an organisation would be able to meet its creditors, expenses, loans and other monetary obligations as they fall due. For liquidity position to be ascertained, certain liquidity indicators were used as basis. Liquidity of a bank is the ability, not only to meet possible deposits, withdrawals but also to provide for the legitimate credit needs of the community or the economy as a whole (Khwaja & Mian, 2008). Therefore the liquidity of a bank means a lot to stakeholders.

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 A and B (Financial statements of the banks) using variables, measurement and formulae in chapter three. The various liquidity ratios as used in the study are set below.

**Core liquid asset to total assets**

This expression shows the most liquid asset held by the bank. Table 6 shows the details of core liquidity position of the two banks.

**Table 6: Core liquid asset to total assets of GCB and SG-SSB for 2009-2011**

| Bank/Year | 2009 | 2010 | 2011 |
|---|---|---|---|
| GCB | 13.10% | 36.80% | 66.40% |
| SG-SSB | 19.90% | 25.40% | 35.60% |
| Industry | 48.00% | 53.00% | u/a |

Source: Financial statements of GCB and SG-SSB for 2009-2011.

Judging from the Core liquid assets to total assets ratio in Table 6, GCB was of its highest in 2011 when the bank recorded 66.40% and lowest in 2009 at 13.1%, and 36.8% in 2010 respectively while its counterpart registered 35.6% in 2011 as highest core liquidity, 25.4% in 2010 and 19.90% as its lowest in 2009 respectively. The industry recorded 48% in 2009 and 53% in 2010 respectively as liquid fund/ Total Assets. It can be concluded that the two banks were below the

average at least in 2009, and 2010. It further meant that the two banks were not liquid enough to discharge their monetary obligations compared to the rest of the banks in the sector.

When the two banks were compared with each other the ratios showed that in exception of 2009 when SG-SSB Ltd recorded 19.9% and (GCB Ltd 13.1%) all the other years GCB Ltd recorded higher liquid fund to total assets ratios than SG-SSB Ltd. This implied that between the two banks GCB Ltd was in better position to handle immediate cash demand of its customers than SG-SSB Ltd within the period. GCB customers were safer because the bank had more reserves with the Bank of Ghana on which to fall in time of difficulty Amount reserved with Bank of Ghana is a major liquidity indicator.

GCB Ltd had a wider coverage than the counterpart. As of January 2011 there were 157 GCB Ltd branches against 44 of SG-SSB Ltd and also had more international agencies and therefore could have more access to deposit from the public hence the higher liquidity. Again the huge asset base gave the GCB Ltd higher liquid fund/ over total asset ratio than SG-SSB Ltd which had restricted coverage predominantly in big cities such as Accra, Kumasi, Takoradi, Cape Coast, Tamale, and so on; and mining and cocoa growing areas in the country obviously had less asset base. It could be deduced from the said ratios and analysis that in terms of core liquid fund to total asset GCB Ltd was better off in satisfying its customers monetary demands than its counterpart though both banks performed poorly within the entire sector Therefore investors and customers who

are looking for core liquidity of bank should choose GCB Ltd ahead of SG-SSB Ltd.

The findings corroborate with the submission Pandey (2004) who avers that a good liquidity position of a commercial bank is an indicator to the general public to have confidence in the said bank's credibility and viability. Both depositors and investors are interested in the liquidity of their bank. The regulator and the managers in the administration of the bank are as well interested in the liquidity of the bank (Pandey, 2004). Therefore, customers and investors who are looking for core liquidity of bank may prefer GCB Ltd ahead of SG-SSB Ltd. This means that GCB is sufficient to meet all maturing secured or unsecured debt obligations due within a stated period (Khwaja & Mian, 2008).

**Broad liquid assets to total assets**

Broad liquid asset are liquid assets other than those from core business such as those with other banks and entities but does not include treasury bills and government bonds. Table 7 illustrates the details.

**Table 7: Broad liquid assets to total assets of GCB and SG-SSB for 2009-2011**

| Bank/Year | 2009 | 2010 | 2011 |
|---|---|---|---|
| GCB | 77.70% | 61..70% | 33.60% |
| SG-SSB | 74.90% | 69.70% | 56% |
| Industry | u/a | u/a | u/a |

Source: Financial Statements of GCB Ltd and SG-SSB Ltd for 2009-2011.

If the definition of broad liquid asset to total assets was considered alongside core liquid assets, it was clear that GCB Ltd rather held more of its

assets with the Bank Of Ghana, cash, and risk free government securities than SG-SSB Ltd .The latter decided to spread its portfolio by holding more of its assets with other banks and entities, and give more loans to customers.

As indicated earlier, it was stated that SSNIT together with government of Ghana hold 51.2% stake of total shares of GCB Ltd. It could be deduced that GCB was a national bank and Ghana as a state had more stake than individual investors. The management of the bank decided to push more of its assets to Bank of Ghana as security to bail the government out in times of financial difficulty. This buttressed the fact that the government owed so much to GCB Ltd as Tema Oil Refinery (TOR) debt.

SG SSB Ltd on the other hand was not a national bank. The main aim of the management was to safeguard and increase the assets on behalf of the shareholder and could not compromise their interest for the sake of the government. This was the reason behind the decision taken to spread its broad fund with other banks and entities and to give more loans. The question to be asked was whether those banks, entities and borrowers liquid and credit worthy enough to pay back on demand? Can the SG-SSB recoup those monies during unexpected liquidation of those institutions?

Though the sector average was not ready to compare, both banks did well in terms of broad liquidity given the percentages. GCB recorded 77.7%, 61.7% but as low as 33.6% in 2009, 2010 and 2011 respectively while SG-SSB recorded 74.9% 69.7% and 56% during the same period. But for 2009 SG-SSB Ltd was more liquid in terms of broad liquidity than GCB Ltd.

**Total credit to total deposit**

The above expression represents the relationship between total loans and advances granted by the two banks as against total deposits received from the public within the period. This is another key liquidity indicator. The bar chart below illustrates the points.

A review of the credit to deposit percentage in the above diagram show that in 2009 GCB extended little more loans and advances to the customers than deposit received from them that was 100.5%. In 2010 the bank gave out 63.7% of every deposit received as loans and advances while in 2011 only 33.6% was given as loans and advances. This implied that in 2009, the total deposit of the bank was lower by 0.5% of the loan and advances demanded of the bank's customers.


**Figure 1: Total credit to total deposit of GCB Ltd, SG-SSB and banking sector for 2009-2011.**

Source: Financial Statements of GCB Ltd and SG-SSB Ltd 2009-2011 and CIB (Ghana)

The bank could not depend on only the deposit to give loans and advances. It is an indication that during 2009 the bank held more current liabilities than

current assets while the reverse was the case in 2010 and 2011. The industry average for liquid fund to total deposit was 68% in 2009, 74% in 2010 and 72% in 2011. What was puzzling is how the bank was able to meet the gap between total credit and total deposit in 2009. A portion of the investments made in government securities and tangible assets might be converted to cash to make up for the gab.

The reason to be assigned to the gap was that, many customers of the banks were public sector salary workers, farmers, and business public applied for more loans advances from the bank. SG-SSB Ltd on the other hand recorded 76.2% in 2009, 60.3% in 2010 and 55% in 2011 respectively during the three years period, such that the bank was able to meet loans and advances request from the deposits adequately within the period and had excess to put in other investment opportunities.

From the foregoing analysis, it was clear that GCB Ltd gave out 69% of total deposit to customers as loans and advances on the average while SG.SSB Ltd gave out 63.8% on average of all total deposits as loans and advances within the three-year period. SG-SSB Ltd was more into granting of loan than GCB Ltd. Since GCB Ltd was more a national bank it sought to assist government to be successful in national economic programmes, while the counterpart's primary concern was only to better the lot of shareholders and would not involve too much in government programmes. Comparing the two banks with how the other banks in the sector have fared within the industry it was seen that both banks in terms of liquid fund to total deposit have done fairly well and registered figures somehow closer to the sector average.

Investors and customers looking for a bank to borrow from should approach GCB first before SG-SSB because the liquid fund to total deposit ratio show that the likelihood of GCB satisfying their credit needs was higher than that of SG-SSB. Investment advisors should also take note and advice their clients accordingly while management of both banks should also see this as guidelines to shape their policy direction regarding loans and advances.

However, this finding can be seen as the ideal situation which may be different from the real situation. 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) further avers 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.

**Hot money liquidity**

Hot money is a term commonly used in financial market to refer to the flow of funds from one bank to another in order to earn a short term profit or interest in anticipation of exchange/interest rate shifts. It is expressed as short term liquid assets to short term liquidity. Hot money transaction between banks affects their liquidity in the short run. This considers the balances held with Bank

of Ghana plus all market securities held by the banks expressed as a percentage. The details are shown in Figure 2.

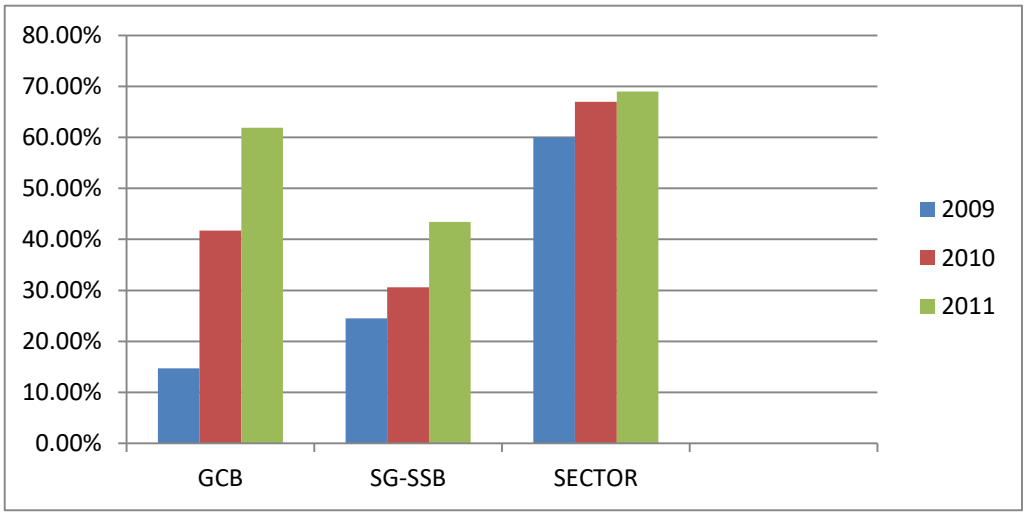


**Figure 2: Hot money liquidity of GCB Ltd, SG-SSB Ltd and banking sector for 2009-2011.**

Source**:** Financial statements for GCB Ltd and SG-SSB Ltd for 2009-2011.

Hot money ratio is another key liquidity indicator for banks because it shows whether the banks have been able to absorb the lending made to the public from its liquid fund available to it by means of borrowing made from the public. A higher percentage measures the extent to which the bank was ready to pay back interest bearing liabilities. A look through the Figure 2 above showed that the ratios for both banks were trendily rising as the sector average was also rising. GCB registered 14.70% in 2009, 41.70% in 2010 and 61.90% in 2011 with an average of 39.43% in the three years while its counterpart registered 24.50% in 2009, 30.60% in 2010 and 43.40% in 2011 with an average of 32.83. The banking sector recorded 60% in 2009, and 67% in 2010 and 69% in 2011 respectively.

The liquidity implications of the above percentages showed the extent to which the bank could depend on liquid fund kept with bank of Ghana as reserve, and other market securities held by the bank to justify the payment of total interest bearing liabilities when they were due for payment. Comparing the two banks with the industry average it was seen that the two banks fell very low below the industry average. In the case of GCB the reason could be that the bank kept less short term liquid fund resulted in the lower ratios during the period. SG-SSB on the other hand adopted measures to increase granting of loans to the public to make more interests income rather than increasing lodgement with Bank of Ghana. This was because the interest paid on loans contracted was lower than interest income received on credit granted. The average figure registered by both banks implied that GCB Ltd was closer to the industry average than SG-SSB Ltd and was more liquid than SG-SSB Ltd.

Liquidity is the key to sustaining banks viability; therefore in terms of overall liquidity the ratios and analysis showed that GCB Ltd was more liquid than SG-SSB Ltd. It can be said that GCB is more likely to appeal to the public and attract more customers than its counterpart. It was therefore not surprising that GCB Ltd had more customer base and more branches than SG-SSB.

Finally, liquidity is an important determinant for share performance of banks listed on the Ghana stock exchange because inventors patronise more shares from companies whose share prices are progressively higher on the stock exchange such that they can make more capital gain in the event of selling the

shares. The reason to be assigned to GCB Ltd share prices being higher throughout the period was higher liquidity as presented in Table 8.

**Table 8: Performance of share prices on Ghana stock exchange over the period**

| Date/Period | GCB Ltd (GH¢) | SG-SSB Ltd (GH¢) |
|---|---|---|
| 2009 beginning | 0.74 | 1.15 |
| Mid | 0.74 | 0.58 |
| End | 1.86 | 0.46 |
| 2010 beginning | 1.86 | 0.45 |
| Mid | 2.60 | 0.62 |
| End | 2.70 | 0.64 |
| 2011 beginning | 2.70 | 0.64 |
| Mid | 3.00 | 0.70 |
| End | 1.85 | 0.45 |

Source**:** 2009-2011 financial statements for GCB and SG-SSB

**Profitability analyses**

The most common measure of banks' performance is profitability. Profitability is measured using the following key indicators. The ratios were calculated from appendices A, B, C, and D.

***Return on Asset (ROA)***

This ratio measures operating profit to total asset. The ratio indicates the benefit obtained by the resource providers and it was the best way to assess profitability. This ratio indicates how much net income was generated / GHs of assets and is also a key factor for measuring management efficiency. The higher

the ratio of ROA the more profitable the bank is. The table below illustrates the results of GCB and SG-SSB.

Ac contained in Table 9, SG-SSB Ltd recorded an impressive ROA ratio compared to its counterpart. In 2009 the bank recorded 4.66% against 1.02% of GCB, while in 2010 it recorded 3.91% which was repeated in 2011. Its counterpart recorded 4.29% in 2010 and 1.21% in 2011. The industry averages for ROA were 1.6% in 2009 and 2.3% in 2010. SG-SSB had been more impressive in terms of ROA than GCB and other banks within the sector.

**Table 9: Return on Assets of GCB and SG-SSB**

| Bank/Year | 2009 | 2010 | 2011 |
|---|---|---|---|
| GCB | 1.02% | 4.29% | 1.21% |
| SG-SSB | 4.66% | 3.91% | 3.91% |
| SECTOR | 1.60% | 2.30% | u/a |

Source: Financial statement for 2009-2011 /CIB Ghana.

The scenario in Table 9 implied that for every GH¢1.00 assets of SG-SSB 4.66% was the income generated in 2009 while GCB generated only 1.02% which was less than industry average of 1.6%. 3.91% was recorded as income per every Ghana Cedis of asset while the GCB had rather recovered by an impressively record of 4.29% SG-SSB repeated the same percentage in 2011 while its counterpart declined to 1.21%.

It followed that, but for 2010, management of SG-SSB utilized the assets of the bank to generate more income than GCB. The percentage showed SG-SSB's management efficiency to use asset at its disposal to generate income for

the bank than its counterpart. It is also an indication that the assets of SG-SSB through prudent management yielded additional resources for the bank at the end of 2009 and 2011 than GCB. This may be due to the fact that government had bigger stake in GCB such that politician with little banking knowledge have been appointed to manage the bank leading to inefficiency.

A continuous impressive record of ROA is also an indication necessary for the viability of any bank. It can therefore be concluded that in terms of ROA, SG-SSB showed sign of being more profitable than GCB. Since profitability is key to survival of any entity it followed that SG-SSB is more likely to survive than GCB. While management of SG-SSB be praised for this remarkable achievement and eager on to do better, GCB management is advised to review its operational activities to take advantage of its numerous asset base and branches to make higher earring per Ghana cedis of asset. For the investing public the facts from the percentages showed that SG-SSB is more profitable as compared to GCB.

***Return on Equity***

Return on Equity (ROE) is net profit to total equity. ROE is the most important indicator of the bank profitability and growth potential. ROE is the rate of return to shareholders or the percentage return on each GH¢ of equity invested in the bank. The higher the ratio of ROE the more profitable the bank is.

The findings and assessment of the study with regard to the two banks is in line with the view of Pandey (2004) who posits that ROE is the most important profitability indicator in the financial analysis. ROE shows how well the firm had used resource of owners measured in percentage on each Ghana cedi of equity

held in the bank. Comparing both banks with the industrial average show that SG-SSB had put up yet another remarkable performance by recording higher percentage in terms of ROE. As presented in Table 10, SG SSB registered 17.78% in 2009, 16.66% in 2010 and 15.17% in 2011 respectively while GCB recorded 9.11%, 22.61% and 9.84% in similar years. The industry averages for those years were 12.1% and 10.7% respectively.

**Table 10: Return on Equity of GCB and SG-SSB**

| Bank/Year | 2009 | 2010 | 2011 |
|---|---|---|---|
| GCB | 9.11% | 22.61% | 9.84% |
| SG-SSB | 17.78% | 17.08% | 15.18% |
| SECTOR | 12.10% | 10.70% | u/a |

Source: Financial statement/of GCB Ltd and SG-SSB/ CIB Ghana.

The implication of the percentages was that shareholders of SG-SSB had higher return on their investment than that of GCB invertors. Since ROE is an indicator of banks profitability and growth potential it followed that potential investors and possibly those of GCB will be wooed to invest in SG-SSB. A continuous trend of this would result to an increase in demand of SG-SSB share, and its share price on the stock exchange will rise while the share price of the counterpart would fall on the exchange resulting in the fall in capital. It is however ironical that SG-SSB Ltd share prices were rather low on the exchange (Table 8). This has posed a topic for further research.

**Cost Income Ratio**

Cost income ratio (C/I) 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. Table 11 gives details of the two banks.

**Table 11: Cost Income Ratio of GCB and SG-SSB**

| Bank/Year | 2009 | 2010 | 2011 |
|---|---|---|---|
| GCB | 69.74% | 51.01% | 86.06% |
| SG-SSB | 63.37% | 64.29% | 68.49% |
| SECTOR | 60.00% | 60.00% | 60.00% |

Source: Financial statement of GCB and SG-SSB for 2009-2011/BOG.

As indicated, C/I is the ratio that shows what percentage of income expended as cost for generating an income for a particular period. In other words the C/I ratio measures the income generated per Ghana Cedis cost. The C/I percentage is also an important indicator of banks profitability and efficiency of management because it showed how management was able to control spending of cash on obtaining a stated income and compare it with other firms in the industry.

A review of the C/I ratio of the two bank further exposed the profitability and efficiency level of management of the two banks. GCB recorded 69.74% C/I ratio in 2009, 51.01% in 2010 and escalating 86.06% in 2011 respectively while SG-SSB registered 63.37% in 2009, 64.29% in 2010 and 68.49% in 2011. The C/I ratio recorded as the industry average was 60% through the three years period.

According to the ratio obtained it was clear that SG-SSB spent less on producing a unit output. But for 2010, it was more expensive for GCB to operate than SG-SSB. In 2009, SG-SSB 63% of every unit of income as cost and 37% as profit before tax while GCB recorded 70% of all income as cost and 30% profit before tax (see Appendices G, H and I). Again in 2011 SG-SSB operated with a less C/I ratio of 68% but its counterpart operated on a higher 86% C/I ratio.

The implication of the above ratios was that it was more expensive for GCB to operate and produce a unit of output since it had higher C/I ratio over the period. It further meant that GCB had less margin of profit while SG-SSB had higher profit margin. Operation expenses such as staff related cost, depreciation, training administrative expenses, advertising and marketing and so on were higher at GCB than SG-SSB.

This was not surprising because it was earlier stated that GCB had more branches in Ghana and have more international agencies than SG-SSB. It had more assets than any bank in Ghana and depreciation and maintenance cost were bound to be higher than its counterpart. The numerous branches in Ghana and those domiciled outside Ghana had to be manned by staff. All these and other cost have brought higher operation cost to GCB hence the higher C/I ratio. C/I is an embodiment of all expenses incurred by banks to operate.

Though both banks did not beat the industry average in terms of C/I SG-SSB was better than GCB. Since a lower C/I ratio is what a bank wanted it followed that SG-SSB was more profitable than GCB Ltd within the three years period.

**Table 12: Number of employees and amount expended as staff cost for GCB and SG-SSB for 2009-2011**

| Year/Bank | GCB | | SG-SSB | |
|---|---|---|---|---|
| | Employees | Amount GH¢ | Employees | Amount GH¢ |
| 2009 | 2108 | 84,988,696 | 671 | 28,243,941 |
| 2010 | 2315 | 110,448,000 | 671 | 33,064,230 |
| 2011 | 2273 | 135,912,000 | 671 | 36,658,980 |

Source: 2009-2011 financial statements of GCB & SG-SSB.

The results in Table 12 buttress the point that higher personnel emolument, maintenance of numerous branches and agencies and other operation cost accounted for GCB's higher operation cost/unit of output hence higher the C/I ratio. In terms of the overall profitability it was clear that SG-SSB was more profitable than GCB. The scenario implied that since investors go after profitable businesses to increase their earnings SG-SSB is likely to attract investors and more likely to survive than GCB. It was again clear that a private bank like SG-SSB was likely to be more profitable than a national bank in which the government had more says, and can tamper with governance issues.

**Investment analyses**

Investment ratio enables equity shareholders of an entity to assess the quality and viability of the investment they made so as to decide whether to continue committing their funds or to withdraw and put them in a more profitable alternative investment. It also assists potential investors to decide as to which company to invest, to earn more on their investment in the future. As intimated by Block and Hirt (1992) that investment is the commitment of current funds in

anticipation of receiving a larger future flow of funds. Therefore investment ratios are means by which profitable investment are distinguished from the less profitable once. When two or more company ratios are compared the options will be clear for the investor to choose. This is what exactly this section of the study sought to do. Key investment ratios were calculated for the two banks, interpreted what they meant to the shareholders for them to make their investment decisions.

**Dividend Yield**

This ratio is useful particularly by ordinary shareholders and potential ordinary shareholders to make investment decisions. The following table display that of the two banks

**Table 13: Dividend yield for GCB and SG-SSB**

| Bank/Year | 2009 | 2010 | 2011 |
|---|---|---|---|
| GCB | 1.32% | 2.69% | 3.78% |
| SG-SSB | 8.88% | 5.47% | 8.51% |

Source: 2009 – 2011 Financial Statement for GCB and SG-SSB.

As indicated earlier that dividend yield measures the rate of return an investor gets by comparing the cost of his shares with the dividend receivable. A look at the dividend yield of the two banks over the period showed that GCB recorded a low dividend yield of 1.32% in 2009, improving to 2.69% in 2010 before reaching the highest dividend yield point of 3.78% in 2011 and an average of 2.60% while its counterpart registered higher ratios of 8.88% in 2009, 5.47% in 2010 and 8.51% in 2011 with an average of 7.62% over the same period.

The implication of the above percentages were that a shareholder of GCB had 1.32% of the market price of a share held as dividend paid in 2009, and 2.69% in 2010 and 3.78% in 2011 respectively but SG-SSB shareholder 8.88% and 5.47% and 8.51% of the prices of a share held by them as dividend received in those respective years. It was also observed in this chapter that share prices of GCB were higher (GH¢0.74, GH¢2.70, GH¢1.85) than that of SG-SSB (GH¢0.45, GH¢0.64, GH¢.047) respectively.

The question to be asked was why did those higher market prices of GCB not translated into higher dividend yield while lower market prices of SG-SSB rather resulted into higher dividend yield? Why was it that higher dividend yield ratio of SG-SSB had not invited more shareholders to it?. As of December 31 2011, GCB Ltd had (96,805) shareholders while SG-SSB Ltd had (34,733) during the same period. (See appendices 10) These have opened another research topic to probe into the said questions

It implies that shareholders of GCB Ltd were not greatly concerned with the actual value of dividend yield but were interested primarily in appreciation of assets with the longer view of higher market prices of share that would increase their future flow of funds in the event of diverting their stake in the bank. The SG-SSB Ltd shareholders were interested in higher dividend possibilities. Though the average was not available to compare the two banks with the performance of other banks in the sector, it was obvious that in terms of dividend yield SG-SSB did better and the shareholders had yield cover than GCB shareholders.

Investors should take note in choosing between the two banks the one that satisfied their needs. Investment advisors should also be guided by the above analysis and advice their clients accordingly. The cardinal point of the matter was that those investors interested in long-term asset appreciation should choose GCB Ltd ahead of SG-SSB Ltd while investors who want immediate higher dividend should invest in SG-SSB Ltd.

**Earnings per Share**

This enables a fair comparison of one year's earnings on investment and another year's by relating the earnings to a number of shares in issue. Table 14 depicts that the earning per share of the two banks. The method adopted in calculation has been explained under methodology and the figures from Appendices A, B and J were applied.

**Table 14: Earnings per Share of GCB and SG-SSB**

| Bank/Year | GCB | SG-SSB |
|---|---|---|
| 2009 | GH¢0.060 | GH¢0.069 |
| 2010 | GH¢0.209 | GH¢0.058 |
| 2011 | GH¢0.068 | GH¢0.068 |

SG Source: 2009 – 2011 Financial Statement for GCB and SG-SSB

An amount earned on one unit of share acquired in a company by a shareholder during a year is referred to as EPS. It was earlier on stated in chapter three that EPS is the medium by which shareholders make fair comparison between the earnings on their investment of one year to the earnings of the investment of another year by relating the earnings to a number of shares issued.

A review of earning per share as obtained by the calculation revealed the following results. The GCB's shareholders obtained GH¢0.060 in 2009, GH¢0.209 in 2010 and GH¢0.068 in 2011 while SG-SSB also obtained about GH¢0.069.in 2009, GH¢0.058 in 2010 and GH¢0.068 in 2011. It was clear that shareholders earned more on shares in 2010 followed by 2009 and 2011 in that order. The shareholders of GCB were better off in 2010 nominally because every share in GCB during that year earned about GH¢0.209 to the investors. The marked difference between the earnings for 2010 and other two years implied that GCB dividend depended on net profit attributable to shareholders (NPAS). Where the NPAS was low EPS was also low in those years. This further implied that in times where there was economic shock, and less NPAS, nothing could be earned.

SG-SSB shareholders on the other hand earned about GH¢0.069 on their shares in 2009, GH¢0.058 in 2010 and GH¢0.068 in 2011 respectively. When the two companies were compared it was observed that quit apart from 2009 which SG-SSB Ltd registered a higher EPS than GCB Ltd the other two years have been dominated by GCB. This was not surprising at all because the number of SG-SSB share in issued during the period surpassed that of its counterpart such that dividing the NPAS among the issued shares resulted in less EPS (see appendices E and F).

If this phenomenon continued, the minds of SG-SSB Ltd shareholders would be swayed to withdraw their investment in that bank and buy GCB's share to enjoy higher earnings. Though the industry averages were not available to compare with, this would have effect on other banks in the sector as well. To

make the above analysis more vivid, we consider a shareholder that held one thousand shares in each bank given the EPSs.

Thus the figures show that it make economic sense investing in GCB than the SG-SSB. The findings are congruent with the comments of the ACCA (2007). The ratios examined previously are probably of interest to all stakeholders of banks such as creditors, employees, managers, shareholders, tax officials and so on. However, there are some other ratios which are primarily, although not exclusively, of interest to investors and prospective investors. These ratios are referred to as investment ratios. Investment ratios are those that help equity shareholders and other investors to assess the value and quality of an investment in the ordinary shares of a company (ACCA, 2007). The overall objective of calculating the various investment ratios is to assess the banks in terms of its potential and stability as an entity and give impetus to investor public that it is worth investing in. Therefore, based on this calculation it is clear that current and prospective investors will prefer to invest in GCB than that of SG-SSB bank

**Table 15: Scenario of a shareholder holding 1000 shares of each of the two banks**

| Bank/Year | 2009 | 2010 | 2011 | Total |
|---|---|---|---|---|
| GCB | GH¢60.00 | GH¢209.00 | GH¢69.00 | GH¢338.00 |
| SG-SSB | GH¢69.00 | GH¢58.00 | GH¢68.00 | GH¢195.00 |

Source: Author's own explanation

**Price Earnings Ratio**

Price Earnings Ratio (PER) is the means of comparing the EPS and the market price per share of a particular investment. It enables equity shareholder to

know how the share of the company they invest in is performing on the stock exchange. A company with a higher PER is more preferable and investors are attracted to such companies. Table 16 explains PER situation of the two banks. Formula for calculation can be found in Chapter Three.

**Table 16: Price Earnings Ratio of GCB and SG-SSB**

| Bank/Year | 2009 | 2010 | 2011 |
|---|---|---|---|
| GCB | 1:40 | 1:13 | 1:30 |
| SG-SSB | 1:8 | 1:11 | 1:7 |

Source: Financial statement/CIB Ghana.

As depicted in Table 16, the PER information implied that in the year 2009 GCB's share price on the stock market (GH¢2.70) can justify earning payment for 40 shares and SG-SSB only 8 shares. In 2010, GCB stock price could pay for earnings on the shares 13 times and SG-SSB 11 times and in 2011 GCB 30 times and SG-SSB 7 times in the respectively years.

It is clear that shareholders of GCB Ltd had a better market price of their share and have higher earnings ratio than SG-SSB, such that should both banks stocks were to be divested GCB Ltd shareholders would make more returns than their counterparts. If this phenomenon continues the shareholders of SG-SSB Ltd will sell their share to buy the share of GCB. This will affect the capital base of the SG-SSB Ltd and the share price will further decline while that of GCB will further increase, given the law of demand and supply. This would sway the minds of investors to invest in GCB Ltd than SG-SSB Ltd. This analysis is useful to the investing public to take sound investment decisions when sandwiched between

the two investment opportunities. Investment advisors also need this as a tool to direct their clients as to which of the investment opportunities is economically more viable.

**Dividend Cover**

Dividend cover measures the number of times that ordinary dividend could be paid out of current earnings of a company and it is another major investment indicator. The formula for calculation is explained under methodology.

**Table 17: Dividend Cover of GCB and SG-SSB**

| Year | GCB | SG-SSB | Sector Average |
|---|---|---|---|
| 2009 | 1.14 times | 1.44 times | 0.32 times |
| 2010 | 5.86 times | 1.7 times | 0.36 times |
| 2011 | 0.9 times | 1.71 times | u/a |

Source: Financial statements of GCB Ltd and SG-SSB Ltd

Looking at dividend cover, GCB Ltd again recorded the highest DC in 2010 when the net profit attributable to equity shareholders can absorb the share volume 5.86times and the lowest in 2011 at 0.90 times with an average DC of 2.63 times. SG-SSB on the other hand was also quite impressive in terms of dividend cover through the three years period. Thus 1.44 times was recorded in 2009, 1.70 times in 2010 and 1.71 time being the highest in 2011 respectively with an average cover of 1.62 times.

According to GCB (2012b), the dividend pay-out was 0.32 times in 2009 and 0.36 in 2010 respectively. However, that of 2011 was unavailable. Though

GCB had high average dividend cover within the period its counterpart also performed better than the industry average meaning that the two banks did well in terms of DC. Investment implications of the dividend cover show that both banks were able to pay their equity shareholders adequately during the period. This meant that investing in both banks made economic sense than the rest of banks in the industry. When the two banks were compared the figures showed that it was still better investing in GCB than SG-SSB. Investors are advised to rather invest in GCB than SG-SSB because it will give them the higher dividend cover and the higher possibility of getting more earnings.

**Capital adequacy analyses**

Capital adequacy as the name referred is the minimum capital required for banking operations by Law in Ghana. The legal position of capital adequacy had been regimented. PNDC law 225, (1989) had put the minimum capital adequacy for banking operation at 6%. The said law had been abrogated by the banking act of 2004. Section 23 subsection 1 and 2 provided that:

1. A bank holding the general banking license, shall at all time while in operation maintain a minimum capital adequacy ratio of 10% computed in the manner that the bank of Ghana may determine.
2. Subsection 2 also reiterated the 10% minimum capital adequacy for banks holding class one license. The said 10% shall be reviewed by the bank of Ghana from time to time.

Section 23 subsection 7 of act 673 prescribes a formula of capital adequacy ratio. It state that “the capital adequacy ratio shall be measured as

percentage of the adjusted capital base of the bank to its adjusted asset base". The inception of this policy was to enable the banks maintain a strong capital base so as to guarantee investor confidence and to mitigate the bank from unpleasant future developments of the business. Figure 3 shows the capital adequacy trends of the two banks compared with the sector requirement for the period.


**Figure 3: Graphical presentation of capital adequacy for GCB Ltd, SG-SSB Ltd and the banking sector for 2009-2011**

Source: Financial statements for GCB Ltd and SG-SSB Ltd for 2009-2011

As depicted in Figure 3, GCB's capital adequacy percentage was 10.37% in 2009, and 11.64% in 2010 respectively while SG-SSB recorded 24% and 24.52% during the same period. These percentages were in conformity with the legal position for banking operation in Ghana. Both banks maintained minimum capital adequacy in excess of mandatory legal requirement of 10% However, during 2011 while SG-SSB still maintained minimum capital adequacy percentage far in excess of the bank of Ghana requirement (26.90%) the counterpart fell below the minimum requirement to 6.90% (See Appendix B).

The reason that may be assigned to the above percentage of the two banks may be: while SG-SSB was more a private concerned the regulator\s supervision may be more aggressive and rigid on it than GCB Ltd. Also the management of SG-SSB had been aware of the consequences of flouting the law, tried to maintain minimum capital adequacy ratio.

Again GCB Ltd funds which were tired up in TOR debit during the period could also be the determining factor why it fell below the minimum capital adequacy percentage. Unlike SG-SSB that had no obligation to bail government off its financial difficulties had recorded high capital adequacy percentages. There are two scenarios for minimum capital adequacy.

1. Under normal circumstances banks prefer low minimum capital adequacy percentages because amount held by the regulator could be channelled to other profitable investments which would bring more returns to the shareholders.
2. The Bank of Ghana prefers a higher minimum capital adequacy percentage to ensure the enforcement of the provision of section 23, and as a guarantee for customers in case of the banks being in difficulty and is to be liquidated.

The data were analysed further to examine the contributing factors of the banks' performance using multiple regression (See Appendix K). As indicated in Appendix K, the mean of the data were ROA (0.226389), NPL/LA (0.231668) and LA/TD (0.511200) while the standard deviations of the data are ROA (1.370585), NPL/LA (0.334481) and LA/TD (0.209873). This shows that the ratio of loan and advances 51.12 percent is higher with little deviation from the mean at

20.99 percent. Jarque-Bera test reject the normality of ROA and NPL/LA at one percent level (2863.298 and 327.3264) being higher than the X2-value of 5.99 and 9.21 at five percent and one percent respectively while LA/TD (0.083856) suggest normality.

The result is as depicted by skewness and kurtosis of the data. Correlation output shows negative relationship between credit risk indicators and profitability. The correlation coefficients are -0.114341(NPL/LA) and -0.382068(LA/TD) indicating fall in profitability with every rise in the risk factors – ratio of non-performing loan to loan and advances and the ratio of loan and advances to total deposits. The regression result of the study's model suggests that all the independent variables have negative impact on profitability. The model is thus:

ROA = 1.634046 - 0.515976 NPL/LA – 2.519801 LA/TD + e **(**3.008073)

(-0.869481) (-2.664284) **(**0.0045) (0.3898) (0.0111)

The result show that the ratio Non-performing loan to loan and Advances negatively relate to profitability though not significant The parameters shows that increase in non-performing loans decreases profitability (ROA) by 51.60 percent, however, increase in the level of loan and advances to total deposit significantly decrease profitability of the banks by 251.98 percent, this expose them to higher risk level. The study shows that there is a direct but inverse relationship between profitability (ROA) and the ratio of non-performing loan to loan and Advances and the ratio of loan and advances to total deposit. This is consistent with the findings of ACCA (2007), Ayadi et al. (2009), and Richard et al. (2008).

In terms of the fitness of the study model, the coefficient of multiple determinations R2 indicates that about 16.1818% (adjusted R – 11.99%) of the variations in ROA are explained by the combined influence of credit risk indicators (NPL/LA and LA/TD) in the model. The Durbin Watson statistic measures the serial correlation of the variables. The result of the Durbin Watson test shows 2.323. Since the value is approximately two, it is accepted that there is no autocorrelation among the successive values of the variables in the model. The test of overall significance of regression implies testing the null hypotheses.

The overall significance of the regression is tested using Fisher's statistics. In this study the calculated F* value of 3.861162 is significant at five percent. It is therefore, concluded that linear relationship exist between the dependent and the independent variables of the model. Base on this findings, the postulations which respectively state that there is no significant relationship between non-performing loan and banks profitability while loan and advances does not have a significant influence on banks profitability were rejected. The evidence established that the independent explanatory variables (credit risk indicators) have individual and combine impact on the return of asset of banks in Ghana.

This study shows that there is a significant relationship between bank performance (in terms of profitability) and credit risk (in terms of loan performance). Loans and advances and non performing loans are major variables in determining asset quality of a bank. These risk items are important in determining the profitability of banks in Ghana. Where a bank does not effectively manage its risk, its profit will be unstable. This means that the profit

after tax has been responsive to the credit policy of GCB and SG-SSB from 2009 to 2011.

The deposit structure also affects profit performance. These two banks hold a large volume of core deposits. The growth of loan has been relatively fast for the past few years and which is not fully covered by the deposit base. Banks become more concerned because loans are usually among the riskiest of all assets and therefore may threatened their liquidity position and lead to distress. Better credit risk management results in better bank performance. Thus, it is of crucial importance for banks to practice prudent credit risk management to safeguard their assets and protect the investors' interests.

# CHAPTER FIVE

# SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

## Introduction

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. and SG-SSB Ltd.

## Summary

The main purpose of the study was to examine and analyse the financial performance of GCB Ltd and SG-SSB Ltd for the period of 2009 to 2011, using their respective financial statements. Specifically, the objectives of the study were to measure the liquidity of GCB Ltd and SG-SSB Ltd for the period 2009-2011, determine which of the two banks is more profitable and to assess the investment prospects in the two banks. The study further examines the capital adequacy of the banks and the growth prospect of the two banks. The study depended mainly on ratios as tool for analysing the financial performance of SG-SSB bank Ltd and GCB Ltd for the period.

The key findings that emerged from the data were as follows:

1. In terms of liquid fund to total assets GCB Ltd was averagely more liquid than SG-SSB though the two banks performed lower than the sector average.

2. SG-SSB had higher core liquid assets to total asset than its counterpart. This meant that SG-SSB held more of its assets with banks, in loans and other assets rather than holding them in liquid cash, and cash balances with Bank of Ghana, and government securities while the GCB did the opposite. Both banks did well in terms of broad liquidity though the sector average performance was not readily available to compare with.
3. GCB Ltd had more branches, both locally and internationally, than SG-SSB. This has resulted to GCB Ltd collecting more funds from the public than SG-SSB hence higher liquidity.
4. Credit to deposit ratio revealed that GCB again was more liquid than its counterpart because it extended 65.9% of total deposits to customers as loan as against 63.8% for SG-SSB.
5. For Hot Money Ratio, both banks performed lower than the sector average but still in terms of comparing the two banks GCB Ltd recorded 39.43% as average for the three years while its counterpart recorded 32.83% liquidity ratio
6. For overall liquidity, between the two banks, GCB Ltd was found to be more liquid than SG-SSB Ltd
7. Higher liquidity affect share price of listed companies so GCB had higher share price throughout the three years.
8. For profitability ratios of the two banks, the findings showed that SG-SSB recorded higher ROA than its counterpart. Management of SG-SSB utilised its assets more efficiently to generate income for its shareholder than GCB‘s

management did. Again SG-SSB recorded higher ROE than its counterpart. The meaning of these findings was that SG-SSB investors gain more returns on their investment than GCB Ltd investors. These indicate higher profitability in SG-SSB Ltd than GCB.

9. GCB Ltd recorded higher Cost/Income ratio than SG-SSB meaning it was more expensive for GCB to operate and produce a unit of output than SG-SSB during the period. It tells us that it was less expensive to operate at SB-SSB than GCB Ltd did therefore SG-SSB business was more profitable
10. In terms of investments it was found out that, investors who wanted future capital appreciation of their share invested more in GCB Ltd. This was seen in the price earnings ratio while investors who wanted higher dividend on their shares invested more in SG-SSB. This showed higher dividend yield.
11. Another finding revealed that both banks were able to pay their equity shareholder adequately during the period. GCB recorded dividend cover ratio of 2.63times average and SG-SSB 1.62times with sector average of 0.35times within the three years period. This implied that it was better inverting in either bank than the rest of the banks in the industry.
12. Both banks were limited liability companies and the intention of the shareholders was to increase the earnings on their investment. However, management of GCB's Limited primary concern was to liberate government from financial difficulties to the detriment of increasing shareholders wealth.
13. The computation of capital adequacy over the three years period show that SG-SSB recorded far higher than mandatory sector requirement while GCB

had been operating on lower capital adequacy ratio than the counterpart until it fell below the mandatory percentage of 10% in 2011. It was again found out that since GCB Ltd was more a national bank, the regulator granted special dispensation to it in terms of capital adequacy to make it more resilient to competition.

**Conclusions**

The analyses of the financial performance of GCB Ltd and SG-SSB Ltd show that GCB Ltd performance as a whole was more significant than SG-SSB Ltd. In terms of liquid fund to total assets GCB Ltd was averagely more liquid than SG-SSB though the two banks performed lower than the sector average. However, SG-SSB held more of its assets with banks, in loans and other assets rather than holding them in liquid cash, and cash balances with Bank of Ghana, and government securities while the GCB did the opposite. With regard to number of branches each of the banks had, GCB Ltd had more branches than SG-SSB Ltd which put GCB Ltd in a position to collect more funds from the public than SG-SSB hence higher liquidity. Generally, GCB Ltd was found to be more liquid than SG-SSB Ltd.

In relation to the profitability ratios of the two banks, SG-SSB recorded higher ROA than its counterpart. Management of SG-SSB utilised its assets more efficiently to generate income for its shareholder than GCB‘s management did. Again SG-SSB recorded higher ROE than its counterpart. Meaning, SG-SSB investors gain more returns on their investment than GCB Ltd investors. These indicate higher profitability in SG-SSB Ltd than GCB. Also, it was more

expensive for GCB to operate and produce a unit of output than SG-SSB during the period. It tells us that it was less expensive to operate at SB-SSB than GCB Ltd did therefore SG-SSB business was more profitable.

However, investors who wanted future capital appreciation of their share invested more in GCB Ltd. This was seen in the price earnings ratio while investors who wanted higher dividend on their shares invested more in SG-SSB. This showed higher dividend yield. The computation of capital adequacy over the three years period show that SG-SSB recorded far higher than mandatory sector requirement while GCB had been operating on lower capital adequacy ratio than the counterpart until it fell below the mandatory percentage of 10 percent in 2011. It was again found out that since GCB Ltd was more a national bank, the regulator granted special dispensation to it in terms of capital adequacy to make it more resilient to competition.

**Recommendations**

The following recommendations are made based on the findings from the study. GCB's policy of bailing government off its financial difficulties should not have been the banks primary concern. The banking sector is fraught with keen competition. Shareholders are becoming more informed as a result of the work of investment advisors. Such shareholders could withdraw their capital and invest in the counterpart where equal attention is paid to all shareholders. The phenomenon, if not arrested could lead to capital-dry up in GCB Ltd.

Furthermore, the management should rather use the funds to grant more loans to needing customers since this would bring more interest income than

investing in government securities, and bonds the aim of which was to bail government from economic hardships. Since the latter was riskier business, the bank has to operate with a strengthened and well-motivated credit department and rigorous debt recovery plan for this policy to succeed. Again, numerous branches and high staff emoluments had a serious burden on the GCB Ltd such that the said expenses swept more of its profits during the period. It is recommended that poorly performing branches should be closed down. Staff emoluments can also be cut-down by prudent personnel management and weeding out lazy staff, and outsourcing certain ancillary services if possible.

With SG-SSB, the finding showed that the bank held more of its assets with other banks, and granting more loans. This decision brought more interest income but also curtailed the bank's liquidity. In banking the risk-return is present. Risk taken such as the above generate higher expected earning but granting of high margin loans to risky customers may increase earnings in the short term but also increases the credit risk, and the probability of future losses. Therefore the management of the bank should be careful with the said policy and consider risk-return trade-off.

Again to make this policy more effective and viable the bank should engage a strong and well-motivated credit and debt recovery department to investigate customers' credit worthiness and viability of their businesses before entrusting money to such organisation. Also the bank is advised to adopt a good mix of profitability and liquidity agenda. To the investing public; investors who wanted capital appreciation on their shares in the future should invest in GCB

limited because the finding showed that the bank's policy support that while the investors who wanted higher dividend on their share now should invest in SG-SSB limited.

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## APPENDIX A

## GHANA COMMERCIAL BANK LIMITED

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER (2009-2011)

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| | GHS000 | GHS | GHS |
| Interest Income | 256,619 | 387,483,004 | 266,018,982 |
| Interest Expense | (49,807) | (103,194,727) | (134,311,684) |
| Net Interest Income | 206,812 | 284,288,277 | 131,707,298 |
| Fees and Commission Income | 67,258 | 48,560,678 | 56,636,297 |
| Fees and Commission Expense | (2,730) | (2,765,418) | (813,269) |
| Net Fees and Commission Income | 64528, | 45,795,260 | 55,823,028 |
| Net Trading (Expense) /Income | 13,485 | (3,090,840) | 10,500,824 |
| Other Incomes | 4,447 | 2,207,255 | 2,982,915 |
| | 17,932 | (883,585) | 13,483,739 |
| Total Income | 289,272 | 329,199,952 | 201,014,065 |
| Impairment charges on Loans and advances | (10,650) | (70,931,321) | (36,675,111) |
| Net Income | 278,622 | 258,268,631 | 164,338,954 |

| | | | |
|---|---|---|---|
| Operating Expense | (248,941) | (167,912,511) | (140,194,130) |
| Profit before | | | |
| Exceptional Item | 29,681 | 90,356,120 | 23,873,991 |
| Exceptional Item | 0 | 0 | (4,521,708) |
| Profit before Taxation | 29,681 | 90.356,120 | 19,623,116 |
| Taxation | (12,998) | (34,923,890) | (1,505,965) |
| Profit after Tax. | | | |
| Attributable to | | | |
| Equity Shareholders | 16,683 | 55,432,230 | 18,117,151 |
| OTHER COMPRE INCOME | | | |
| Net change in Fair Value of Other | | | |
| Securities (Financial | | | |
| Assets Available for Sale) | 1,144 | 320,000 | (7,250,090 |
| Actual loss/gain on | | | |
| define benefit obligation | (1,519) | - | - |
| Total Comprehensive | | | |
| Income for the Year | 14,400 | **55,752,230** | 10,867,061 |
| BASIC AND DILUTED | | | |
| EARNINGS PER SHARE | 0.06 | 0.209 | 0.068 |

## APPENDIX B

### Consolidated Statement of Financial Position for

### GCB Limited for the Periods 2009-2011

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| | GHS000 | GHS | GHS |
| **ASSETS** | | | |
| Cash and Balances with | | | |
| Bank of Ghana | 433,430 | 325,566,469 | 147,103,052 |
| Due from Banks and | | | |
| Financial Inst | --- | 231,514,760 | 186,307,292 |
| Short -Term investment | 1,195,981 | 451,596,191 | 105,857,373 |
| Medium-Term investment | 2,969 | 0 | 110,000,000 |
| Loans and Advances | | | |
| to Customers | 476,211 | 1,003,682,422 | 1,265,516,727 |
| Loans and advances | | | |
| to Banks | 217,179 | --- | - |
| Investment in Subsidiary/Ass | 16,126 | 20 | 20 |
| Investment in Other Securities | 64 | 7,823,928 | 8,287,004 |
| Income Tax Asset | 6,357 | -- | -- |
| Deferred Tax | 11,379 | 3,283,591 | 8,527,324 |
| Intangible Assets | 1,841 | -- | -- |
| Other Assets | 39,072 | 28,855,950 | 35,829,587 |
| Property Plant & Equipment | 53,955 | 54,001,812 | 49,654,822 |

| | | | |
|---|---|---|---|
| **Total Assets** | **2,454,564** | **2,106,325,143** | **1,917,083,201** |
| **LIABILITIES** | | | |
| Customers Deposits | 2,061,390 | 1,575,281,050 | 1,259,470,137 |
| Accruals and Other Liabilities | 108,379 | 181,573,861 | 120,948,413 |
| Current Tax Liabilities | -- | 31,196,276 | 6,033,925 |
| Borrowings | 79,000 | 73,125,000 | 331,800,000 |
| Employee Benefit obligation | 36,322 | --- | -- |
| Total Liabilities | **2,285,091** | **1,861,176,187** | **1,718,252,475** |
| **SHAREHOLDERS FUND** | | | |
| Stated Capital | 72,000 | 72,000,000 | 72,000,000 |
| Capital Surplus | | 812,444 | 492,444 |
| Retained Earnings | 18,806 | 80,235,293 | 46,489,073 |
| Fair value reserve | (332) | -- | -- |
| Regulatory Credit Risk Res Fund | 55,210 | 49,954,330 | 36,096,272 |
| Credit Risk Reserve | 24,631 | -- | -- |
| Other reserves | (842) | --- | --- |
| **SHAREHOLDERS FUND** | **169,473** | **245,148,956** | **198,830,726** |
| **TOTAL LIABILITIES AND SHAREHOLDERS FUND** | **2,454,564** | **2,106,325,143** | **1,917,083,201** |

## APPENDIX C

## SG-SSB LIMITED

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER (2009-2011)

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Revenue | 124,080,061 | 106,973,156 | 96,402,812 |
| Interest and Similar Income | 81,912,452 | 75,731,717 | 62,284,913 |
| Interest and Similar Expenses | (13,556,856 | (10,190,844) | (10,820,137) |
| Net Interest Income | 68, 355,596 | 65,540,873 | 51,464,776 |
| Fees and Comm. Revenue | 26,956,477 | 23,723,627 | 30,742,156 |
| Fees and Comm Expense | (4,049,971) | (3,406,506) | ---- |
| Net Commission Income | 22,906,506 | 20,317,121 | 30,742,156 |
| Forex Trading Revenue | 13,395,859 | 5,723,807 | ___ |
| Investment Revenue | 73,600 | 110,400 | ___ |
| Other Operating Income | 1,741,673 | 1,683,605 | 3,375,743 |
| Total Other Operating Income | 15,211,182 | 7,517,812 | 3,375,743 |
| Total Operating Income | 106,473,234 | 93,375,806 | 85,582,675 |
| Credit Loss Expense | (907,947) | (6,512,000) | (4,436,00) |
| Net Operating Income | 105,565,287 | 86,863,806 | 81,146,675 |
| Personnel Expenses | (36,658,980) | (33,064,230) | (28,243,941) |
| Depreciation | (3,630,842) | (2,953,432) | (2,786,100) |
| Amortisation | (3,058,140) | (2,668,395) | (240,818) |
| Other Operating Expenses | (29,576,076) | (21,349,283) | (22,966,246) |

| | | | |
|---|---|---|---|
| Total Operating Expenses | (72,926,038) | (60,035,340) | (54,237,106)) |
| Net Operating Profit | 32,639,249 | 26,828,466 | 26,909,570 |
| Share of Profits of Ass. | 319,728 | 489,574 | ___ |
| Profit Before Tax | 32,958,977 | 27,318,040 | 26,909,570 |
| Income Tax Expenses | (8,454,985) | (6,116,721) | (6,943,762) |
| National Stabilization Levy | (1,631,962) | (1,341,423) | (672,739) |
| Profit After Tax | 22,872,030 | 19,859,896 | 19,293,069 |
| Other Comprehensive Income | 172,522 | 1,679,514 | ___ |
| Total Compare Income for the year | **23,044,552** | **21,539,410** | **19,293,069** |
| Earnings Per Share: | | | |
| Equity Shareholders of the bank | GH¢0.0675 | GH¢0.0580 | GH¢0.0692 |
| Profit for the year Attri to: | | | |
| Majority or Control. Equity Holders | 11,948,348 | 10,374,809 | 10,078,669 |
| Other Equity Holders of the Bank | 10,923,682 | 9,485,087 | 9,214,370 |
| | **22,872,030** | **19,859,896** | **19,293,039** |

## APPENDIX D

## SG-SSB Ltd CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## FOR THE PERIOD 2009-2011

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| | GHS | GHS | GHS |
| **ASSETS** | | | |
| Cash on hand & | | | |
| cash with BOG | 125,508,159 | 70,237,458 | 70,393,711 |
| Due from Banks and | | | |
| Other Fin. Inst | 110,457,803 | 160,181,244 | 106,337,437 |
| Financial Investments | 174,503,218 | 104,483,701 | 44,378984 |
| Other Assets | 8,056,117 | 13,076,401 | 22,519,442 |
| Loans and Advances | 344,545,558 | 298,750,342 | 296,218,660 |
| Investment in Associates | 2,887,137 | ---- | ---- |
| Investment in other Securities | 408,223 | 289,723 | 287,923 |
| Current Tax Assets | 3,356,852 | 2,841,858 | 2,353,204 |
| National Stabilization Levy | 271,718 | 76,065 | 52,261 |
| Long Term Operation Lease | 4,078,250 | 4,226,550 | 4,374,850 |
| Property, Plant & Equipment | 63,339,491 | 25,417,515 | 29,338,605 |
| Intangible Assets | 3,664,678 | 6,331,806 | 437,509 |
| **Total Assets** | **841,077,204** | **685,912,663** | **576,694,386** |
| **Liabilities** | | | |
| Customers Deposit | 625,773,956 | 495,397,719 | 388,646,975 |

| | | | |
|---|---|---|---|
| Due to Banks & Other | | | |
| Fin Inst. | 15,800,867 | 22,014,693 | 32,319,372 |
| Interest Payable & | | | |
| Other Liabilities | 48,104,078 | 50,955,401 | 46,059,582 |
| Deferred Tax Liabilities | 714,526 | 1,300,507 | 1,146,503 |
| **Total Liabilities** | | | |
| **Equity** | **690,403,424** | **569,668,320** | **468,172,432** |
| Stated Capital | 62,393,558 | 62,393,558 | 62,393,558 |
| Share Deals Account | 2,943,755 | 2,943,755 | 2,943,755 |
| Capital Surplus | 33,398,825 | 9,232,693 | -- |
| Gen. Regulatory Credit Reserve | 4,679,574 | 1,370,429 | -- |
| Income Surplus Account | 17,668,788 | 17,305,300 | -- |
| Available for Sale Reserves | 2,869,137 | -- | --- |
| Statutory Reserve Fund | 26,290,786 | 21,290,785 | 16,290,786 |
| Other Reserves | 429,347 | 1,707,822 | 9,232,693 |
| Retained Earnings | -- | -- | 17,661,162 |
| **Total Equity** | 150,673,780 | 116,244,343 | 108,521,954 |
| **Total Liabilities** | | | |
| **and Equity** | **841,077,204** | **685,912,663** | **576,694,386** |

## APPENDIX E

## STATED CAPITAL OF GCB LTD FOR THE PERIOD 2009-2011

| | 2011 | 2011 | 2010 | 2010 | 2009 | 2009 |
|---|---|---|---|---|---|---|
| | No_ | Amt | No | Amt | No | Amt |
| | GHS | - | GHS | - | GHS | - |
| **Authorised ord shares:** | **(000)** | | **(000)** | | **(000)** | |
| Number of ordinary | | | | | | |
| shares of no pae value | 1,500,000 | - | 1,500,000 | - | 1,500,000 | - |
| Issued Ord Shares: | | | | | | |
| Issued for cash | 115,000 | 60,030,100 | 115,000 | 60,030,1 | 115,000 | 60,030,1 |
| Trf from ret | | | | | | |
| earning | 86,500 | 343 | 86,500 | 343 | 86,500 | 343 |
| Trf from ret earning | 0 | 10,000 | 0 | 10,000 | 0 | 10,000 |
| Capilisation of Rev | 1,000,000 | 1.9 | 1,000,000 | 1.9 | 1,000,000 | 1.9 |
| Trf from capital surp | 62,500,000 | 1,625 | 62,500,000 | 1,625 | 62,500,000 | 1,625 |
| | **265,000,000** | 72,000 | **265,000,000** | 72,000 | **265,000,000** | **72,000** |

## APPENDIX F

## STATED CAPITAL FOR SG-SSG LTD FOR THE PERIOD 2009-2011

| | 2011 No GHS | 2011 Amt (000) | 2010 No GHS | 2010 Amt (000) | 2009 No GHS | 2009 Amt (000) |
|---|---|---|---|---|---|---|
| Authorised Ord Share: | | | | | | |
| No of ord shares | | | | | | |
| of no par value | 500,000,000 | -- | 500,000,000 | -- | 500,000,000 | -- |
| **Issued and fully paid ord share** | | | | | | |
| | 333,897,000 | 62,393,558 | 333,897,000 | 62,393,558 | 333,897,000 | 62,393,558 |
| | **333,897,000** | **62,393,558** | 333,897,000 | **62,393,558** | **333,897,000** | **62,393,558** |

## APPENDIX G

## STAFF COST FOR GCB LIMITED

| | 2009 | 2010 | 2011 |
|---|---|---|---|
| Wages & Salaries | 46,911,814 | 50,581,582 | 64,114,000 |
| Staff Allowances | - | -- | 42,118,000 |
| Social Sec Fund | 4,573,197 | 6,087,031 | 7,451,000 |
| Providence Fund | 4,904,011 | 5,647,430 | 7,150,000 |
| Restruct. Costs | -- | -- | 6,161,000 |
| Other staff cost | 22,954,921 | 38,852,246 | 2,077,000 |
| Medical Exp | 1,177,866 | 1,257,646 | -- |
| Pension gratuity | 4,466,887 | 4,996,869 | -- |
| | **84,988,696** | **107,422,804** | **135,912,000** |

## APPENDIX H

## SAFF COST FOR SG-SSB LIMITED

| | 2009 | 2010 | 2011 |
|---|---|---|---|
| Salaries wages and staff allow. | 22.628,790 | 26,903,338 | 29,585,549 |
| Social security fund contri. | 1,594,451 | 1,984,915 | 2,301,704 |
| Provident fund contri. | 1,277,694 | 1,533,657 | 1,773,686 |
| Medical | 604,712 | 684,799 | 796,131 |
| Insurance | 193,552 | 123,970 | 142,126 |
| Other employees cost | 1,944,742 | 1,833,551 | 2,059,784 |
| | 28,243,941 | 33,064,230 | 36,658,980 |

## APPENDIX I

## TOTAL OPERATING EXPENSES

| Year | GCB Ltd | SG-SSB Ltd |
|---|---|---|
| 2009 | 140,194,130 | 54,237,106 |
| 2010 | 167,912,511 | 63,441,846 |
| 2011 | 248,941,000 | 72,926,038 |

## APPENDIX J

## ANALYSIS OF SHAREHOLDINGS OF GCB LTD AS AT DEC 31, 2011

| Categories | No of holders | | No of Shares | | % of shares held | |
|---|---|---|---|---|---|---|
| | GCB | SG-SSB | GCB | SG-SSB | GCB | SG-SSB |
| 1-1,000 | 88,716 | 30,092 | 19,859,274 | 1,364,434 | 7% | 0.41% |
| 1001-5,000 | 7,037 | 3,569 | 15,551,018 | 8,495,220 | 6% | 2.54% |
| 5,001-10,000 | 627 | 596 | 4,692,731 | 4,333,498 | 2% | 1.50% |
| 10,000 and over | 425 | 476 | 224,896,977 | 319,700,742 | 85% | 95.75% |
| | **96,805** | **34,733** | **265,000,000** | **333,893,894** | **100%** | **100%** |

## APPENDIX K
## Multiple Regression Analysis of the Results

**Descriptive statistics**

| ROA | | NPL/LA | LA/TD |
|---|---|---|---|
| Mean | 0.226389 | 0.231668 | 0.511200 |
| Median | 0.023750 | 0.133469 | 0.488018 |
| Maximum | 9.000000 | 1.872425 | 0.970000 |
| Minimum | -0.242415 | 0.000000 | 0.000000 |
| Std. Dev. | 1.370585 | 0.334481 | 0.209872 |
| Skewness | 6.315171 | 3.179862 | -0.013665 |
| Kurtosis | 40.93249 | 14.92677 | 3.214608 |
| Jarque-Bera | 2863.798 | 327.3264 | 0.083856 |
| Probability | 0.000000 | 0.000000 | 0.958939 |
| Sum | 9.734737 | 9.961720 | 21.98159 |
| Sum Sq. Dev. | 78.89715 | 4.698856 | 1.849948 |
| Observations | 43 | 43 | 43 |

Source: Eviews Regression Output of the data obtained from the 2009-2011 financial statements of GCB & SG-SSB

**Where** NPL/LA = Ratio of Non-performing loan to loan and Advances).

**Correlation result**

| ROA | | NPL/LA | LA/TD |
|---|---|---|---|
| ROA | 1.000000 | -0.114341 | -0.382068 |
| NPL/LA | -0.114341 | 1.000000 | -0.030009 |
| LA/TD | -0.382068 | -0.030009 | 1.000000 |

Source: Eviews Regression Output of the data obtained from the 2009-2011 financial statements of GCB & SG-SSB

**Regression result**

| Variables | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 1.634046 | 0.543220 | 3.008073 | 0.0045 |
| NPL/LA | -0.515976 | 0.593430 | -0.869481 | 0.3898 |
| LA/TD | -2.519801 | 0.945770 | -2.664284 | 0.0111 |
| R-squared | 0.161818 | Mean dependent var | | 0.226389 |
| Adjusted R-squared | 0.119909 | S.D. dependent var | | 1.370585 |
| S.E. of regression | 1.285790 | Akaike info criterion | | 3.407837 |
| Sum squared resid | 66.13019 | Schwarz criterion | | 3.530712 |
| Log likelihood | -70.26850 | F-statistic | | 3.861162 |
| Durbin-Watson stat | 2.323712 | Prob(F-statistic) | | 0.029293 |

Source: Eviews Regression Output of the data obtained from the 2009-2011 financial statements of GCB & SG-SSB

Where Dependent Variable: ROA, Method: Least Squares Included observations: 43 after adjusting endpoints