European Journal of Business and Management
ISSN 2222-1905 (Paper) ISSN 2222-2839 (Online)
Vol.5, No.28, 2013

Evaluation of the Performance of Banks in Ghana Using Financial Ratios: A Case Study of Barclays Bank Ghana Limited (BBGL), Ghana Commercial Bank (GCB) and Agricultural Development Bank (ADB)

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Abstract

Many banks have entered the Ghanaian banking industry in the past five years to take advantage of the increasing expenditure of the middle income Ghanaians, and the growing private sector. The banking industry is now experiencing keen competition. The question is whether the banks in Ghana are currently in good financial position to continue functioning as expected, especially as the world recently experienced financial crises. The study therefore evaluated the financial health of the banks in Ghana by analyzing the published financial statements of Ghana Commercial Bank (GCB), Agricultural Development Bank (ADB) and Barclays Bank Ghana (BBG). Financial ratios were used to analyze the liquidity and profitability trends of the banks from the year 2005 to 2009. The performance of the banks was also compared with the industry's average performance. The major findings from the study were that the banking business in Ghana is lucrative. The banks are making much sales revenue in excess of their cost. From 2007 to 2009, however, the expenses, especially the impairment charges, kept increasing, which reduced the net profits of the banks. This is attributed to increased provision for bad debts arising from rising inflation and interest rates, especially in the early part of 2009 which contributed to increased loan delinquency.

Keywords: Financial, ratios, Performance, Liquidity, Ghana

1. Introduction

Finance is an important component of every business. Businesses need, not only seed capital to start, but also growth capital to expand. Thus, private sector business, which is generally recognized now than ever as the engine of economic growth, requires efficient, innovative and vibrant financial sector, especially the banks, in order to survive. Fortunately, many banks have entered the Ghanaian banking industry in the past five years to take advantage of the increasing expenditure of the middle income Ghanaians, and the growing private sector.

The banking industry in Ghana has made some tremendous improvement since 2001; especially following what experts say has been the foresightedness of the central bank which has initiated many proactive decisions in tune with global trends. The banking sector, until recently, was divided into four sectors: commercial banks, corporate banks, industrial, and agricultural banks. Presently, the Bank of Ghana issues one main universal license. The reforms that is mainly captured in the Banking Act 2004, and which introduced the universal banking concept, saw an influx of banks into the country, mainly from Nigeria, Liberia and India. The number of banks has increased from nineteen (19) in 2001 to twenty six (26) in 2009. There are still many more foreign banks looking to establish subsidiaries in Ghana.

This phenomenon has injected a keen competition among banks, which analysts describe as healthy for the development of the industry. For instance, the banking sector has continued to record a strong asset growth and improved profitability as per figures available at the end of 2008. Total assets of the banking industry at the end of December 2008 was GH¢10,692.2 million (a growth of 37.2 percent, compared with GH¢7,795.6 million in 2007 (Governor, BOG, quoted from Graphic Business, March 10 – 16, 2009).

The banking industry is now experiencing keen competition. As a result, most of the banks try to 'sell themselves' i.e. they build up their image, through the publication of 'prosperous' financial statements. These financial statements serve as tools used by the stakeholders, including the private sector for their business decision making.

The question is whether the banks in Ghana are actually in good financial position, or they only 'window dress' the financial statements just to gain competitive advantage.

From the latter part of 2008, the world experienced serious financial crisis. Many giants in banking experienced credit crunch, and either filed for bankruptcy or actually collapsed. In Ghana, however, the opposite appears to be the case. Banks have continuously released audited accounts that show significant increase in profits after tax.

The questions are whether the increasing profits imply an improving financial performance, health and prospects of the banks in Ghana, and whether the performance indicated by the published statements of the banks implies a zero or a positive effect of the global credit crunch on the banks in Ghana.

The aim of the study is to evaluate the financial health of the banks in Ghana by analyzing the published financial statements of GCB, ADB and BBG in terms of liquidity and profitability from the year 2005 to 2009. Specifically the study assesses: the financial position of the banks using liquidity ratios analysis; and the financial performance of the banks using profitability ratios analysis.

2. Literature Review

The Ghanaian banking sector has witnessed a phenomenal growth in recent years with the number of banks soaring from 16 in 2000 to 24 in December 2007 and 26 in 2009. According to the Ghana Banking Survey (2008), the number of bank branches also increased from 350 in 2004 to 530 in 2007 for the 22 banks used in the study. The largest contribution to branches in the year 2007 came from Barclays Bank Ghana Limited which increased its branches by 63.

The Ghana banking sector is currently majority foreign owned. The acquisition of universal bank license by banks and entry of several foreign banks have heightened competition in the industry. The net spread and the net interest margin has witnessed a reduction from 12.71% and 10.82% in 2003 to 9.4% and 8.53% in 2007 respectively (PwC & GAB, 2009). A number of studies have found a positive relationship between competition and efficiency, and between competition and the rate of productivity growth. Banks simply have to operate at high level of efficiency to ensure their survival. A strong regulation is however needed as excessive competition in the banking sector can induce the temptation to provide finance to high risk customers, erode franchise values and create an unstable environment (Kweku Baa Korsah et. al. 2001).

Recent cross country-country studies find that entry by foreign banks increases competition, efficiency, and banking sector stability, factors that should benefit borrowers. On the other hand, opponents of foreign bank entry argue that this process might still harm access to credit in particular by underserved sectors such as small and medium-sized enterprises. Demirgue-Kunt et al. (1998), contend that actual foreign bank presence is associated with a lower probability of crises.

2.1 Profitability of Banks in Ghana.

Banks in Ghana have become more profitable due to the oligopolistic nature of the market that enables them to reap supernormal profits (Kweku Baa Korsah et. al. 2001).The market is driven mainly by four leading banks that together control a large portion of the market. Profitability has soared over the last 9 years and the banks are sounder now than they were a decade ago. For instance, the Ghana Banking Survey (2008) reported that between 2003 and 2007 the total deposit mobilized increased by 120% from 1.65 billion cedis to 3.65 billion cedis. Industry's operating assets also grew by 40% from the end of 2007. Cash assets had the highest growth rate of about 50%. The rise in deposits and assets suggest that consumers are placing more money into banking institutions nationwide.

In spite of recent competition, the industry's cost to income ratio only inched by 1%, from 62% in 2007 to 63% in 2008. Overall, most banks increased their loan portfolio profitability in the year 2007.

In 2009, however, the overall performance of the banking industry slowed down, as some banks even experienced negative profitability. The industry's Profit Before Tax (PBT) dropped from 30% in 2007 to 26% in 2008. A significant rise in impairment charges and rising staff costs account for the decline. Impairment charges for the year 2007 more than doubled while staff cost increased by 40%. The high inflation rates coupled with the weakening cedi might account for the worsening loan default rate (BOG, 2010). Over the past two years (2005 – 2007), all the three components of ROE (i.e. net spreads, cost efficiency and leverage) remained constant thus leading to the industry's ROE to stagnate at 22% (op.cit.).

The 2010 Ghana Banking Survey also noted that quality bank loan book had deteriorated and industry profitability declined. According the survey, the last three years saw total shareholders' funds for the industry more than doubled from GHcedis 792 million to GHcedis 1.8 billion as banks injected new capital and retained earnings to meet the minimum capital requirements demanded by the Bank of Ghana (BOG). The new capital requirements may lead to an improved buffer for risk absorption in the sector. However, increased competition, growing customer demands, and new regulations are likely to continue to add complexity to business models of banks.

Net loan and advances remain the most significant component of operating assets and declined between 2008 and 2009. The industry's gross loan book grew from GHcedis 5.7 million in 2008 to GHcedis 6.3 million in 2009. However, the gains were eroded by impairment allowances for non-performing loans. The increased default has been attributed to the unfavorable macroeconomic conditions that prevailed for most of the year 2009 and perhaps not so good credit decisions made by the banks in prior years.

Overall, the industry's liquid assets to deposits ratio fell marginally from 0.55 in 2007 to 0.53 in 2008, indicating that banks did not significantly change their strategy in response to the global 'credit crunch'. Cash assets and liquid assets showed an increase over the period 2008 and 2009.

3. Methodology

Published financial statements of GCB, ADB and BBG for the last five years were collected to form the basis for evaluating the performance of the Banks in Ghana. Thus, the three main banks were used for a case study on how the banks in Ghana are performing.

GCB was selected based on its widest branch distribution in the country, and to represent the traditional Ghanaian banks with foreign branches. ADB was selected to represent the Ghanaian banks with no foreign attachments; while BBG represents the foreign banks.

The financial statements were taken from the year 2005 to 2009 to allow a reasonable longitudinal study of the bank's performance. There was also intra and inter-bank comparison. That is, individual banks were assessed in terms of their own performance over the five years, and also how their performance compares with one another.

The major source of data for this case study was secondary data. Current literature on banks and their performance were reviewed from textbooks, business journals and newspapers. The basic secondary data needed for the study was, however, the published financial statements of the banks. These were sourced from head offices of the bank, the institute of bankers, and from Bank of Ghana (BOG). Data on the banks were also accessed from the official websites of the banks.

4. Results and Discussions

Given the fact that not all the banks are listed on the Ghana stock exchange, and their debt burdens are not fully available, the ratios used for the evaluation of their performance are mainly profitability ratios with some efficiency ratios which were used to assess managerial performance. Both intra and inter-bank comparison and analysis of the banks have been done to evaluate their performance over the period.

4.1. Gross Profit margin

This is the ratio of gross profit to net sales and represented as a percentage. It is also called turnover ratio. It reveals the amount of gross profit for each cedi of sale. It is highly significant and important since the earning capacity of the business can be ascertained by taking the margin between cost of goods and sales. The higher the ratio, the greater will be the margin, and that is why it is also called margin ratio. Management is always interested in a high margin in order to cover the operating expenses and sufficient return on the shareholders' fund. It is very useful in as a test of profitability and management efficiency. 20% to 30% gross profit ratio may be considered normal.

Table 1 indicates that the Bank's average gross profit margin for the period was almost 80%. This means for every one cedi sales, BBG makes a profit of 80 pesewas. The yearly trend, however, shows a general decrease in gross profit margin from 87% in 2005 to 84% in 2006, 81% in 2007, 71% and 2008. The decreasing trend seems to have ended in 2008 because in 2009 there is an increase of the 2008 percentage by 75%.

Table 1. Calculating Gross Profit Margins for Ghana Commercial Bank

ITEM	2005	2006	2007	2008	2009
	GH¢	GH¢	GH¢	GH¢	GH¢
Interest Income	84102600	102405400	112452442	181633097	266018982
Fess and Commission Income	2344200	31370600	36068318	48215588	56636297
Total Sales Turnover	86446800	41776000	148520760	229848685	322655279
Less: Interest expense	14015700	14986300	22347442	49610404	134311684
Fees and Commission Expense	-	-	114668	484437	813269
Gross Profit	7243110	26789700	126058649	179753844	187530326
Gross Profit Margin = Gross profit / Sales	0.84	0.64	0.85	0.78	0.58

Source: Adapted from Annual Reports GCB

GCB also performed well in gross profit margins over the period, though not as well as Barclays. The average gross profit margin for the period is 74%. High values of 84% and 85% were recorded in 2005 and 2007. It appears the performance started declining from 2007. The turnover percentage was 78% in 2008 and declined further to 58% in 2009.

4.1.1 Gross Profit Margins for Agricultural Development Bank (ADB)

The calculations show that the average gross profit margin for ADB from 2005 to 2009 was 76%. The yearly trend indicates an increase from 2005 of 78% to 80% in 2006, and 81% in 2007. From 2007, however, the turnover percentage begins a decline to 76% in 2008 and 58% in 2009.

Table 2. Calculating Gross Profit Margins for ADB

ITEM	2005	2006	2007	2008	2009
	GH¢	GH¢	GH¢	GH¢	GH¢
Interest Income	330555000	42055000	42327367	59688900	81415938
Fess and Commission Income	14439500	14264900	17420758	26065292	28627193
Total Sales Turnover	47494500	56319900	59748125	85754192	110043131
Less: Interest expense	10550000	11066600	11298781	20474861	39603155
Fees and Commission Expense	-	-	-	-	-
Gross Profit	36944500	45253300	48449344	65279331	70439976
Gross Profit Margin = Gross profit / Sales	0.78	0.80	0.81	0.76	0.64

Source: Adapted from Annual Reports ADB

4.1.2 Inter-Bank Comparison of Gross Profit Margin

The comparison of gross profit margins across the banks is illustrated by the line graph below.

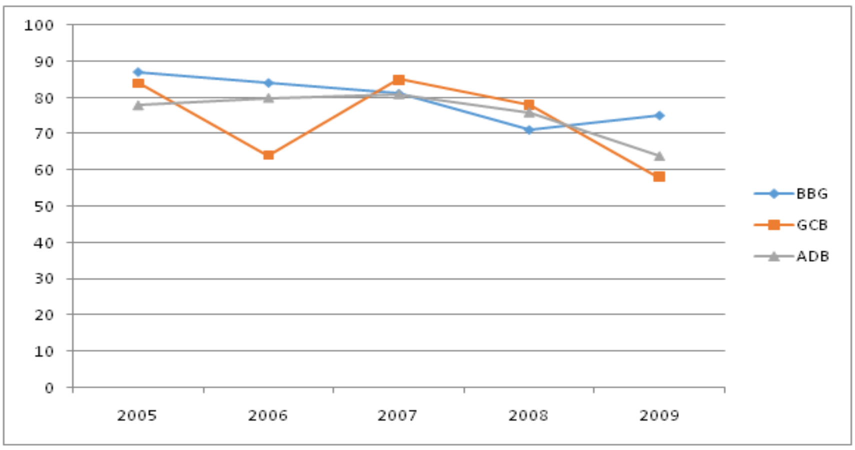

Fig.1. Comparison of Gross Profit Margin of the Banks

The gross profit performance from the turnover ratios of the banks was very high. They all achieved gross profit margins above 50% throughout the five year period. Again, there is not much distinction between the performances of the banks as far as this ratio is concerned. They are same level with little yearly differences. Comparing the performances of the bank shows BBG on top with average gross profit percentage over the period of about 80%. They are followed by ADB, with an average over the period of 76%, before GCB, with gross profit percentage of 74%. The higher gross profit margin implies the banks were efficient about the services provided. As gross profit measures the difference between selling price and the cost of goods sold, the higher the gross profit, the better the financial performance. The banks have lower cost of goods sold and charge competitive prices.

4.2 Net Profit Margin

This is the ratio of net profit to net sale, and is also expressed as a percentage. It indicates the amount of sales left for shareholders after all costs and expenses have been met. It is the difference between gross profit and operating and non-operating income minus operating and non-operating expenses after deduction of tax. The ratio measures the overall efficiency of the management. Practically, it measures the firm's overall profitability. If the ratio is found to be too low, many problems may arise, dividend may not be paid, operating expenses may not be paid etc. Moreover, higher profit earning capacity protects a firm against many financial hindrances such as adverse economic condition. The higher the ratio, the greater will be profitability, and the higher the return to the shareholders. 5% to 10% may be considered normal.

$$\text{Net Profit Margin} = \frac{\text{Net Profit (Before Tax)}}{\text{Sales}}$$

Table 3. Inter-Bank Comparison of Net Profit Ratio

BANKS	2005	2006	2007	2008	2009
BBG	41017900 / 79762700 = 0.51	44965700 / 95423600 = 0.47	43485000 / 135771000 = 0.32	10240000 / 197380000 = 0.05	(24966000) / 230959000 = - 0.11
GCB	21185900 / 86446800 =0.25	37419700 / 41776000 =0.90	46280164 / 148520760 =0.31	48928506 / 229848685 =0.4	19623116 / 322655279 =0.06
ADB	8032400 / 47494500 =0.17	11637800 / 56319900 =0.21	11597899 / 59748125 =0.19	14934890 / 85754192 =0.17	13334069 / 110043131 =0.12

Source: calculated from the Published Financial Statements of the Banks.

Even though all the Banks have the ratios between 5% and 90%, the trend since 2005 appears to be a decreasing one. Barclays had a high ratio of 51% in 2005 but it decreased to 47% in 2006, 32% in 2007, and 5% and -11% in 2008 and 2009 respectively. The average for the five years is 25%.

The net profit margin of GCB increased from 25% in 2005 to as high as 90% in 2006. From 2006 however it decreased sharply to 31% in 2007, 40% in 2008 and 6% in 2009. The average of the five years is 35%.

ADB also experienced an increase in net profit margin from 17% in 2005 to 21% in 2006. The trend reversed with the ratio falling to 19% in 2007, 17% in 2008 and 12% in 2009. The average for the period is 17%.

Comparing the gross profit margins to the net profit margins, one can only agree that the Banks incur a lot of expenses that have eroded off much of the gross profits. GCB performed highest on average over the period, followed by BBG before ADB.

4.3 Return on Assets (ROA)

This is the ratio of Net profit to total assets. It also indicates whether the total assets of the company have been properly used or not. If not properly used, it proves inefficiency on the part of the management. It also helps measure the profitability of the firm.

$$\text{Return on Assets} = \frac{\text{Profit Before Tax}}{\text{Total Assets}}$$

The average performance of the banking industry in Ghana as far the Return on Assets is concerned is given on the table below. The figures are then compared with the individual performance of the three banks.

Table 4. Industry Average Return on Assets.

	2006	2007	2008	2009
Return On Assets (ROA)	4.8%	3.7%	3.2%	2.8%

Source: Bank of Ghana Annual Report – 2009.

Thus, return of asset for the banking industry in Ghana has been declining since 2006.

Table 5. Comparison of Return on Assets of the Banks

BANKS	2005	2006	2007	2008	2009
BBG	41017900 / 492870100 =0.08	44965700 / 650164200 =0.07	4348500 / 119101500 =0.04	10240000 / 138382800 =0.07	(24966000) / 146449200 =-0.02
GCB	21185900 / 586471300 =0.04	37419700 / 775992300 =0.05	46280164 / 1154719385 =0.04	48928506 / 164579695 =0.03	19623116 / 1917083201 =0.01
ADB	8072400 / 343172700 =0.02	11637800 / 410319000 =0.03	11597899 / 471240474 =0.03	14934890 / 624270478 =0.03	13334069 / 734565216 0.02

Source: adapted from the published financial statements.

Generally, all the banks had their ROA decreasing over the five year period just like the industrial average. Again, there is not much difference between the performances of the banks. BBG's profits before tax as a percentage total assets decreased from 8% in 2005 to 7%, in 2006, 4% in 2007 and to as low as 2% in 2009. With the exception of 2009 when BBG, return assets (2%) fell a little below the industrial average of 2.8%, BBG has performed higher than the industrial averages since 2006.

GCB's return on assets was 4% in 2005 and increased to 5% in 2006. It then began a decreasing trend to 4% in 2007, 3% in 2008 and 1% in 2009. GCB performed better than the industry average in 2006 (4.8%) and 2007 (3.7%). In 2008 and 2009, however, GCB performed below the industrial average.

ADB, appear to have a stable ROA of between 2 – 3% throughout the period. This performance however fell below the industry averages since 2006.

4.4 Return on Equity (ROE)

This is calculated by dividing the net profit after tax by the shareholder's equity. This ratio is applied for testing profitability. The higher the ratio, the better is the return for the ordinary shareholders.

$$\text{Return of Equity} = \frac{\text{Net Income}}{\text{Shareholders' Equity}}$$

The table below shows the trend of ROE in the Ghanaian banking industry from 2006, this is then compared to those of the three individual banks under review.

Table 6. Industry Average Return on Equity

	2006	2007	2008	2009
Return On Equity (ROE)	27.5%	25.8%	23.7%	17.5%

Source: BOG Annual Report – 2009.

The average ROE of the industry has also been declining since 2006

Table 7. Comparison of Return on Equity (ROE) Of the Banks

BANKS	2005	2006	2007	2008	2009
BBG	26903000 53587000 =0.50	3108110 59662100 =0.52	30387000 94444000 =0.32	7350000 123033000 =0.10	(19661000) 182478000 =0.10
GCB	12661800 70094200 =0.18	25540600 89034800 =0.29	32267246 176865915 =0.18	37004851 202863665 =0.18	18117151 198830726 =0.09
ADB	7467000 61965700 =0.12	10765000 6959200 =0.15	11597899 94709691 =0.12	14934890 108681224 =0.14	12667366 121617181 =0.10

Source: adapted from the published financial statements of the Banks.

The return on equity also declined generally for all the banks over the five year period. This is similar to the industry averages for the period. With BBG the ROE percentage was 50% in 2005. That is, for every 1 cedi of shareholder's equity, the bank is able to generate a net profit of 50 pesewas. This is quite high. The level increased further to 52% in 2006 and far above the industry average of 28% for the year. From 2006, however, the ROE began to fall to 32% in 2007, and 10% for both 2008 and 2009. In 2008 and 2009, BBG's ROE fell below the industry averages.

GCB experienced a similar trend. There was an increase in the ROE from 18% in 2005 to 29% in 2006, but declined to 18% in 2007 and 2008, and further down to 9% in 2009. In 2006 GCB's ROE(29%) was higher than the industry average (28%). From 2007 to 2009, however, GCB' ROE performance was below the industry averages.

ADB also increased the ROE from 12% in 2005 to 15% in 2006, and declined again to 12%, increased to 14% and declined again to 10%. ADB performed below the industry averages for the period.

Thus, the return to the investment of the banks' shareholders kept falling from 2007 to 2009.

4.5 Assets Turnover

Total assets turnover indicates how well a company has used its fixed and current assets to generate sales (revenue). Such ratio is probably the most useful as an indication of trends over a period of years. There is no value which is too high or too low, but a sudden change would prompt the observer to ask questions.

$$\text{Assets Turnover} = \frac{\text{Sales}}{\text{Total Assets}}$$

Table 8. Comparison of Assets Turnover of the Banks

BANKS	2005	2006	2007	2008	2009
BBG	79762700 492870100 =0.16	95423600 650164200 =0.15	135771000 1191015000 =0.11	197380000 1383828000 =0.14	230959000 1464492000 =0.16
GCB	86446800 586471300 =0.15	41776000 775992300 =0.5	148520760 1154719385 =0.13	229848685 1645796995 =0.14	322655279 1917083201 =0.17
ADB	47454500 343172700 =0.14	56319900 41031900 =0.14	59748125 471240474 =0.13	85754192 624270478 =0.14	110043131 734565216 =0.15

Source: Adapted from Annual Reports of the banks.

Assets turnover of the banks ranges between 5% to 17%. BBG has the highest average sales turnover (14.4%) for the period, followed closely by ADB with the average sales turnover for the period of 14%. GCB, average sales turnover is 12.8%. The sharp decrease in GCB's sales turnover in 2006 raises questions. The sales turnover of BBG and ADB over the five years was stable.

4.2.6. Equity Multiplier

Equity Multiplier is the ratio of total assets to equity capital (shareholders' funds)
Equity Multiplier = Total Assets/ Shareholders' Funds
Higher ratio means higher amount of assets is supported by a cedi of equity

High ratio also means equity-holders enjoy benefit of asset they have not paid for.

Low ratios means less amount of assets is supported by a cedi of equity

Low ratio also means equity-holders are not significantly enjoying the use of debt capital

Table 9. Comparison of Equity Multiplier of the Banks

BANKS	2005	2006	2007	2008	2009
BBG	$\frac{492870100}{53581000}$ =9.2	$\frac{650164200}{59662100}$ =10.9	$\frac{1191015000}{94444000}$ =12.6	$\frac{1383828000}{123033000}$ =11.2	$\frac{1464492000}{182478000}$ =0.8
GCB	$\frac{586471300}{70094200}$ =10.9	$\frac{775992300}{89034800}$ =8.7	$\frac{1154719385}{176865915}$ =6.5	$\frac{1645796995}{203863665}$ =8.1	$\frac{1917083201}{182478000}$ =8.6
ADB	$\frac{343172700}{61965700}$ =5.5	$\frac{410319000}{89501200}$ =4.6	$\frac{471240474}{94709691}$ =5.0	$\frac{624270478}{108681224}$ =5.7	$\frac{734565216}{121617181}$ =6.0

Source: adapted from the published financial statements

All the banks achieved very high equity multiplier in percentage terms. Higher ratio means higher amount of assets is supported by a cedi of equity. On average BBG and GCB were the highest performers, with the average equity multiplier over the period of almost 90%.

4.2.7. Current Liquidity ratio

It is the relationship between the amount of current assets and the amount of current liabilities. It is essentially a tool for measuring short-term liquidity and solvency position of firms. In other words, it may be stated that this ratio is taken to measure the margin of safety of current assets over current liabilities that the management of a company maintains obtaining business finance from short-term sources. Generally, a 2:1 ratio is considered normal. That is for every two units of current assets, there is only one unit of current liability. The reason for prescribing 2:1 current ratio is that all the current assets do not have the same liquidity, or in short, all the current assets cannot be immediately converted into cash. The other logic for prescribing 2:1 current ratio can possibly be the fact that a surplus of current assets will remain in the firm as Working Capital even if all current liabilities are liquidated by it at the close of its accounting cycle. As with other ratios, there is no best answer for any particular company and it is the trend in this ratio which is more important. If the ratio is worsening over time, and especially if it falls to less than 1:1, the observer would look closely at the cash flow.

$$\text{Liquidity Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

BBG was unable to attain the required current ratio of 2:1, or at least the 1:1. In 2005, the current assets were 47% of current liabilities. This ratio declined to 46% in 2006 and 32% in 2007. From 2008, the current ratio started improving to 46% and 70% in 2008 and 2009 respectively. What is worrying is that BBG has not maintained enough current assets to meet their short term financial assets as and when they fall due.

Table 10. Calculating Current Liquidity Ratios for BBG

ITEM	2005	2006	2007	2008	2009
Current Assets:					
Cash and Balance with BOG	58669800	66540000	13060000	155547000	155456000
Inv. Securities Avail. For sale	96429700	105127500	222262000	238123000	505781000
Loan and Advances to Bank	36916700	81125100	81634000	131426000	11075100
Derivative Financial Instruments	296700	296700	8189000	20244000	37977000
Current Tax Assets	-	-	1264000	-	1884000
Deferred Tax	3277000	4535200	3661000	15205000	30734000
Total Current Assets	**195589900**	**257624500**	**330070000**	**560545000**	**842583000**
Current Liabilities:					
Deposit from Bank	68271700	58589300	307138000	264294000	208987000
Derivative Financial Instruments	-	-	6140000	9944000	41855000
Deposit due to Customers	349596400	489737900	720040000	923858000	953028000
Debt securities in Issue	-	10000000	1000000	1011000	9937000
Current Tax Liabilities	-	938800	-	82000	-
Total Current Liabilities	**417868100**	**559266000**	**1034318000**	**1208178000**	**1213807000**
Current Assets/ Current Liab.	**0.47**	**0.46**	**0.32**	**0.46**	**0.70**

Source: Adapted from Annual Reports of BBG.

Table 11. Calculating Current Liquidity Ratio for GCB

ITEM	2005	2006	2007	2008	2009
Current Assets:					
Cash and Balance with BOG	73666100	72520300	116215000	202811774	14710352
Due from Bank and Financial Institutions	36756600	84374500	21681861	57166284	186307292
Short Term Investments	181157800	215595400	94879067	116371223	105857373
Loan and Advances	256157400	364538500	750663543	1087118928	1265576727
Deferred Tax	3299300	-	990543	2312309	8527324
Total Current Assets	**551031200**	**737028700**	**984430014**	**1465780518**	**1713311768**
Current Liabilities:					
Customer Deposits	47294000	634572700	839382573	1030106198	1259470137
Due for Bank and Financial Institutions	845200	640500	58044439	91337682	-
Accruals	40537900	49164500	57329506	192381784	120948413
Current Tax Liabs.	-	25798	9096952	10807666	6066925
Borrowings	2022222	-	14000000	117300000	331800000
Total Current Liabilities	**516377100**	**686957500**	**977853470**	**1441933330**	**1718252475**
Current assets /Current L.	**1.07**	**1.07**	**1.01**	**1.02**	**1.0**

Source: Adapted from Annual Reports GCB

GCB maintained a current liquidity ratio of at least 1:1 throughout the five year period. This means for every one cedi of current liability, they have at least one cedi current asset ready in case the liability fall due.

Table 12. Calculating Current Liquidity for ADB

ITEM	2005	2006	2007	2008	2009
Current Assets:					
Cash and Balance with BOG	32292800	40140600	51047582	41887152	75890943
Government Securities	77130000	104937100	81972356	87323906	125593869
Due from Bank and Financial Institutions	23638500	51382000	24757394	22077304	48952351
Other Investment Securities	3700200	4300200	6171070	6171070	7257819
Loan and Advances to Customers	126266200	150923300	228983092	370606658	372684956
Total Current Assets	**263027700**	**351683200**	**392931494**	**528066090**	**630379938**
Current Liabilities:					
Customer Deposits	18145610	234414300	271024641	319499930	425144815
Due for Bank of Ghana	30863300	28569000	33899620	108372161	99602073
Due to Banks & other Financial Institutions	6885000	23196100	-	-	-
Total Current Liabilities	**21924400**	**286179400**	**304924261**	**427872091**	**524746888**
Current Assets/Current Liabilities	**1.20**	**1.23**	**1.30**	**1.23**	**1.20**

Source: Adapted from Annual Reports ADB

The management of ADB was prudent enough to have kept more than one cedi of current assets ready to pay for every one cedi of current liabilities that may fall due. The average current liquidity ratio of ADB for the five year period is 1.23:1.

Inter-bank comparison of current liquidity ratio

The graph below compares the performance of the banks using their current liquidity ratios for the five year period.

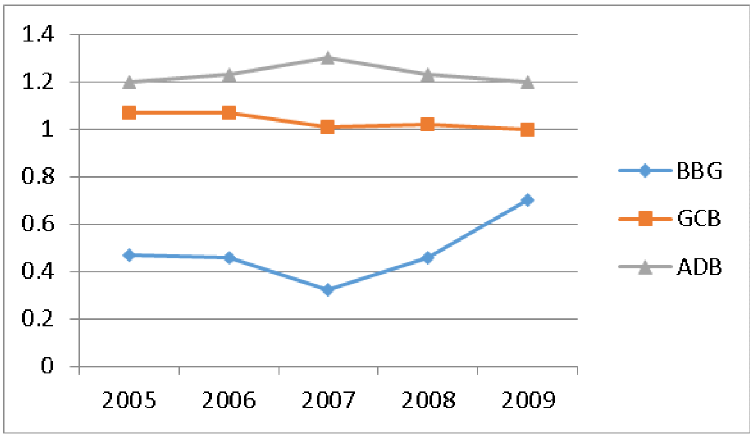

Fig.2. Comparison of Current Liquidity Ratio

Source of Data: Published Financial Statement of the Banks – 2005 to 2009.

Current Liquidity Ratio measures the ability (available short-term funds) of the firm to meet its short-term financial obligations as and when they fall due. The graph indicates clearly ADB is distinctly the most liquid bank for the five year period. It is more prepared with available short term funds to meet any short term financial obligations whenever they fall due. Moreover their current ratio has been almost stable over the period.

BBG is the least endowed with short term funds to meet its short term financial obligations that may fall due. The hope is that they have started improving the situation since 2008.

GCB has not done badly. Their ratio of current assets to current liability has been slightly above 1:1 during the five year period. They are the next performer after ADB in this category.

6. **Conclusions**

The commercial banks in Ghana are important partners to economic development of the country. They transfer temporary idle funds from surplus units to the deficit units for a fee. By this they are able to encourage the savings culture of the various economic units, and thereby accumulate funds for both investment and consumption. Thus, banks influence the aggregate demand of the country that sparks off the multiplier effects on employment and income in the economy.

There have been twenty six commercial banks in Ghana since 2009. Many of the existing banks are also opening more branches in the country. Barclays Bank Ghana Limited had the largest contribution to bank branches in Ghana during the study period. The result has been a keen competition and efficiency in the financial sector. A number of studies have found a positive relationship between competition and efficiency, and between competition and the rate of productivity growth. Banks simply have to operate at high level of efficiency to ensure their survival.

The world experienced liquidity crises at the latter part of 2008, and banks in America, Europe and other parts of the world were seriously affected. Banks in Ghana however, appear not to have been much affected by the crises. This conclusion is supported by the Ghana Banking Survey (PwC &GBA, 2010) assertion that the banks did not significantly change their strategy in response to the global ‘credit crunch’.

This study looked at the performance of BBG, GCB and ADB, as banks in Ghana. The study evaluated the profitability, liquidity and efficiency by calculating pertinent financial ratios from the financial data of the banks for five years and make further conclusions below.

6.1 Financial Performance

The banking business in Ghana is lucrative. The banks are making much sales revenue in excess of their cost. This conclusion is consistent with the current literature reviewed in this article. According to Kweku Baa Korsah et. al. (2001), banks in Ghana have become more profitable due to the oligopolistic nature of the market that enables them to reap supernormal profits. Profitability has soared over the last 9 years and the banks are sounder now than they were a decade ago. The Ghana Banking Survey (2008) also reported that between 2003 and 2007 the total deposit mobilized increased by 120% from 1.65 billion cedis to 3.65 billion cedis. Industry’s operating assets also grew by 40% from the end of 2007. Cash assets had the highest growth rate of about 50%. The rise in deposits and assets suggest that consumers are placing more money into banking institutions nationwide.

In spite of recent competition, the industry’s cost to income ratio only inched by 1%, from 62% in 2007 to 63% in 2008.

The financial performance of the banks, based on their income statements, has however, been declining generally since 2007 and particularly in 2009. This is because their expenses, especially the impairment charges, have been increasing since 2007. This is also supported by current literature. The Bank of Ghana published in their 2009 annual report that profitability ratio of the banking industry in Ghana, measured by the Return on Assets (ROA) and the Return on Equity (ROE) have seen some continuous decline since 2007. This may be attributed to increased provision for bad debts arising from rising inflation and interest rates, especially in the early part of 2009 which contributed to increased loan delinquency. Also, branch expansion and increasing administrative expenses contributed to reduced profitability (BOG, 2010). The multi-national banks, such as Barclays Bank Ghana Limited, have especially suffered deterioration in profits, especially in 2009.

In 2009, the overall performance of the banking industry slowed down, as some banks even experienced negative profitability. The profitability ratio of the banking industry in Ghana, measured by the Return on Assets (ROA) and the Return on Equity (ROE) have seen some continuous decline since 2007. The industry’s Profit Before Tax (PBT) also dropped from 30% in 2007 to 26% in 2008. A significant rise in impairment charges and rising staff costs account for the decline. Impairment charges for the year 2007 more than doubled while staff cost increased by 40%. The high inflation rates coupled with the weakening cedi might account for the worsening loan default rate (BOG, 2010).

6.2 Financial Position

The financial position of the banks, shown by the balance sheet, has been encouraging with much improvement until 2008 and thereafter. Assets of the banks saw tremendous increases throughout the study period. Liabilities also increased manageably.

From 2008, however, the rate of increase in liabilities exceeded that of the assets. As a result, the percentage increase in the shareholders equity reduced. This finding is consistent with the Ghana Banking Survey (2010) which published that Net loan and advances remain the most significant component of operating assets and declined between 2008 and 2009. The industry’s gross loan book grew from GHcedis 5.7 million in 2008 to

GHcedis 6.3 million in 2009. However, the gains were eroded by impairment allowances for non-performing loans. The increased default has been attributed to the unfavorable macroeconomic conditions that prevailed for most of the year 2009 and perhaps not so good credit decisions made by the banks in prior years.

6.3 Liquidity and Cash flow

Liquidity and cash flow of the traditional Ghanaian banks, especially those without foreign attachments, have been favorable. The banks have maintained reasonable amount of current assets to pay for short term financial commitments. Cash and cash equivalents have increased, even in 2008 and 2009 when the global financial crisis was at its peak. It appears many banks in Ghana, especially those without foreign attachments, were not affected any significantly by the global liquidity crisis that occurred during the last quarter of 2008 and for most part of 2009. The banks were able to extend more loans and advances to their customers even at the peak of the financial meltdown in 2008 and 2009. The multi-national banks, such as Barclays Bank Ghana Limited, however, had their liquidity and cash flow decline in 2009.

7. Recommendations.

From the analyses of the financial statements of the banks and the observations made, the following recommendations are worth considering for improving the profitability of the banks in Ghana.

The banks must undertake a thorough due diligence before granting loans. That is, they must assess the credit worthiness of their borrowers. This will avoid granting large amount of loans to the sub-prime borrowers in order to avoid bad debts and loan delinquencies that led to the credit crunch in the USA.

To improve the liquidity of the banks, they must maintain a current liquidity ratio of 2:1. That is, for every cedi of short term financial liabilities, there must be two cedis of current assets ready to pay for the liabilities as and when they fall due. The logic for prescribing 2:1 current ratio is the fact that a surplus of current assets will remain in the banks as Working Capital even if all current liabilities are liquidated by it at the close of the accounting cycle.

The bank must take a second look at their general and administrative expenses. This is because, even though they make good gross profits, these expenses erode the net profits, living little funds for their shareholders. They can minimize their expenditure on fixtures and fittings. New branches should be opened only after a good cost and benefit analyses of the project have been done and found to be favorable. Banks have moved swiftly to several locations in the country before their competitors do so without bordering much about the population and income patterns of the people in those locations. The effect is that they tend to incur huge administrative and staff cost in maintaining the branches which does not necessarily translate into commensurate income. The banks must think of closing down non-performing branches.

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