KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF GRADUATE STUDIES

COLLEGE OF ART AND SOCIAL SCIENCES

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KNUST

PERFORMANCE ASSESSMENT OF ATWIMA KWAWOMA RURAL BANK

BY

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GODWIN MUSAH BSC MATHEMATICS(HONS.)

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DECLARATION

I hereby declare that this submission is my own work towards the MBA and that, to the best of my knowledge ,it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the university except where due acknowledgement has been made in the text.

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DEDICATION

This work is dedicated to my wife Gifty Lawrence Musah for her cooperation, support and encouragement during the course of my programme at the Kwame Nkrumah University of Science and Technology and to my late father Lawrence Musah for his immense contribution.

To my wife may the Lord Almighty bless you and to my late father may the Lord keep you in Heaven
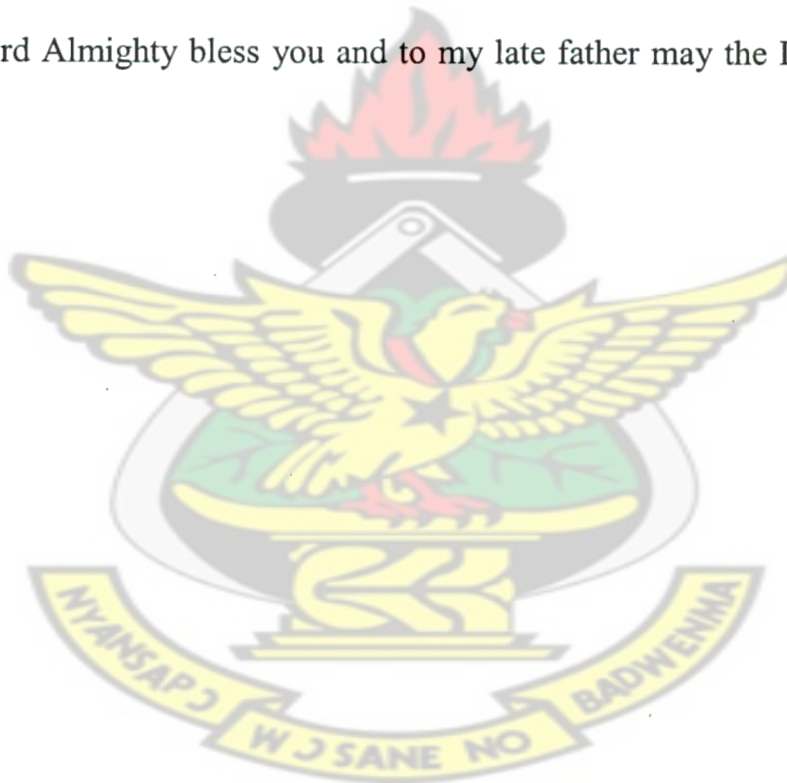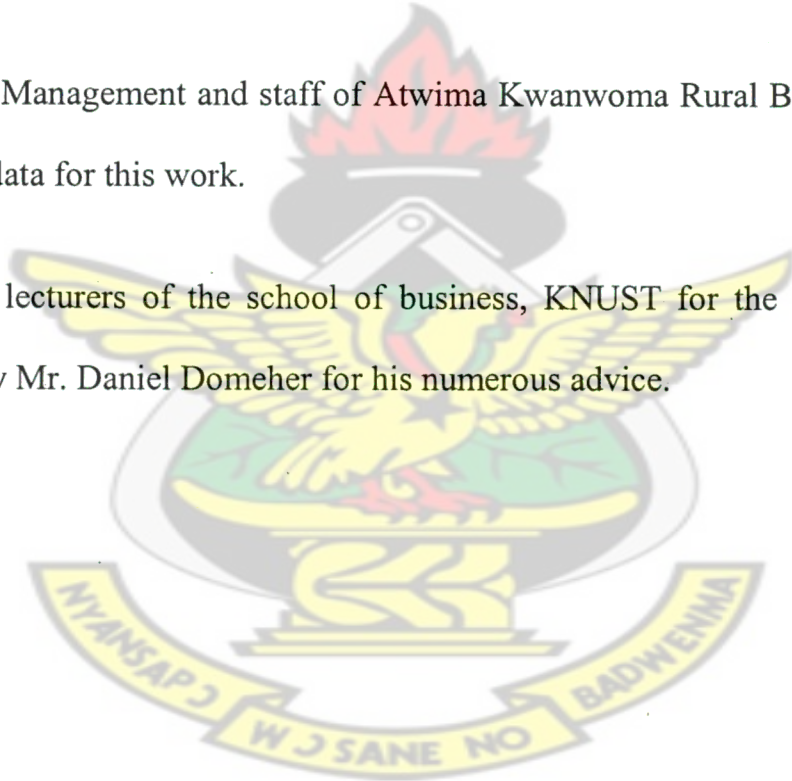
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I would like to give thanks to the Almighty God for granting me life and seeing me through this programme. Without Him my going through this programme would not have been possible.

I wish to also express my heartfelt gratitude to Mr. Gordon Newlove Asamoah, my Supervisor for his patience and guidance from the start of this work to completion
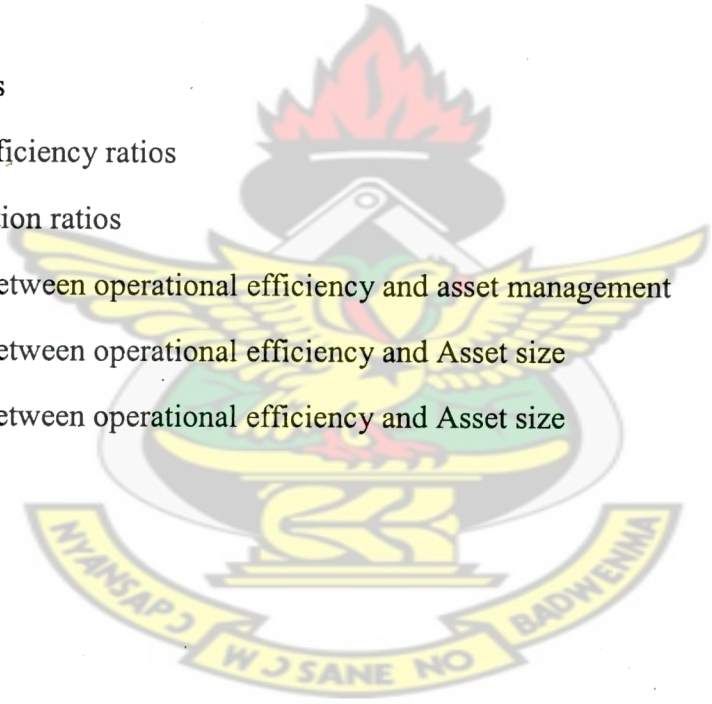
I am also grateful to the Management and staff of Atwima Kwanwoma Rural Bank for granting me access to the bank's data for this work.

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LIST OF TABLES

ABBREVIATIONS AND ACRONYMS

AKRB	Atwima Kwanwoma Rural Bank
ARB	Association of Rural Banks
AFRACA	African Rural and Agricultural Credit Association
BSD	Bank Supervision Department
BOG	Bank of Ghana
CUs	Credit Unions
DEA	Data Envelopment Analysis
FINSAP	Financial Sector Adjustment Programme
FSAC	Financial sector adjustment credit
M&A	Merger and Acquisitions
NBFIs	Non-bank Financial Institutions
NGOs	Non Governmental Organizations
P&L	Profit and Loss
RCBs	Rural and Community Banks
ROA	Return On Assets
ROE	Return On Equity
SG-SSB	Societal Generale-Social Security Bank
SFA	Stochastic Frontier Analysis
TB	Treasury Bill

ABSTRACT

Rural and Community banks are established to provide financial services to rural people. Ghana has several of these rural banks under the umbrella of the ARB apex bank. Following the liberalization of the banking sector there has been an increase in the number of players in the sector especially commercial banks, both foreign and local. The influx of commercial banks in the banking sector has in a way put competitive pressures on rural banks. The performance of Atwima Kwanwoma Rural bank was assessed using its consolidated financial statements to find out whether or not its performance has been negatively affected as a result of the liberalization of the banking sector. Ratio analysis, trend analysis and correlation analysis were the methods employed and results revealed that the liberalization of the sector has not negatively affected the bank's performance. The bank's profitability and efficiency positions among others have been encouraging except for the fact that its liquidity position has not been good. It has also over the years considered in this work grown its assets, deposits, number of customers and net profits among others.

There was also evidence of positive correlation between operational efficiency and asset management, positive correlation between operational efficiency and asset size and a negative correlation between asset management and asset size.

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CHAPTER ONE

GENERAL INTRODUCTION

1.0 INTRODUCTION

This chapter gives a brief overview of the research, the objectives and the problems that it addresses. The chapter also highlights how the research would be organised and the reasons why it is justified in the midst of other researchable areas. Anything that could render the research faulty is also not left out.

1.1 BACKGROUND OF THE STUDY

The banking sector is one of the sectors that cannot be overlooked in the economy of most countries. According to Tarawneh (2006) the banking sector is considered to be an important source of financing for most businesses. Many businesses at their start-up or continuing stage of operations fall on banks for credit to run their businesses.

Buchs and Mathisen (2005) described the banking sector of Ghana as diverse experiencing fluctuations in its growth rate which could be explained by the following three factors;

1. The first factor is macroeconomic policies, as macroeconomic stability is essential to the development of the financial sector. This is relevant because Ghana's macroeconomic policies over the last decade have been characterized by periodic slippages in financial discipline, leading to volatile and generally high inflation, large exchange rate swings, and negative real interest rates for extended periods

2. A second possible factor is the risky lending environment prevailing in Ghana, as reflected in the high level of past-due/nonperforming loans. This is largely due to the

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significant losses of some state-owned companies, but also reflects the lack of any central credit information system and the lack of cooperation among banks in sharing customer information. Some institutional factors may also affect the environment in which financial institutions operate

3. A third factor that may account for low and inefficient financial intermediation in Ghana is the presence of an uncompetitive market structure. Interestingly, there is no one-to-one relationship between concentration and competition. On one hand, monopolistic or oligopolistic behavior tends to result in higher intermediation costs and diseconomies of management than under a competitive structure; thus, noncompetitive behavior is consistent with the presence of wide interest rate margins and spreads, which tend to deter potential depositors, as well as potential borrowers, and result in low lending ratios. On the other hand, market size may offer the possibility of exploiting economies of scale (from overhead in administrative operations and information gathering), as well as economies of scope (in combining different product lines for instance).
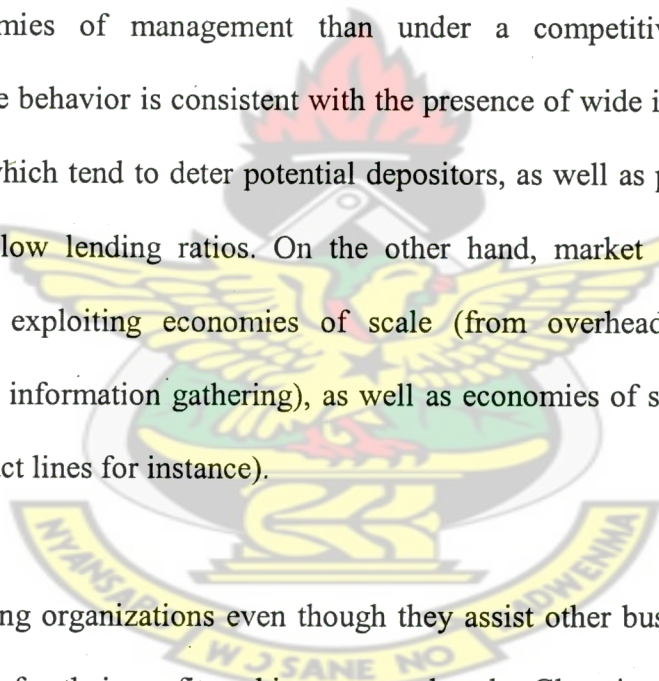
Banks are for-profit making organizations even though they assist other businesses in terms of their need for credit. It is for their profit making reason that the Ghanaian banking sector has seen an increasing number of new entrants after the reforms in mid 1980s so as to enjoy their share of the market. The banking system had suffered severe shallowing together with widespread bank distress as a consequence of the pre-reform policies of financial repression, government control of banks and the prolonged economic crisis. In 1989 the FINSAP was begun, supported by a financial sector adjustment credit (FSAC) from the World Bank. The objectives of the FINSAP was to address the institutional deficiencies of the financial system, in particular

by restructuring distressed banks, reforming prudential legislation and the supervisory system, permitting new entry into financial markets by public and private sector FIs, and developing money and capital markets. Further liberalization of financial markets took place in 1992 with the adoption of indirect instruments of monetary control which entailed the introduction of market determined TB rates. Since 1994 a second phase of the FINSAP has been underway, major objectives of which are the privatization of public sector banks and development of non bank financial institutions (NBFIs) to fill the gaps in the financial markets not served by the banks.

Currently the Bank of Ghana (BoG) has licensed twenty – seven (27) banks to operate in the country. In addition to these the sector also comprises several rural and community banks established to mobilize rural savings even though many of such banks are found in towns and cities in recent times.

The ARB Apex bank is the umbrella bank for rural and community banks and supervises about one hundred and twenty-three (123) throughout the country.

With a lot of commercial banks in the system now and many more to come it is worthwhile to investigate how rural and community banks perform in the midst of increasing number of commercial banks. Increasing performance of a bank is believed to give the bank a good standing and also lead to healthy competition among banks in the sector thereby offering quality product and services to the customer.

1.2 STATEMENT OF THE PROBLEM

The liberalization of the Ghanaian banking sector has facilitated an increasing number of commercial banks in the industry, both foreign and local. In the midst of the increasing number of commercial banks, rural banks have faced competitive pressures and are least mentioned today. Does this mean rural banks are not performing? Atwima Kwanwoma Rural Bank (AKRB) is a rural bank and this study seeks to analyze its performance in order to ascertain how well or poor it performs in the midst of the so called 'well to do banks'.

1.3 OBJECTIVES OF THE STUDY

The objectives of this study are;

- To analyze the pattern of growth or otherwise in number of customers, total deposits, net advances, total assets, investments, ordinary shares and net profit of the bank.

- To analyze the bank's profitability,liquidity,gearing and efficiency among others so as to provide a guideline for future development

- To analyze the bank's asset management and operational efficiency

- To find out the extent of correlations between bank size, asset management and operational efficiency.

1.4 RELEVANCE OF THE STUDY

Ghana has a wide range of banks providing financial services to their customers. Many of these banks operate with variations in the number of branches, assets, total capital, deposits, credits and technological level among others. Studies have been conducted on the competitiveness of the Ghanaian banking sector as a whole. This makes it important to look at how the individual banks are performing especially rural banks in the midst of many commercial banks so as to provide a

guideline for decision makers to focus on the major banking activities that may increase the bank's ranking and performance positions comparing with other banks. Such information should help the management of Atwima Kwanwoma Rural bank in creating appropriate financial strategies for attaining the required planned performance.

1.5 SCOPE OF THE STUDY

The study does not look at performance in general but rather would centre on financial performance for the period 2000 – 2007 using profitability, liquidity, efficiency, gearing and investor ratios. The study would go beyond this by looking at trends in other indicators of performance such as operational efficiency and asset management and also to look at the extent of correlations between asset management, operational efficiency and bank size

1.6 LIMITATIONS OF THE STUDY

This study used accounting information and the problem of creative accounting could render the results faulty.

Also the choice of case study could be seen as bias. There were several attempts to explore many banks as possible so as to make an unbiased choice however the issue of gaining access was what limited the study to Atwima Kwanwoma Rural bank.

The study used information on the financial statements of the bank to assess its performance however there are quite a number of off – balance sheet information that was not at the disposable of the researcher and this could have affected the results of the research.

1.7 ORGANIZATION OF THE STUDY

This study is organized into five chapters. Chapter one, the introduction, addresses the general background of banking and banking in Ghana. Chapter two, the literature review seeks to analyse some previous works done on performance assessment of banks and related areas and rightly puts the essence of this research work into perspective. Chapter three looks at the background, institutionalisation and products of Atwima Kwanwoma Rural bank, the case study of this research work. Chapter three also highlights the method used to conduct this research. Chapter four focuses on the analysis of data collected whilst chapter five deals with recommendations and conclusion.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

The modern term 'bank' comes from the word 'banco' an Italian word meaning a merchant's bench in the marketplace. In the ancient times money dealing was conducted from a portable bench, which would be publicly broken in the event of failure of the merchant's business (now the term bankruptcy). Today the word bank is used to mean financial institutions charged with the responsibility of taking money on deposit and lending at a premium. Well-functioning banks promote economic growth and when banks efficiently mobilize and allocate funds they lower the cost of capital to firms and accelerate capital accumulation and productivity growth.

(Hempel and Smon, 1986) describe the objective of financial institutions as that of earning acceptable returns and minimizing the risks taken to earn this return. There is a generally accepted relationship between risk and return, that is, the higher the risk the higher the expected return, a justification of why traditional measures of bank performance have measured both risk and return to ascertain performance.

Financial performance of banks and other financial institutions have been measured using a combination of financial ratio analysis, benchmarking, measuring performance against budget or a mix of these methodologies (Avkiran, 1995), a clue to why financial institutions mostly banks publish their financial statements with various ratios calculated to give stakeholders an indication of their performance.

The structure –conduct-performance (SCP) model has been used widely in the financial sector to analyze performance even though it lacks a theoretical base. Applied to the banking sector, SCP asserts that a change in the market structure or concentration of banking firms affect the way they behave and perform. That is banks have market power if their markets are greatly concentrated. Aboagye *et al.*(2008) showed in their work that Ghanaian banks possess market power and that bank size, efficiency of banks with respect to staff costs, the macroeconomic environment and time are explanatory factors of the market power of Ghanaian banks.

(Chien and Danw, 2004) showed in their study that most previous studies concerning company performance evaluation focus merely on operational efficiency and operational effectiveness which might directly influence the survival of a company. By using an innovative two-stage data envelopment analysis model in their study, the empirical result of this study showed that a company with better efficiency does not always mean that it has better effectiveness.

The Ghanaian banking sector between 1999 and 2003 was seen to be less competitive. Possible explanatory factors as put forward by Buch and Mathisen (2005) in their study are as follows;

- **Persistent financing needs of the government.**

Persistent domestic financing needs of the government have fostered inefficiency in the banking system as holdings of government securities have become the driving force in the revenue function for banks. Thus, banks' reliance on government securities as a source of large steady profits appears to have limited competition between banks. In addition, large deficit financing through the issuance of treasury bills has not only crowded out the private sector in capturing banks' investments, but may also have put pressure on interest rates, thereby making access to

bank lending even more difficult for the private sector and hampering private sector development.

- **Losses on the loan portfolio.**

One further explanation for the lack of contestability is the past-due loans element, which does not seem to be related to either revenues or returns. This may suggest some serious definition problems and, hence, a lack of adequate provisioning, which may in turn signal high lending risks to potential entrants. Domestic banks might be more prone to this behaviour, as foreign banks appear to be more profitable and the quality of their portfolio tends to be better; however, domestic and foreign banks are equally effective in generating revenue.

- **Barriers to competition on interest revenue.**

The lack of correlation among costs other than on personnel, funding, and interest revenue traditionally the main source of revenue for banks is clearly an indication that competition is stifled in the Ghanaian banking system. This could be due to the nontransparent fee structure of the banks, which help to shield the bank market structure from competition

2.1 MEASUREMENT OF INPUT AND OUTPUT IN BANKING

One popular way of looking at performance is to measure how much output is been produced from the inputs committed into an activity. However in the banking industry there is no straight forward definition of output and this is because of the non-tangible nature of bank ouput. There are always several questions to ask. For example should deposits be treated as outputs or inputs? This has posed several challenges on research into this area. Triplett (1992) pointed out that the assessment of the banking industry has been jeopardized by the unresolved questioning

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concerning outputs and inputs. Responding to this Berg *et al.* (1991) argued that deposits should be treated as an output mainly because they represent a resource consuming activity however Berger *et al.* (1993) argued that deposits should be treated as an input in models that take account of interest paid on purchased funds.

To resolve the ambiguity of what bank output is empirical studies on banking suggest that there are two main approaches of measuring bank output;

1) The production approach

The production approach measures bank output by treating banks as firms which use capital and labour to produce different categories of deposit and loan accounts and therefore outputs are measured by the number of these accounts or number of transactions per account. According to Hempel (2002) the production approach regards the banking firm as an entity producing services which are related to loans and deposit accounts. Therefore, interest payments are not included in the cost function and output is instead measured by the number of deposit accounts serviced and loans originated.

2) The intermediation approach

The intermediation approach recognizes intermediation as the core activity of banks. This approach see banks as not producers of loans and services and therefore output is measured by the value of loans and investments.Sealey and Lindley (1977) argued that earning assets (loans, securities etc.) make up bank outputs and deposits, capital and labour should be treated as inputs but Colwell and Davis(1992) observed a disadvantage of this approach which is the absence of the trust operation that causes increases in the unit cost of large banks.

For reasons of data availability banks' output is often proxied by their money value and supplemented by firm specific data taking account of size, business mix, etc. (Freixas and Rochet, 1998)

2.2 THE IMPACT OF INFLATION ON FINANCIAL SECTOR PERFORMANCE

Inflation affects the way financial institutions allocate resources effectively. For instance inflation could affect bank lending. When inflation rises definitely interest rates will rise thereby increasing the potential of a borrower to default in a loan repayment and therefore the key role of banks which is financial intermediation will be hampered. In many economies several steps are taken to control inflation and some of these could be detrimental to bank performance.

In an attempt to tackle inflation in the economy of Ghana the Bank of Ghana raised its prime rate. This in some way is seen by banks to affect their intermediation role and consequently their performance. Boyd et al. (2000) in looking at the impact of inflation on financial sector performance had evidence that indicate that there is a significant, and economically important, negative non-linear relationship between inflation and both banking sector development and equity market activity. They had evidence of thresholds and concluded that in economies with inflation rates exceeding 15 percent, there is a discrete drop in financial sector performance.

2.3 BANK MERGER AND ACQUISITION AND PERFORMANCE

Increased competition in the banking industry has led to several merger and acquisitions in the industry. Evenett (2003) in his work concluded that between 1987 – 1990, 63% of Mergers and Acquisitions were in the manufacturing sector, 32% in the services or secondary sector and 5% in the primary sector. Between 1997 – 2000, 64% of Merger and Acquisition were in the services

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sector and 35% in the manufacturing sector. In both periods a good proportion was among financial instititutions especially banks.

VanderVennet (1997) explained that the financial industry has experienced some increased desire to undertake merger and acquisition activities beyond national boundaries. This is seen mostly in the US and Europe. Ghana had never experienced any cross-border M&A in the banking industry until 2003 when Societele Generale and SSB Ltd entered into the first M&A forming what is known now as SG-SSB. During the announcement of the completion of the deal, both banks expressed their hope that the new bank, SG-SSB Ltd. will benefit from the international contacts and financial strength that will improve the already existing strong domestic base of SSB Ltd in Ghana.

Merger and Acquisitions have some performance enhancing abilities and so DeLong (2001) in his work observed that bank mergers increase shareholder (acquirer and target) wealth by 3.0% on average, but only if they focus the bank in terms of both activity and geography. Her findings indicate that all other mergers types do not increase shareholder wealth.

Altunbas and Ibáñez (2004) conducted a study on Merger and Acquisition and bank performance and had these findings;

- Broad similarities among merging partners are conducive to an improved performance, although there are important differences between domestic and cross-border M&As and across strategic dimensions.

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- Consistency on the efficiency and deposits strategies of merging partners are performance enhancing both for domestic and cross-border M&As.

- Differences in the capitalization, investment in technology and financial innovation among domestic merging banks improves performance where as dissimilarities in earnings, loan and deposit strategies has deleterious effects on performance

2.4 CORPORATE SOCIAL RESPONSIBILITY AND CORPORATE FINANCIAL PERFORMANCE

Corporate social responsibility has become popular in today's business environment. Many businesses use their corporate social responsibility programmes as a means of advertising and positioning themselves strategically in the midst of other businesses. Baron (2000) argues that successful executives are able to integrate market strategies with non-market strategies in order to position their firm for optimal effectiveness. The question however is that should organizations take up corporate social responsibility programmes. Most early literature suggest that there is no positive correlation between corporate social responsibility and corporate financial performance but recent literature suggest a positive relationship between corporate social responsibility and corporate financial performance. Orlitzky et al. (2003) conducted a meta analysis of the relationship between corporate social and corporate financial performance and had the following findings;

- Corporate social performance is positively correlated with Corporate financial performance

- the relationship tends to be bidirectional and simultaneous

- reputation appears to be an important mediator of the relationship

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- Stakeholder mismatching, sampling error and measurement error can explain between 15 percent and 100 percent of the cross-study variation in various subsets of CSP–CFP correlations. Corporate virtue in the form of social and, to a lesser extent, environmental responsibility is rewarding in more ways than one.

Wu (2006) investigated the link between corporate social performance and corporate financial performance and found a positive relationship between the two, which confirms the view that the costs of being socially responsible are low and that firms may even benefit from socially responsible actions. He added that firm size has no visible effect on corporate social performance or on corporate financial performance.

Gossling and Beurden (2008) in their work concluded that there is a positive correlation between Corporate Social Responsibility and Corporate Financial Performance and that good ethics is good business.

2.5 CORPORATE GOVERNANCE AND CORPORATE FINANCIAL PERFORMANCE

Corporate governance is about building credibility, ensuring transparency and accountability as well as maintaining an effective channel of information disclosure that would foster good corporate performance. It is also about how to build trust and sustain confidence among the various interest groups that make up an organization.

Kajola (2008) in his work of corporate governance and firm performance of Nigerian listed companies identified the following as corporate governance mechanisms;

- *Board Size*

Limiting board size to a particular level is generally believed to improve the performance of a firm because the benefits by larger boards of increased monitoring are outweighed by the poorer communication and decision making of larger groups. Lipton and Lorsch (1992) argue that large boards are less effective and are easier for the CEO to control. When a board gets too big, it becomes difficult to coordinate and for it to process and tackle strategic problems of the organization. Eisenberg *et al.* (1998) and Mak and Kusnadi (2005) also report that small size boards are positively related to high firm performance.

- *Board Composition*

Enhanced director independence is intuitively appealing because a director with ties to a firm or its CEO would find it more difficult to turn down an excessive pay packet, challenge the rationale behind a proposed merger or bring to bear the skepticism necessary for effective monitoring. According Baysinger and Hoskinsson (1990) the effectiveness of a board depends on the optimal mix of inside and outside directions.

- *Audit Committee*

Klein (2002) reports a negative correlation between earnings management and audit committee independence. Anderson *et al.* (2004) find that entirely independent audit committees have lower debt financing costs.

- *CEO Status*

Several studies have examined the separation of CEO and chairman of the board, positing that agency problems are higher when the same person occupies the two positions. Using a sample of 452 firms in the annual Forbes Magazine rankings of the 500 largest USA public firms between 1984 and 1991, Yermack (1996) shows that firms are more valuable when the CEO and the chairman of the board positions are occupied by different persons

According to Kibirango (1999) the factors responsible for poor corporate performance especially in banks is lack of transparency, accountability and poor ethical conduct.

Effective corporate governance reduces "control rights" shareholders and creditors confer on managers, increasing the probability that managers invest in positive net present value projects (Shleifer and Vishny, 1997)

2.6 RURAL AND COMMUNITY BANKS (RCBs)

RCBS are unit banks owned by members of the rural community through purchase of shares and are licensed to provide financial intermediation. They were first initiated in 1976 to expand savings mobilization and credit services in rural areas not served by commercial and development banks. The number expanded rapidly in the early 1980s, mainly to service the government's introduction of special cheques instead of cash payment to cocoa farmers – though with adverse consequences for their financial performance (Nissanke and Aryeetey, 1998)

2.6.1 The role Of Rural and Community banks

Rural and community banks (RCBs) have played significant roles in the reduction of poverty and the improvement of the lives of the rural people. Aboagye (2006) compared Rural and Community Banks (RCB) to credit unions in Ghana and concluded that rural and community banks have done better in helping their clients save, while credit unions have fared relatively better in granting loans to their clients

Rural and community banks undertake a mix of micro finance and commercial banking activities structured to satisfy the needs of the rural areas. They provide banking services by way of funds mobilization and credit to cottage industry operators, farmers, fishermen and regular salaried employees. They also give grant to customers for the payment of school fees, acquisition/repair of houses and to meet medical expenses. Some of the banks have subsidiary companies engaged in consumer credit services and other developmental activities.

Rural banks devote their profits to meet corporate social responsibility programmes such as donations to support education, health, traditional administration and the needy in their communities. Some of the banks have specific gender programmes focusing on women-in-development and credit with education activities for rural women.

2.6.2 Structure and performance of rural banks

The financial system in Ghana falls into three main categories: formal, semi-formal, and informal:

- **Formal financial institutions** are those incorporated under the Companies Code 1963 and licensed by the Bank of Ghana (BOG) under either the Banking Law 2004 or the

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financial Institutions (Non-Banking) Law 1993 (NBFI Law) to provide financial services under Bank of Ghana regulation. Rural and Community Banks (RCBs) operate as commercial banks under the Banking Law, except that they cannot undertake foreign exchange operations, their clientele is drawn from their local catchment area, and their minimum capital requirement is significantly lower. Among the nine categories of non-bank financial institutions (NBFIs), the Savings and Loans Companies (S&Ls), which are restricted to a limited range of services, are most active in micro and small-scale financial intermediation using microfinance methodologies.

- Non Governmental Organizations (NGOs) and Credit Unions (CUs) are considered to be **semi formal** – legally registered but not licensed by the Bank of Ghana. NGOs are incorporated as companies limited by guarantee (not for profit) under the Companies Code. Their poverty focus leads most of them to provide multiple services to poor clients, including micro credit, though mostly on a limited scale. They are not licensed to take deposits from the public and hence have to use external (usually donor) funds for micro credit. Credit Unions are registered by the Department of Cooperatives as cooperative thrift societies that can accept deposits from and give loans to their members. Although credit unions are nominally included in the NBFI Law, BOG has allowed the apex body Ghana Cooperative Credit Union Association to continue to regulate the societies pending the introduction of a new Credit Union Law.

- **The informal financial** system covers a range of activities known as *susu*, including individual savings collectors, rotating savings and credit associations, and savings and credit "clubs" run by an operator. It also includes moneylenders, trade creditors, self-help

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groups, and personal loans from friends and relatives. Moneylenders are supposed to be licensed by the police under the Moneylenders Ordinance 1957.

The commercial banking system is dominated by a few major banks (among the 24 total) and reaches only about 5% of households, most of which are excluded by high minimum deposit requirements. With 60% of the money supply outside the commercial banking system, the RCBs, S&Ls, and the semi-formal and informal financial systems play a particularly important role in Ghana's private sector development and poverty reduction strategies. The assets of RCBs are nearly 4% of those of the commercial banking system, with S&Ls and CUs adding another 2%. While "RMFIs" is used to refer collectively to the full range of these institutions, they use different methodologies to reach different (albeit overlapping) clientele among farmers, rural households, the poor, and microenterprises, and hence different regulatory and supervisory instruments may be appropriate.

2.7 BANK SUPERVISION AND MONITORING MECHANISMS

BOG has legal authority over all banking and credit institutions, whether formal or informal (Addeah, 2000). Functions stipulated by the Bank of Ghana Act 2002 include to "regulate, supervise and direct the banking and credit system" and to "license, regulate, promote and supervise non-banking financial institutions." The NBFI Law gives BOG the "supervisory authority in all matters relating to the businesses of any non-bank financial institution licensed under" the law.

Constitution empowers BOG "to operate a banking and credit system to promote economic development in Ghana." BOG has used its authority to intervene and close down dubious and

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fraudulent financial practices such as pyramid schemes, as well as insolvent banks. BOG's supervisory functions laws have been carried out by the Banking Supervision Department (BSD) and the Non-Bank Financial Institutions Department (established in 1994 to oversee licensing of NBFIs under the new Law, supervise and regulate them, and provide advisory and promotional services), which were merged in 2002. Until 2002, a separate department was involved in promoting RCBs and, to some extent, following up on supervision issues.

2.7.0 *Methods*

Methods employed by BOG for its regulatory functions include:

- *Off-site examination* of prescribed reports to verify compliance and performance; -going basis;

- *On-site examination* to assess the accuracy of the reports submitted and to review in detail the compliance and performance (the Banking Law enjoins this assignment to be undertaken at least once a year for each bank, while the NBFI Law is silent on frequency); follow-up on-site visits may be undertaken to discuss supervisory concerns raised during examinations and to ensure compliance with recommendations;

- *Special Assignments* have been established by BOG to manage the risks from RCB Managers staying on for years, using a special pool of nine experienced commercial bankers to relieve RCB Managers while they take their annual leave. Besides minimizing fraud and enhancing internal controls, these special assignments have helped raise the skills of RCB staff, improved credit.

Administration and the submission of prescribed norms, restrained undue interference by Board members and local authorities, and raised customer confidence in RCBs.

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2.7.1 Compliance

Enforcement mechanisms available to BOG include fines, suspension, revocation of license, criminal penalties and appointment of auditors and managers (Addeah, 2000). Twenty-three distressed RCBs have had their licenses revoked. BOG has been concerned about irregular submission of prudential reports, and has begun applying fines for late returns and reporting non-compliance due to negligence of the executive to the RCB Board.

Their poor performance, in turn, triggered a restrictive response in the form of higher reserve requirements, which gradually helped improve their financial position, but restricted their ability to achieve their mandate of increasing the availability of rural credit. The government has responded to that situation through a project to strengthen their capacities and create a new Apex Bank to better serve, develop, and eventually supervise them. Despite weaknesses in financial performance and direct financing of agriculture, RCBs today constitute the backbone for extension of financial services to rural areas.

2.7.2 High Interest Rates and Reserve Requirements Improve Soundness, Inhibit Outreach

Throughout the 1990s, weak fiscal discipline, persistent double-digit inflation, and the use of monetary policies to restrain liquidity resulted in relatively high interest rates for Treasury bills (above 30% for seven years). Banks have had little incentive to lend, because they could make a good return (over much lower deposit rates) simply by investing excess liquidity in T-bills. Although the high reserve requirements (62% primary and secondary) imposed on Rural Banks have sometimes been blamed for the small amount of credit they provide, in fact they have generally maintained more than the required amount of reserves (e.g., 28% in primary reserves in 1998 as against 10% required; and 64-65% in 2000-01 in secondary reserves as against 52%

required). While these conditions have been largely responsible for improving the rating of a substantial share of RCBs, reduced interest rate and reserve requirements are re-establishing conditions for them to fulfill their mandate to make credit available in rural areas. Successful lending will depend not only on improving management capacity and information systems in the RCBs, but also on improving the capacity of BOG and the ARB Apex Bank to implement an effective supervision system that distinguishes between well-performing RCBs and less capable ones.

2.7.3 *Minimum Capital Requirement*

The old Banking Act (1970) specified minimum paid-up capital of ¢0.75 million (US$0.65 million) for Ghanaian banks and ¢2 million (US$1.76 million) for foreign banks. After a period of rapid inflation and currency depreciation, changes in 1989, 2000 and 2001 brought the minimum capital requirements to ¢25 billion (US$2.8 million as of 2004) for Ghanaian banks, ¢50 billion (US$5.6 million) for foreign banks, and ¢70 billion (US$7.8 million) for development banks. Currently the minimum capital has been raised to GH¢60million by bank of Ghana (BOG). This would be a condition for the issuance of license for new banks entering the industry however existing banks that have majority foreign shareholding are given up to end of 2009 to comply whilst those with majority Ghanaian shareholding are given up to 2012.

The already low minimum paid-up capital for RCBs was eroded steadily by inflation until 1998, when BOG responded to concerns about poor portfolios and non-compliance with capital adequacy ratios by raising the minimum capital requirement. It has since been adjusted twice, though not as drastically for RCBs as for other categories, standing at ¢500 million (US$56,000) as of 2004. Many RCBs have had difficulty raising additional capital to comply because of non-

payment of dividends since inception, shareholders' perception that they are entitled to loans, and local politics.

The financial Institutions (Non-Banking) Law of 1993 prescribed a uniform minimum paid-up capital of ¢100 million for all categories of NBFIs, but BOG has since differentiated the capital requirement of deposit-taking institutions from that of non-deposit taking institutions. Increases in required minimum capital in 1998 and 2000 served mainly to restore the value to the 1993 level in dollar terms. Nevertheless, this represented a tenfold increase in cedi terms, which only 3 of 8 S&Ls were able to achieve. Reasons for difficulties in compliance include: low initial paid-up capital; lack of additional funds among present shareholders; unwillingness of shareholders to cede some of their shares and dilute ownership; and poor operational performance and profitability.

In 2001, concerns about the health and under-capitalization of the majority of the S&Ls, as well as the rising number of applications relative to limited supervision capacity, led BOG to substantially raise the minimum capital requirements for NBFIs to ¢15 billion (over US$2 million) for deposit-taking institutions and ¢10 billion (US$1.4 million) for non-deposit-taking institutions. This increase was far more than necessary to adjust for the substantial depreciation of the Cedi in 2000-01, and proportionately greater for NBFIs than for commercial banks, thus limiting the rate of entry and perhaps encouraging some consolidation. So far, the regulatory authorities have refrained from closing down existing S&Ls that cannot meet new requirements.

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2.7.4 Liquidity Reserve Requirements

All banks and other deposit-taking commercial institutions are required to maintain a proportion of deposits in the form of liquidity reserves, consisting of primary reserves in cash and balances with other banks and secondary reserves in Government and BOG bills, bonds and stocks. In fact, the high returns on relatively risk-free secondary reserve assets (T-bill rates averaged 35% from 1993 to 2001, ranging from 24% to 43%) made the requirement virtually redundant, as they accounted for as much as 75% of the combined total deposits of commercial banks (Camara, 1996). To help soak up liquidity and improve the solvency of RCBs, BOG raised their secondary liquidity reserve requirement from 20% to 52% in 1996. While intended to strengthen poorly-performing institutions, the regulations did not distinguish between stronger and weaker ones, thereby penalizing the more efficient RCBs by limiting their ability to pursue profitable lending opportunities. In 2002 BOG lowered the reserve requirements to a total of 43%, including 8% primary and 30% secondary, as well as 5% placement with ARB Apex Bank (to facilitate check clearing). In 2006 BOG completely abolished the secondary reserve imposed on the banks.

2.7.5 Interest Rates

Restrictive policies during the 1970s and early 1980s, such as government-controlled interest rates and sectoral allocation of credit, no doubt retarded development of Ghana's formal financial system. Nevertheless, various forms of informal finance predated financially repressive policies in Ghana, and actually expanded after financial markets were liberalized in 1987 (Aryeetey, 1994). Although interest rates have not been officially controlled since 1987, the Government has nevertheless introduced a number of credit programs targeted for small business development or poverty alleviation whose interest rates were pegged in 2001 at 20% (well below market-determined rates.

2.7.6 Security

Licensed banks normally require that loans be secured by title to land or physical assets, deposit balances, or T-bills, following BOG guidelines.

2.7.7 Delinquency and Provisioning

All licensed financial institutions are required to monitor and review their portfolio of credit and other risk assets at least quarterly. Assets of all banks, both major and rural, are classified into five grades of risk, for which the rate of provisioning increases from 10% for loans overdue less than 30 days to 50% for "doubtful" loans over 180 days and 100% beyond 540 days. For NBFIs, assets are classified into four grades of risk: (i) current; (ii) sub-standard; (iii) doubtful; and (iv) loss. Assets in risk grades (ii) to (iv) are considered non-performing and, therefore, no income may be accrued on them. BOG has specified prudential norms for microfinance and small business loans that take into account the characteristics of these activities and classify them as either (i) current or (ii) delinquent (i.e., scheduled payment not received as of the due date), on which no interest income may be accrued (Gallardo, 2002).

2.7.8 Other Prudential Regulations

Capital Adequacy: Prior to the Banking Law (1989), banks were to maintain a minimum capital of 5% of total mobilized resources. Following international best practice, the Banking Law (1989) shifted the adequacy of capital from deposit-based to its relationship to risk-weighted assets (Asiedu-Mante, 1998). The Banking law prescribes the capital base at 6% of the adjusted asset base as the minimum capital adequacy ratio for the banks, which is being raised to 10% under the new Banking Law. The NBFI Law already prescribes the rate of 10% for S&Ls and other deposit-taking institutions.

Credit Exposure: Both the Banking Law and the NBFI Law limit unsecured loans to individual customers to 10% of net worth, with somewhat different limits for secured loans of 25% for banks and 15% for non- banks. Credit exposure is also severely limited with respect to loans to any firm in which any of the bank's directors or officials are connected as a partner or principal shareholder.

2.8 PROBLEMS FACED BY BANKS

Like other institutions bank also have challenges and problems. These problems could be bank specific but generally banks face these problems;

- *Information asymmetry*

Information asymmetry result when one party possesses more information than the other. This is often the situation when a client is requiring a loan from a bank for a project. The client has more information about his intended project than the bank. Under such circumstances the client will hide some information which He perceives will limit his chances of obtaining the loan. On the part of the bank this information would have been useful.

- *Adverse selection*

Adverse selection refers to a situation where a banks selection of a client for a loan is bias because information asymmetry. According to Heffernan (2005) asymmetric information or differences in information held by *Principal* and *Agent* is the reason why banks face the problem of adverse selection because the bank, the *Principal* has less information about the probability of default on a loan than the firm or individual, the *Agent*. She added that adverse selection may mean for certain borrowers that the bank's supply of loans is discontinuous or backward bending

indicating the bank's reluctance to lend as interest rate rise and even attract a greater proportion of risky borrowers.

Adverse selection occurs when lenders do not know particular characteristics of borrowers; for example, a lender may be uncertain about a borrower's preferences for undertaking risky projects (Besley, 1994)

- *Moral hazards*

Moral hazards result when a client uses a loan for a purpose other than the initial purpose. Most often a risky venture. These problems can become more severe when operating in a new market. According to Besley (1994) the central risk for the Lender is that individuals who are in debt (Borrowers) might slacken their efforts to make the project successful or they might change the type of project that they undertake.

To curtail these problems financial intermediaries (banks) need to intensify monitoring and screening activities.

2.9 FINANCIAL RATIO ANALYSIS

Ratio analysis can be applied to financial statements and other similar data of companies to assess performance, to determine the solvency and financially soundness of companies, to assess the risk attached to financial structure of companies and to analyze the returns generated for shareholders and other stakeholders of companies. Financial ratios can also be used in the assessment of the probability that a firm will go bankrupt. Beaver (1968) and Altman (1968) pioneered the use of a statistical analysis of financial ratios to predict corporate bankruptcy.

Altman (1968) combined multiple financial ratios using a statistical method known as discriminant analysis which produced an indicator known as the z-score used to predict the probability of a firm going bankrupt. He concluded that a z-score of below 1.81 indicates a high probability of failure, a z-score above 2.99 indicates a high probability of non-failure and a score between 1.81 and 2.99 indicate cases where it is not possible to predict failure or otherwise with confidence.

2.9.1 Categories of ratios

Profitability Ratios

Profitability ratios are the most significant of the financial ratios. These ratios give a guide to how successful the managers of the company have been in generating profitability. Ratios in this category include return on Assets, Return on Equity, Management rate of return and Return on capital Employed among others

Several variables are used as determinants of bank profitability in the banking industry. Bank studies can essentially be divided into two groups based on the variables used to measure bank performance as a dependent variable. In most studies, bank performance is measured by the level of bank profitability. The profitability measures include the rate of return on equity (ROE), rate of return on capital employed (ROCE) and rate of return on assets (ROA). In most bank studies, emphasis is placed on measuring profitability in terms of ROCE and ROA. Smirlock (1985) notes that the use of ROA has provided strongest evidence on the concentration–profitability relationship in banking. Keeton and Matsunaga (1985) assert that ROA is especially useful in measuring changes in bank performance over time since banks' income and expense components are more closely related to assets. Several studies of the structure–performance hypothesis in the

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banking system have used both ROA and ROE (Civelek and Al-Alami, 1991; Agu, 1992) and Smirlock (1985) used all the three measures. However, Civelek and Al-Alami (1991) found results based on ROA to be statistically very inferior and justified the relative performance of ROE on the basis that it reflects the efforts of managers interested in maximizing shareholders' wealth. Nonetheless, other studies have used ROA as a measure of profitability in testing the SCP hypothesis in banking. The basic argument in favour of profitability measures in banking is that banks are essentially multi-product firms and the use of profitability measures eliminates problems associated with cross-subsidization between products and services

Liquidity Ratios

Liquidity ratios highlight the ability of a company to convert its assets into cash. If the ratios are low the implication is that funds are tied up in stocks and debtors. Thus, funds are tied up in unproductive assets and therefore make it difficult for the company to meet its financial obligations. Ratios in this category are the current ratio and acid test ratio

Gearing Ratios

These ratios reflect how a company is financed with respect to debt and equity and are used to assess the various risks that arise as a result. Ratios in this category include debt/equity ratio, interest cover.

Efficiency Ratios

These give an indication of how efficient Management has been in terms of management of its working capital. Ratios in this category include debtor period and creditor period

Investor Ratios

Investor ratios are used for a variety of purposes including assessing the effects of proposed financing as well as valuing a firm. According Watson and Head (2004), investor ratios play a important role in analyzing the dividend policy of a company and analyzing the effect of a right issue.

Activity Ratios

Activity ratios show how efficient a company's working capital is managed. According to Watson and Head (2004) these ratios are closely linked to liquidity ratios.

The table below gives a list of various financial ratios and their benchmarks for the microfinance industry according to the Microfinance Consensus guidelines (2003).
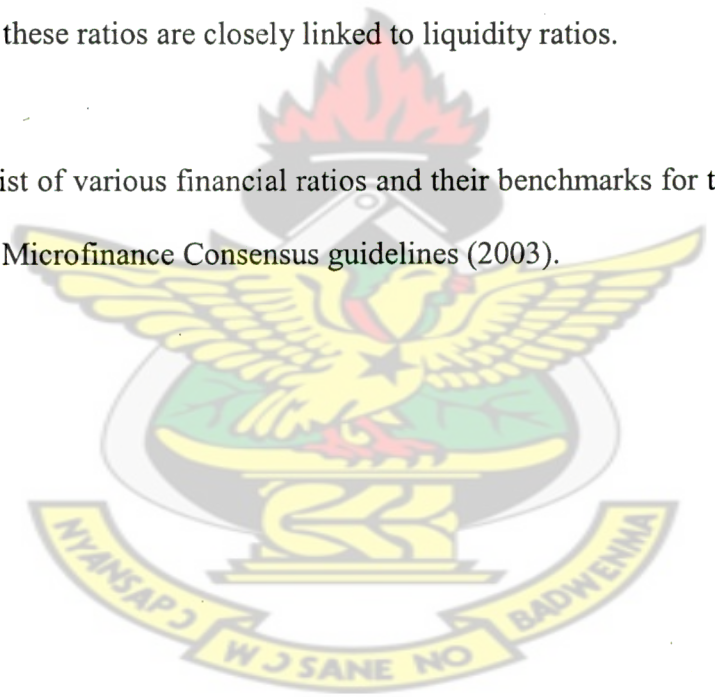
Table 1

Operating Expenses Ratio	Operating Expenses/Period Average Gross Portfolio (15%)
Number of borrowers per staff	Number of Borrowers/Credit staff (250)
Portfolio at Risk	Outstanding Balance on Over 30days plus Restructured Loans/Total Outstanding Gross Portfolio (5%)
Financial Expense Ratios	Interest and Fee Expenses/Period Average Gross Portfolio (10%)
Liquidity Ratios	Cash and Bank Accounts + Readily Marketable Investments/Total Assets (15%)
Debt/Equity	Total liabilities/Total Equity(2times)
Return on Equity	Net profit after tax/Net worth (10%)
Return on Assets	Net profit after tax/Total Assets (20%)
Current Ratio	Current Assets/Current liabilities(200% or 2:1)
Asset utilization	Interest income/Total Assets (15%)
Return on Earning Assets	Net profit after tax/ (investment +advances) (2%)
Gross profit margin	Profit before tax/operating income (15%)
Net profit margin	Net profit after tax/interest income (10%)
Return on current Assets	Net profit /current Assets (5%)
Return on fixed Assets	Net profit/Fixed Assets (2%)
Return on capital Employed	Net profit/Average total Equity (20%)
Debt to Assets	Total liabilities/Total Assets (75%)
Interest cover	Profit before interest and tax/Interest paid (1.5times)
Total Assets turnover	Total income/Total Assets (0.5times)
Fixed Asset turnover	Total Income/Fixed Assets (3.5times)
Earnings per share	Net profit /No. of shares (20%)

Apart from ratio analysis there exist other techniques for measuring financial performance. Statistically there exist two main approaches: Parametric and nonparametric techniques.

Parametric techniques are preferred when the structural relationship between the dependent and independent variables are known. One of the parametric methods popularly used is the Stochastic Frontier Analysis (SFA).

Nonparametric techniques are preferred when the structural relationship is not known. One of the non-paremetric techniques popularly used is the Data Envelopment Analysis (DEA).Akoena *et al.* (2009) in their study of efficiency of banks in Ghana employed Data Envelopment Analysis (DEA) and concluded that small banks have larger scale efficiencies than the big banks. The implication of this is that (on the average at least) large banks in Ghana are more removed from the point of their lowest average costs than the small banks and the central bank should be careful about encouraging banks to get bigger if its objective is to improve scale efficiency.

Isik and Hassan (2003) used Data Envelopment analysis to investigate bank performance in Turkey following liberalization of the industry. They found that all forms of Turkish banks, although in different magnitudes, have recorded significant productivity gains driven mostly by efficiency increases rather than technical progress. Efficiency increases realized were mostly due to improved resource management practices rather than improved scales of operation.

Hauner and Peiris (2005) analyzed the impact of banking sector reforms undertaken in Uganda with a view to improving competition and efficiency. They found that since the reforms the level of competition has increased significantly and has been associated with a rise in efficiency. Moreover, on the average, larger banks and foreign-owned banks have become more efficient, while smaller banks have become less efficient in the face of increased competitive pressures.

Korsah *et al*. (2001) employed market concentration ratios and Data Envelopment Analysis to assess the impact of financial sector liberalisation on the performance of Ghanaian banks. They found that competition has increased with financial liberalization and the banks have become more efficient. Further, the banks have become more profitable due to the oligopolistic nature of the market that enables them to reap supernormal profits.

CHAPTER THREE

METHODOLOGY AND ORGANIZATIONAL PROFILE

3.0 INTRODUCTION

This chapter looks at the Methodology of the research and profile of Atwima Kwanwoma Rural Bank (AKRB)

3.1 METHODOLOGY

3.1.1 METHODS OF DATA COLLECTION

Data for this research would consist mainly of secondary data and this would be extracted from the consolidated profit and loss accounts (P&L), the balance sheets and cash flow statements for the period 2000 to 2007(the yearly published financial statements). There is nothing peculiar about this year range but the availability of data for this year period explains why.

3.1.2 METHOD OF DATA ANALYSIS AND STATISTICAL PROCEDURE

This study would use financial ratios even though there are other techniques like the stochastic Frontier Analysis (SFA) and Data Envelopment Analysis (DEA).

Data for this research would be analyzed quantitatively in two folds. First, the bank's data would be analyzed to look at the bank's position in terms of Profitability, Liquidity, Gearing and Efficiency over the years. Investor and Activity ratios would also be analyzed over the year period under consideration.

(a) PROFITABILITY RATIOS

i) Return on Assets (ROA)

$$\text{Return on Assets (ROA)} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

ii) Return on Equity (ROE)

$$\text{Return on Equity (ROE)} = \frac{\text{Net Profit}}{\text{Stockholders' Equity}}$$

iii) Management Rate of Return

This profitability ratio compares operating income to operating assets, which are defined as the sum of tangible fixed assets and net working capital.

$$\text{Rate of Return} = \frac{\text{Operating Income}}{\text{Fixed Assets + Net Working Capital}}$$

The rate of return determines whether assets are efficiently used. This ratio can be calculated for the entire company or for each of its divisions or operations. The percentage should be compared with a target rate of return that you have set for the business.

iv) Return on Capital Employed

$$\text{ROCE} = \frac{\text{Profit before interest and tax}}{\text{Capital Employed}}$$

This is a measure of how much returns is generated from the capital employed in the operation of an entity.

v) Return of Current Assets

$$ROCA = \frac{\text{Net profit}}{\text{Current Assets}}$$

This is a short term measure of profitability by looking at how much returns is generated from current assets.

vi) Return on Fixed

$$ROFA = \frac{\text{Net profit}}{\text{Fixed Assets}}$$

This is a measure of how much returns is generated from fixed assets.

(b) LIQUIDITY RATIOS

i) Current Ratio

The current ratio shows the relationship between the current assets and the current liabilities. Thus, how much assets a company has to be able to meet its liabilities.

i) $\text{Current Ratio} = \dfrac{\text{Current Assets}}{\text{Current Liabilities}}$

ii) $\text{Cash Ratio} = \dfrac{\text{Cash + Cash Equivalents}}{\text{Current liabilities}}$

The cash ratio is an indicator of a company's liquidity by measuring the amount of cash, cash equivalents or invested funds there are in current assets to cover current liabilities. It only looks at the most liquid short-term assets of the company, which are those that can be most easily used to pay off current obligations

(c) GEARING RATIOS (CAPITAL STRUCTURE RATIO)

Gearing is concerned with the relationship between the long term liabilities that a business has and its capital employed.

(i) Debt to Equity Ratio

$$\text{Debt to Equity Ratio} = \frac{\text{Long term debt}}{\text{Total Stockholders' Equity}}$$

(ii) Interest Coverage Ratio

The interest coverage ratio is a measurement of the number of times a company could make its interest payments with its earnings before interest and taxes; the lower the ratio, the higher the company's debt burden. As a general rule of thumb, interest coverage ratio above 2 is good. An interest coverage ratio below 1.0 indicates that the business is having difficulties generating the cash necessary to pay its interest obligations.

$$\text{Interest Coverage Ratio} = \frac{\text{Income Before Interest and Income Tax Expenses}}{\text{Interest Expense}}$$

Income Before Interest and Income Tax Expenses = Income Before Income Taxes + Interest Expense

(d) EFFICIENCY RATIOS

Provision for Bad and Doubtful debt to Interest income

i) $\text{Provision of Bad and Doubtful debt to Interest Income} = \dfrac{\text{Provision for Bad and Doubtful}}{\text{Interest income}}$

iii) $\text{Return on Earning Assets} = \dfrac{\text{Net profit}}{\text{Investments} + \text{Advances}}$

(e) INVESTOR RATIOS

$\text{Dividend per share} = \dfrac{\text{Dividend}}{\text{Number of shares}}$

(f) ACTIVITY RATIOS

$\text{Total Asset turnover} = \dfrac{\text{Total Income}}{\text{Total Assets}}$

$\text{Fixed Asset turnover} = \dfrac{\text{Total Income}}{\text{Fixed Assets}}$

Asset Management and Operational efficiency tell a lot about performance. Tarawneh (2006) in comparing the performance of Omani commercial banks concluded that bank's financial performance is strongly and positively influenced by operational efficiciency, asset management and bank s size. This study would therefore go further to do a trend analysis on performance indicators such as Asset Management measured by asset utilization ratio (operational income divided by total assets) and Operational efficiency measured by the operating efficiency ratio (total operating expenses divided by net interest income) among others. Correlations between

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Operational efficiency, Asset Management and Bank size (measured by total assets) would also be investigated.

3.2 ORGANIZATIONAL PROFILE

Atwima Kwanwoma Rural bank was established in September 6th 1983 with just a branch at Pakyi No. 2 in Ashanti. The bank started with an ordinary share capital of ¢1.0million (GH¢ 100) and a preference share capital of ¢ 125,000 (GH¢ 12.5) contributed by the indigenous people in the locality and the bank of Ghana. The bank had the following objectives:

- Mobilization of Rural Savings

- Extension of credit to micro-enterprises in the rural areas to improve upon their living standards.

- Inculcation of saving habits among the rural folks in Pakyi and its surroundings

- To provide financial products to meet the needs of the area

The bank has achieved a lot since its establishment. In 2003 the bank was incorporated into the prestigious Ghana Club 100 and ranked 32nd among the list of the top 100 companies. Atwima Kwanwoma Rural Bank also was adjudged the best in the 1st Ashanti Financial Services Excellence awards in 2004 and in 2005 it placed 10th in the Club 100 award.

3.2.0 Bank Branches

Currently Atwima Kwanwoma Rural bank (AKRB) has six (6) branches. Pakyi No. 2 branch is the Head office of the bank and the other branches are;

Santasi branch, Old-Tafo branch, New-Tafo branch, Ayigya branch and Atonsu-Agogo branch.

3.2.1 Corporate Vision

A corporate vision is a statement that indicates where an organization wishes to be. The vision of Atwima Kwanwoma Rural Bank (AKRB) is "To be a leading international Microfinance banking Institution"

3.2.2 Corporate Mission

A mission statement explains why a company exists and the mission of Atwima Kwanwoma Rural Bank (AKRB) is "To be the leading micro finance banking institution in Ghana, poised to transform and improve the lives and businesses of our customers and thereby reducing poverty and through motivated and competent Human resources, Customer-driven products and the use of modern technology".

3.2.3 Board of Directors

The Board of the bank is composed of eight members with Rev. Paul Frimpong Manso as the chairman. The board is the back bone of the bank because it formulates policies and directs the affairs of the bank.

The basic responsibilities of the board include;

- Setting a corporate strategy geared towards achieving the mission and vision of the bank

- Controlling, monitoring and supervising top Management

- Protecting the assets of the bank

- Hiring and firing top Management

3.2.4 Management Team

The management team of the bank comprises the Operations Manager, Finance Manager, Microfinance Manager, Business Development Manager, Administrative Manager, Internal Control Manager and ICT Manager. In addition, the bank has Branch Managers who take care of each of the branches.

1. **Operations Manager**

The role of the operations Manager is to see to the day to day operations of the bank. The operations Manager coordinates with all the branches to ensure all systems are operating effectively.

2. **Finance Manager**

The Finance Manager is responsible for preparation of budgets, forecasting and financial reporting.

3. **Microfinance Manager**

The Microfinance Manager is responsible for the development of microfinance products, educating customers on the type of products the bank have and performing due diligence on loan applications

4. **Business Development Manager**

As a bank it needs to constantly develop products and services to meet customer needs .The business development Manager is charged with responsibilities that will promote product and

service quality as well as bank growth .The business development Manager constantly monitors competitor's and explores various strategies aimed at achieving competitive advantage.

5. Administrative Manager

The administrative Manager takes care of administration of the bank. His duties include;

- Prescription of training and development programmes for staff

- Appraisal of staff performance

- Management of human resources

6. Internal Control Manager

The functions of the Internal Control Manager include:

- To focus the internal audit on the significant risks profiles of the bank. These include credit, market, liquidity, operational, and interest rate risks.

- To institute internal control measures within the bank.

- To examine the records of the bank to ascertain their genuineness and to minimize fraud.

- To report to the sub-committee of the board through the CEO.

7. ICT Manager

The functions of the ICT Manager include;

- To provide an appropriate IT infrastructure for the bank

- To procure appropriate information systems and to manage them.

- To organize IT training programmes for staff.

- To maintain the bank's website.

8. Branch Manager

The branch Manager is charged with following functions;

- keeping an eye on branch staff and to monitor their performance

- Preparing annual budget for the branch

- Coordinating between the branch and the Head office.

3.2.5 Accounting Policies

The accounting policies which the bank has adopted and has applied consistently are disclosed under the appropriate headings as follows;

a. Basis of Accounting

The bank prepares its financial statements under the historical cost convention.

b. Interest Income

Interest income is earned from interest paid on loans and overdrafts. Interest is included in income only when it is received

c. Loan and Advances

Advances are stated in the Balance Sheet at the amount of principal and interest outstanding less any provision for bad and doubtful debts and interest held in suspense.

d. Foreign Currency Translation

Transactions dominated in foreign currencies are translated at the rates of exchange ruling as at the time of transaction

3.2.6 Staff

The bank currently has about 203 highly skilled and motivated staff and Sales Executives who work hard to achieve the objectives of the bank.

3.2.7 Infrastructure

Atwima Kwanwoma Rural Bank has improved on its infrastructure to compete and attract more clients. The bank can boast of an ultra modern head office complex with an attractive environment conducive for transacting banking business.

The bank's information and communication technology (ICT) is one of the best. All the bank's six branches are computerized and networked for the convenience of all customers to do business at any of the bank's branches with ease.

3.2.8 International Collaboration

The bank has affiliated itself to an international body – African Rural and Agricultural Credit Association (AFRACA) through which the bank employs exchange programmes on technical co-operation among developing countries to educate the staff and exchange ideas from other countries. Countries visited so far are; Uganda, Kenya, South Africa, Ethiopia and Zambia.

3.2.9 Impact on rural development

Atwima Kwanwoma Rural Bank has developed a trademark of social philanthropy. Our impact can be seen in areas like Education, Health, Sanitation and Water. The bank's focus is to provide the needed assistance for the socio-economic development and transformation of its catchment area. Social contribution has been the priority on the bank's agenda and therefore since 1995, the bank has been spending on development projects

3.2.10 Products and Services

The bank engages in financial intermediation and microfinancing. The products of the bank are classified into loan products, savings products and investment products

1. Loan products

Loan products include dwetire loans, Susu savings, salary loans, Group loans, fixed deposit loans, commercial loans and church development loans.

2. Savings Products

The banks savings products include; Savings account, Current account, Fixed Deposit and Golden Deposit account.

3. Investment Products

The bank has introduced an investment product called the Special Investment Account. The investment account is transferable to any named beneficiary so that in the event the holder is incapacitated the account will be transferred to the beneficiary. This product also allows customers to invest for their wards education or future retirement.

3.2.11 Clientele

Atwima Kwanwoma Rural Bank (AKRB) has a diversity of clients. Its clients include salary workers, micro entrepreneurs and farmers.

CHAPTER FOUR

PRESENTATION OF FINDINGS AND ANALYSIS OF RESULTS

4.0 ANALYSIS OF GROWTH PATTERN

The summary of the bank's profile for the period 2000 to 2007 extracted from the financial statements of the bank is shown below;

Table 2

INDICATOR /YEAR	2000	2001	2002	2003	2004	2005	2006	2007
TOTAL DEPOSIT (GH¢'000000)	0.8693	1.6888	3.1931	5.3014	7.8046	8.2059	11.9698	15.265
NET ADVANCES (GH¢'000000)	0.1559	0.3429	0.7350	1.4428	3.465	3.1649	7.9874	11.042
TOTAL ASSETS (GH¢'000000)	1.050	2.058	3.678	6.140	9.468	10.1942	15.597	19.705
INVESTMENTS (GH¢'000000)	0.707	1.3	1.9	3.2326	4.056	4.4560	3.840	3.30
ORDINARY SHARES (GH¢'000000)	0.0230	0.0301595	0.054437	0.085686	0.1233	0.2785	0.2909	0.297
NET PROFIT (GH¢'000000)	0.061	0.176	0.107	0.283	0.553	0.504	0.628	0.846
NO.OF CUSTOMERS	24,568	34,487	44,423	50,538	64,373	66,498	86,553	102,404

Source: prepared from financial statements, AKRB

The graph below shows the trend in the growth rates of total deposits, net advances, total assets, investments, ordinary shares and net profits.
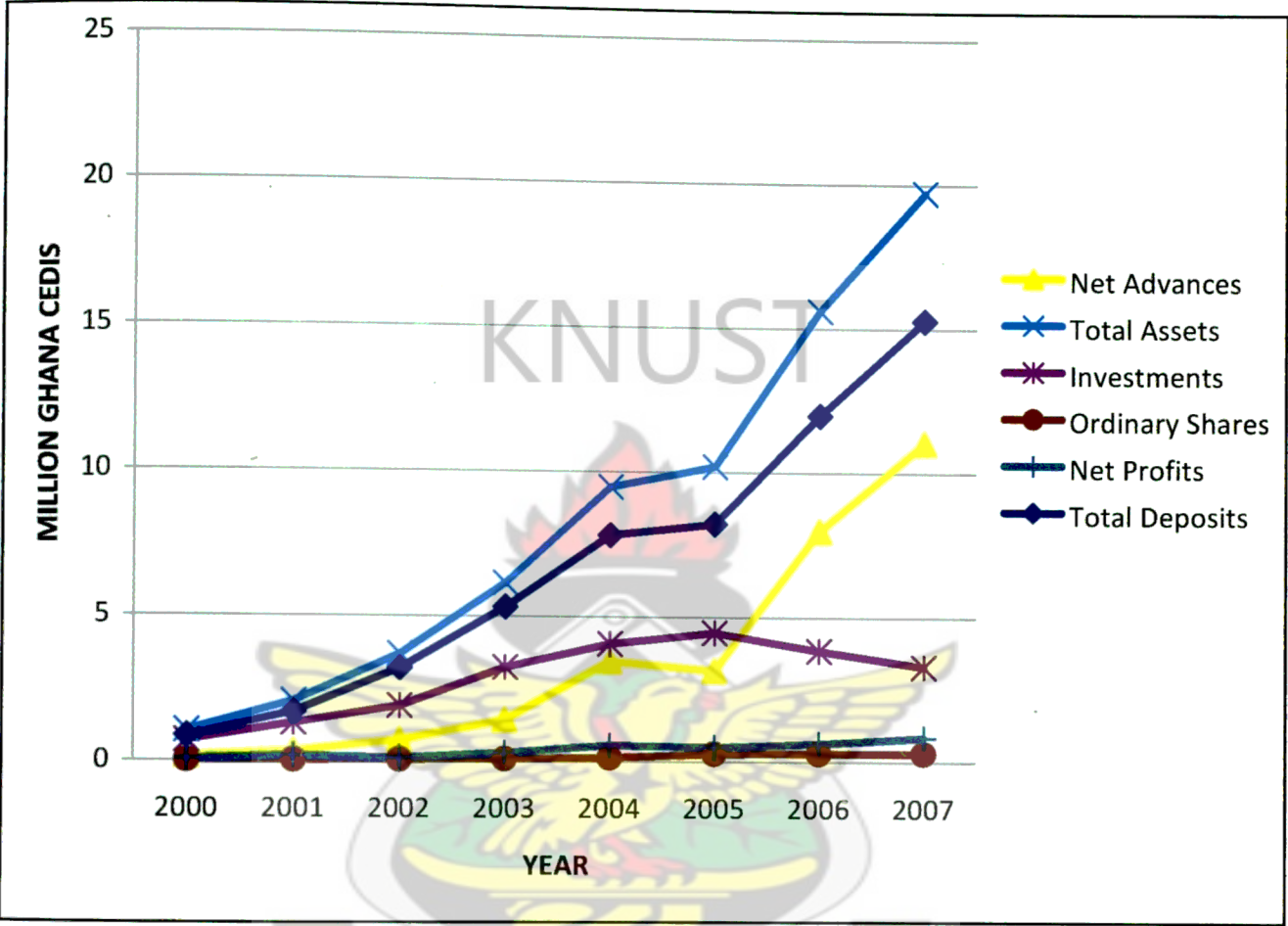
GROWTH IN TOTAL DEPOSITS

Using the Gordon's Growth model, $S_n = S_o(1+g)^n$ the annual growth rate in the bank's total deposits can be calculated as follows;

$$15.265 = 0.8693 (1+g)^7$$

$$g = 0.5059$$

$$g = 50.59\%$$

The bank's *total deposit* from 2000 to 2007 grew at an annual rate of 50.59% and explanatory factors are;

- attractive deposit interest rate enticing customers to save their money in the bank
- effective advertising and marketing strategy by the marketing department as well credit officers.

On a year by year basis there has been a consistent growth and for all the successive years there has not been a decline in total deposits. This is an indication of good performance.

GROWTH IN NET ADVANCES

$3.465 = 0.1559 (1 + g)^4$

$g = 1.1712$

$g = 117.12\%$

The annual growth rate in *net advances* from 2000 to 2004 is 117.12% this shows that the bank records considerable gains from advancing overdrafts an loans and therefore it preferred to advance more over the years thus not deviating from its role of micro financing. It can also be viewed from the point that the bank had not registered any higher number of bad debt cases between these years and therefore the motivation to advance more debt. Net advances in 2005 declined as compared to 2004 and began to rise at a rate of 86.79% from the year 2005. The change in rate is attributed to increase in bad debt cases over that period and the motivation for the bank to gain from investing in Government of Ghana securities and securities of other companies such as vanguard assurance, unique trust services and fidelity among others. For the bank to able to increase its net advances on a year by year basis it indicates a good performance.

GROWTH IN TOTAL ASSETS

$19.705 = 1.050 (1+g)^7$

$g = 0.5202$

$g = 52.02\%$

There has been an annual growth rate of 52.02 percent in total assets with loan and advances contributing the greatest. Even though on the average the annual growth rate is 52.02%.On a year by year, total assets increased in 2001 by a margin of 96 percent. In 2002 there rate of increase dropped to 78.72 percent as compared to 2001.In 2003the rate further decreased to 66.94 percent. In 2004 the growth rate in total assets further decreased to 54.20 percent. In 2005 there was a serious drop of the rate of increase by 7.67 percent. In 2006 the rate of increase shot up to 52.99 percent.2007 saw a decline in the rate to 26.33 percent. This clearly shows that on a year by year basis the growth rate has not been constant. Though there has been a fluctuating trend there has not been any year that total assets declined.

GROWTH IN INVESTMENTS

$4.4560 = 0.707 (1+g)^5$

$g = 0.4451$

$g = 44.51\%$

Between 2000 and 2005 the annual growth rate in investments was 44.51%. The bank invests in Government of Ghana securities and Securities of other companies such as Vanguard Assurance, Unique Trust services, Fedility and ARB Apex bank. Return on investments over the years has been encouraging even though not disclosed by Management of the bank. After 2005 growth in

investments declined at a rate of 13.94% per anum. This is was due to the drop in rates of securities especially Government of Ghana securities around that time.

GROWTH IN ORDINARY SHARES

$0.0230 = 0.297 \, (1+g)^7$

$g = 0.4412$

$g = 44.12\%$

Ordinary shares over the years increased at annual rate of 44.12%. This is a result of a consistent increment in dividend payment as is reflected on the financial statements. Been able to increase its ordinary shares broadens the bank's capital base and makes it more liquid. This shows an impressive performance.

GROWTH IN NET PROFIT

$0.061 = 0.846(1+g)^7$

$g=0.455957$

$g= 45.595\%$

This is explained by the fact that the bank generates more interest income and operational income to cover its liabilities.

GROWTH IN NUMBER OF CUSTOMERS

From the table the bank has recorded increase in the number of customers between 2000 and 2007 and using the Gordon's growth model;
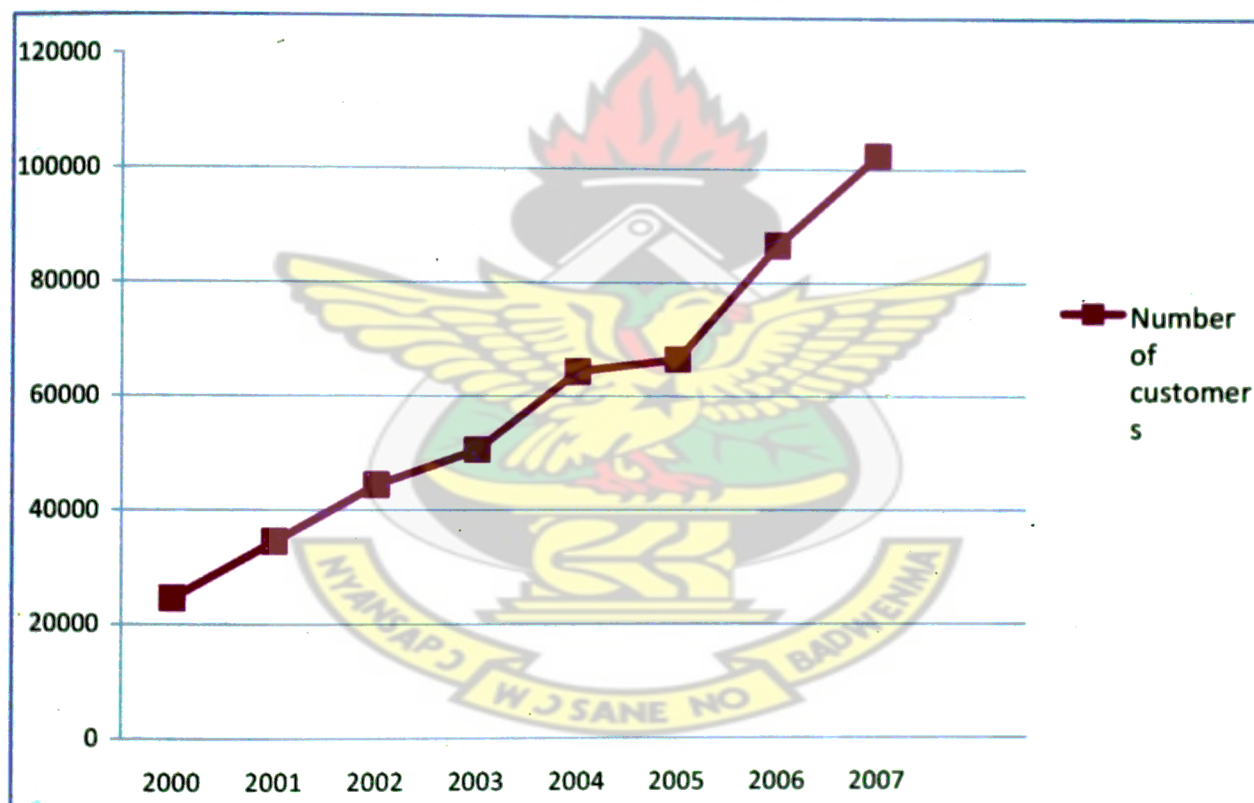
$24,568 = 102,404 \, (1 + g)^7$

g= 0.2262

g= 22.62%

The annual growth rate in the *number of customers* is 22.62% indicating an impressive advertising and marketing strategy by the bank. The bank through its Susu programme has tremendously mobilized a lot of customers.

The graph below gives an a pictorial representation

4.1 RATIO ANALYSIS

ANALYSIS OF PROFITABILITY

The various ratios in this category have been calculated using the consolidated financial statements and is shown below;

Table 3

YEAR	2000	2001	2002	2003	2004	2005	2006	2007	AVERAGE
Return on Assets	0.06	0.09	0.03	0.05	0.06	0.05	0.04	0.04	5%
Return on Equity	0.50	0.60	0.27	0.41	0.51	0.34	0.36	0.35	42%
Rate of Return	0.17	0.29	0.50	0.26	0.28	0.17	0.24	0.17	26%
Return on Capital Employed	0.99	0.92	0.55	0.72	0.63	0.49	0.39	0.44	64%
Return on Current Assets	0.06	0.09	0.03	0.05	0.07	0.05	0.04	0.05	6%
Return on Fixed Assets	1.04	1.70	0.32	0.53	1.02	0.71	0.76	0.81	86%

The graph below shows a pictorial representation

A BAR CHART OF PROFITABILITY RATIOS

Legend:
- return on assets
- return on equity
- management rate of return
- Return on capital employed
- Return on Current Assets
- Return of Fixed Assets

X-axis (YEARS): 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007
Y-axis (RATIOS): 0 to 1.8
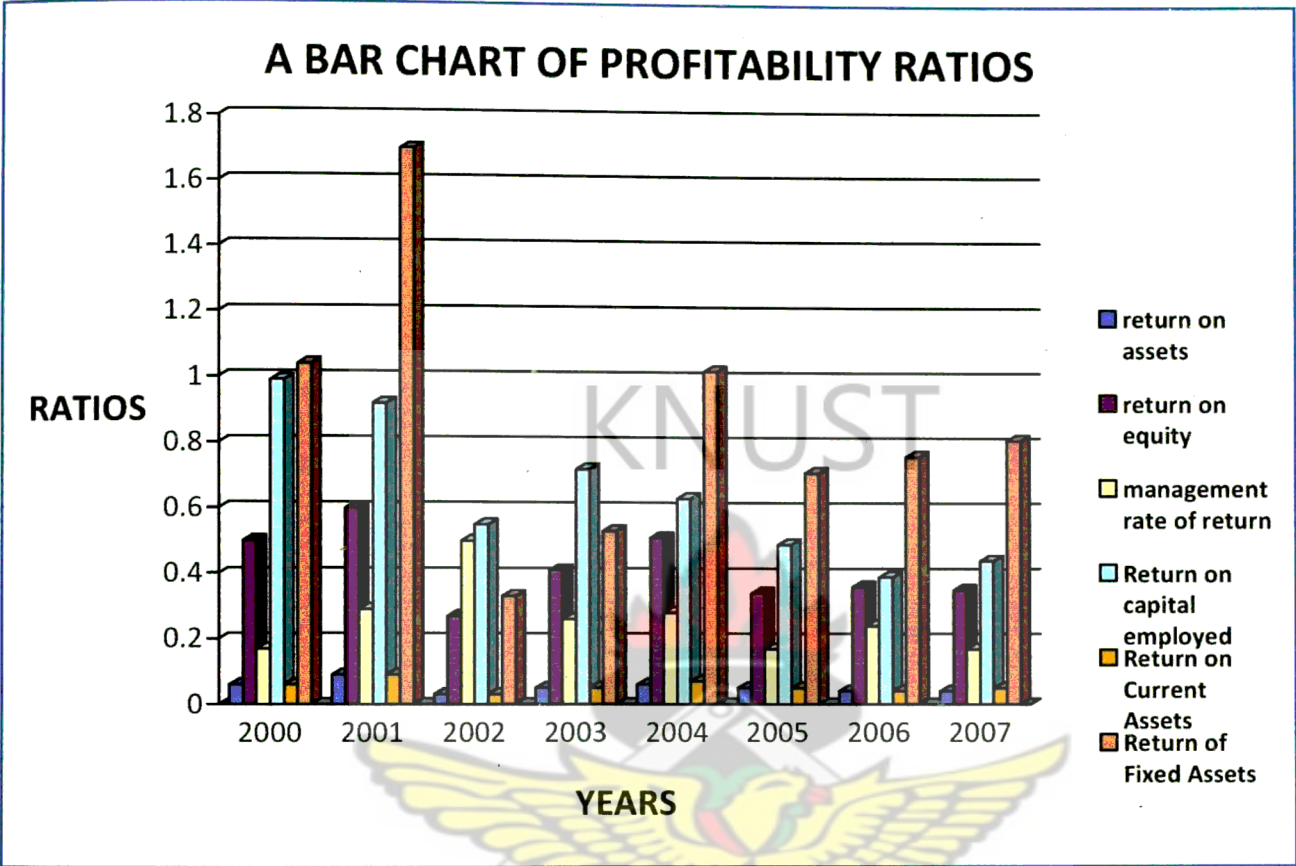
Ratios in this category show how Management have been able to use the resources of the bank to generate profit. The Return on Assets indicator recorded a highest in 2001 and the lowest in 2002. Since then it has been fluctuating. The highest value recorded in 2001 indicates that the bank was much efficient in using its real and financial resources to generate profit that year whilst the lowest indicates that Management has not been efficient in using its real and financial resources to generate profit. There was an average ROA value of 5.3% which falls below the industry average of 20% and therefore the bank has not been efficient in generating profit from its real and financial resources.

The Return on Equity indicator also showed a similar trend. It recorded a highest in 2001 indicating that Management has been efficient in using shareholder's funds to generate profit for the bank.2002 recorded the lowest value and for the other years it has been fluctuating. The ROE showed an average value of 41.8% far above the industry average of 10% .This is an indication of good performance.

Management Rate of Return which shows how efficient Management has been able to use its operating assets to realize operational income recorded a highest in 2002 indicating an impressive performance and since then has shown a fluctuating trend even though the difference in fluctuations is not much. Both the table and graph show that there is no constant downward trend therefore the bank is doing well even though it can do better.

The Return on Capital Employed indicator shows how management has been able to generate returns from the capital it employs. Over the years 2001 was the year where the bank generated the most returns from the capital it employed in its operations. Thereafter there has been a fluctuating trend till 2006 where it started to pick up. Comparing with the industry average of 20%, over the years there was an average performance of 64% which clearly shows an impressive performance.

The Return on Current Assets indicator tells how much returns are generated from current Assets. Again 2001 showed the best performance so far with the rest of the years showing fluctuating trends. The average Return on Current Assets value of 6% compared favourably with the industry average of 5% indicating a good performance and that the bank generates enough profit from the use of its currents assets.

With regards to the Return on Fixed Assets indicator the bank made a remarkable performance in 2000, 2001 and 2004 where figures are above 1. Performances in the rest of the years has not been outstanding but on the average the bank recorded a value of 86% which far exceeds the industry average of 2%.This shows that on the average the bank is able to generate enough profit from its fixed assets.

ANALYSIS OF LIQUIDITY

Table 4

YEAR/RATIO	2000	2001	2002	2003	2004	2005	2006	2007	AVERAGE
Current	1.07	1.11	1.02	1.03	1.07	1.09	1.07	1.08	107%
Cash	0.12	0.17	0.21	0.16	0.15	0.18	0.11	0.19	16%

The bar chart below gives a pictorial representation of the liquidity ratios

A BAR CHART OF LIQUIDITY RATIOS
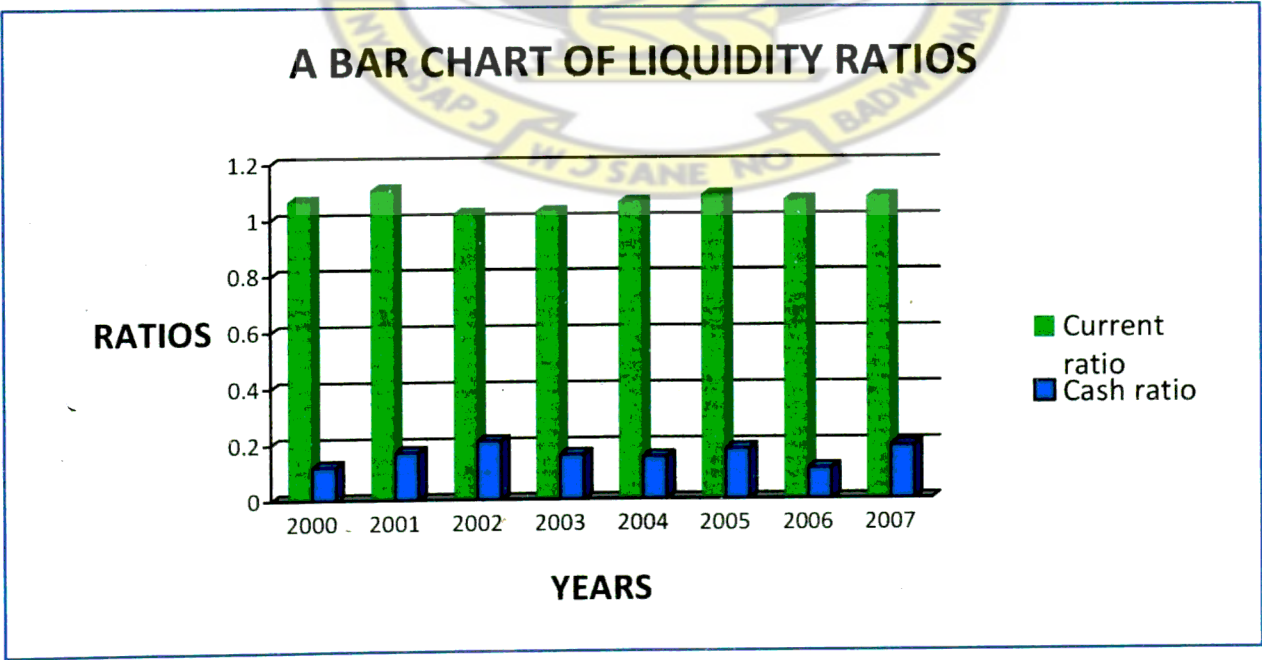
The current ratio shows how much assets the bank has to cover its liabilities. From the ratios calculated and from the graph, values over the years are greater than one indicating that the bank over the years had enough assets to cover its liabilities. It can be observed from the graph that the bank had much assets in 2001 to cover its liabilities. The value in 2002 showed a drop and started to pick up thereafter. On the average the current ratio for the year period under review is 107% which is quite below the industry average of 200% or 2:1.

The cash ratio is a short term measure of liquidity and it shows how much cash and cash equivalents are available to cover current liabilities. The values so far indicate that in the short term the bank is not able to meet its liquidity needs since the values for each of the years is less than one. 2000 through to 2002 has recorded increases in the value of the cash ratio. Therefore between 2000 and 2002 the bank's ability to cover its liabilities in the short term has been improving. After 2002 however the value of the cash ratio has shown a fluctuating trend. Observations reveal that the bank's current liabilities over the years have increased more than its cash and cash equivalents.

ANALYSIS OF GEARING

Table 5

YEAR	2000	2001	2002	2003	2004	2005	2006	2007	AVERAGE
Debt to Equity	7.602	5.939	8.172	7.781	7.709	5.896	7.561	7.154	7.2
Interest Coverage	2.313	3.334	2.134	2.603	3.974	3.049	4.739	3.244	3.2
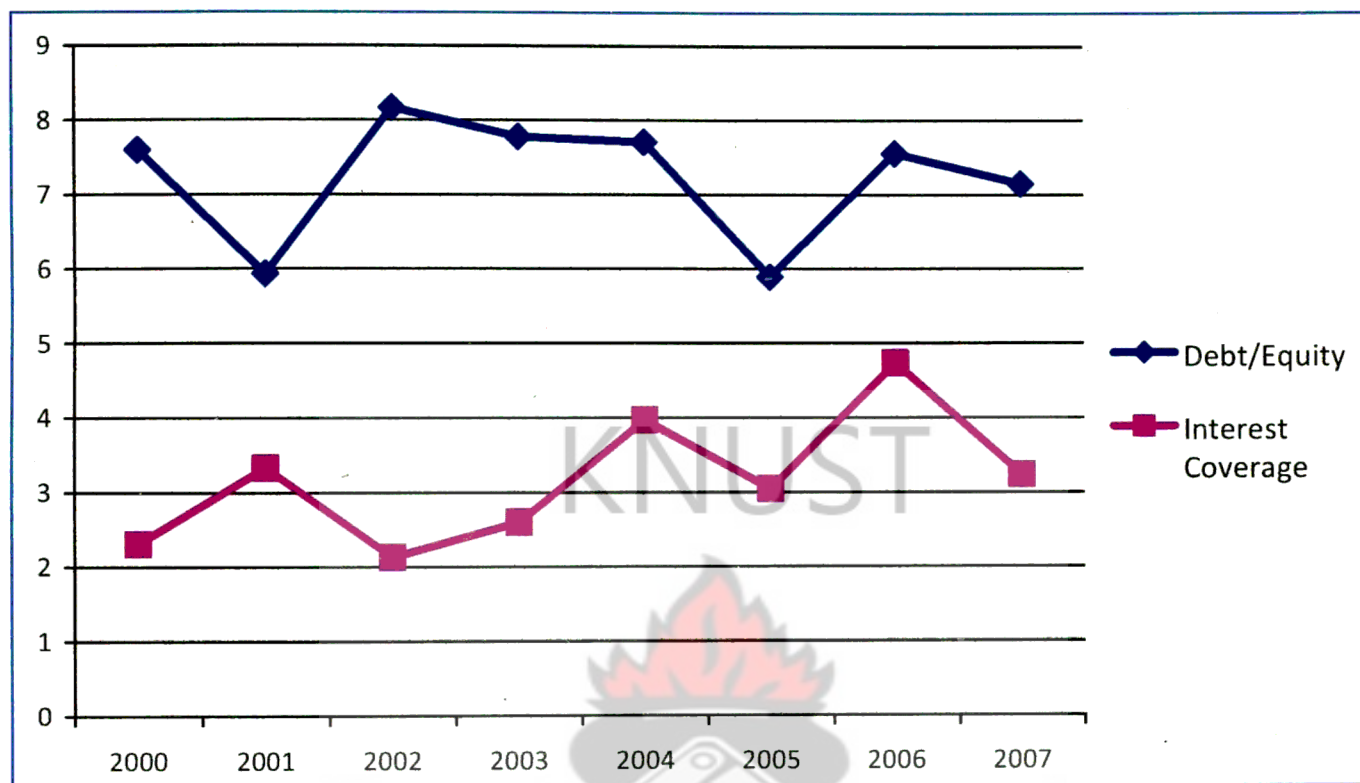
The debt/Equity ratio indicates the composition of debt and equity in the financing of a firm. It also assesses the risk with debt and equity financing. Values over the years are greater than one which clearly shows that the bank uses more debt stock than equity in financing its operations. In The values converted to percentage of debt-equity composition indicates that in 2000 the bank used 88.37% debt and 11.63% equity to finance its operations. In 2001 the debt-equity structure as compared to 2000 was 85.59% for debt and 14.41% equity reflecting a decrease in the stock of debt .2002 saw a much more increase in debt than equity as is reflected in the values of 89.09% and 10.91%.After 2002 the level of debt stock has decreased on a consistent basis. This is good for the bank since it is not good to continue to take debt at a particular point.

The interest coverage ratio which shows how the bank is able to pay its interest obligations out of Income Before Interest and Income Tax Expenses reveals on the average that the bank has

enough to even pay twice its interest expense since all the values are greater than one. The lowest value was recorded in 2002 and the highest in 2006. As a general rule of thumb, interest coverage ratio above 2 is good. An interest coverage ratio below 1.0 indicates that the business is having difficulties generating the cash necessary to pay its interest obligations. On the average the interest coverage ratio is 3.2 times which is good as compared to the industry average of 1.5 times.

ANALYSIS OF EFFICIENCY

Table 6

YEAR /INDICATOR	2000	2001	2002	2003	2004	2005	2006	2007	AVERAGE
Pro. For Bad and Doubtful debt to Int. Income	0.075	0.050	0.058	0.042	0.052	0.085	0.129	0.354	11%
Return on Earning Assets	0.07	0.10	0.03	0.05	0.07	0.08	0.05	0.06	6%

The graph below gives a pictorial representation

A GRAPH OF EFFICIENCY
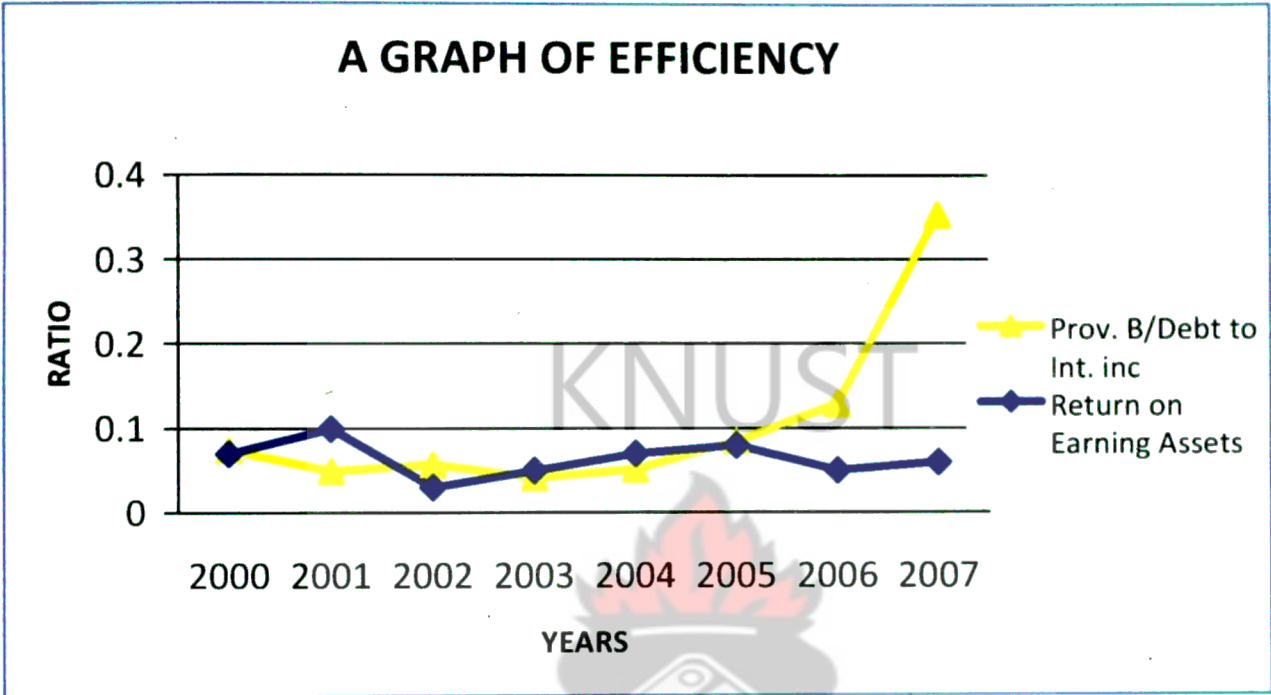
The Provision for bad debt to interest income tells how much interest income is generated to meet bad debt. All values are less than one showing that over the years there has been enough income from interest to cover bad debt. Both the table and graph shows that even as the provision for bad and doubtful debt has start increasing gradually after 2003 there has been enough income from interest to cover this provisioning.

The return on earning assets indicator which shows how well or otherwise the bank has been able to make returns from investments and advances had an average value of 6% and this is above the industry average of 2%.Therefore the bank is able to make enough returns from its investments and advances.

INVESTOR RATIOS

Table 7

YEAR/INDICATOR	2000	2001	2002	2003	2004	2005	2006	2007
Div per share	0.057	0.536	0.299	0.213	0.471	13.598	17.706	17.932
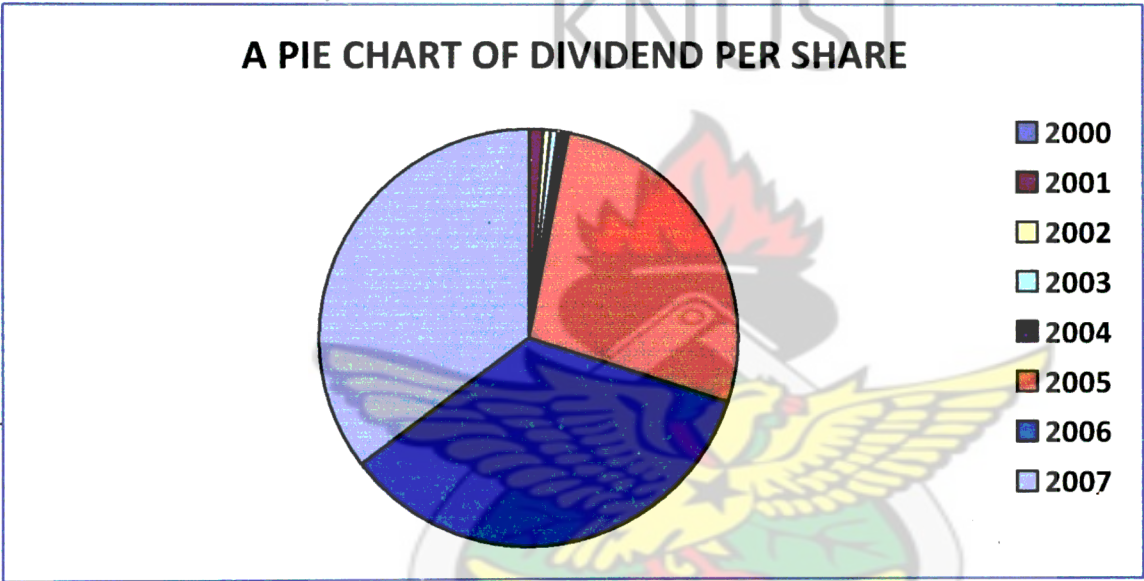
Dividend per share in 2000 was 0.057 and increased by 9.40 times in 2001.This is not surprising because dividend paid increased by 835.70% in 2001 whilst ordinary shares on the other hand increased only by 0.06%. 2002 saw a drop of 44.22% in dividend per share. An explanation for the drop is that whereas dividend paid fell by 44.05%, ordinary shares saw an increase by 0.33%.2003 saw a further decrease in dividend per share by a margin of 28.76%.The decrease in dividend paid for the year of 26.96% whilst ordinary shares increased by 2.64% accounted for this. After 2003 dividend per share has increased on a regular basis and this is attributed to the consistent greater increase in dividend payment as compared to ordinary shares.

ACTIVITY RATIOS

Activity ratios are used to measure the number of times the firm is turning over its assets.

Table 8

YEAR/RATIO	2000	2001	2002	2003	2004	2005	2006	2007	AVERAGE
Total Asset turnover	0.20	0.23	0.24	0.30	0.31	0.35	0.30	0.37	0.3
Fixed Asset turnover	3.53	4.62	2.73	3.45	5.41	5.04	5.48	7.02	5

A GRAPH OF ACTIVITY RATIOS
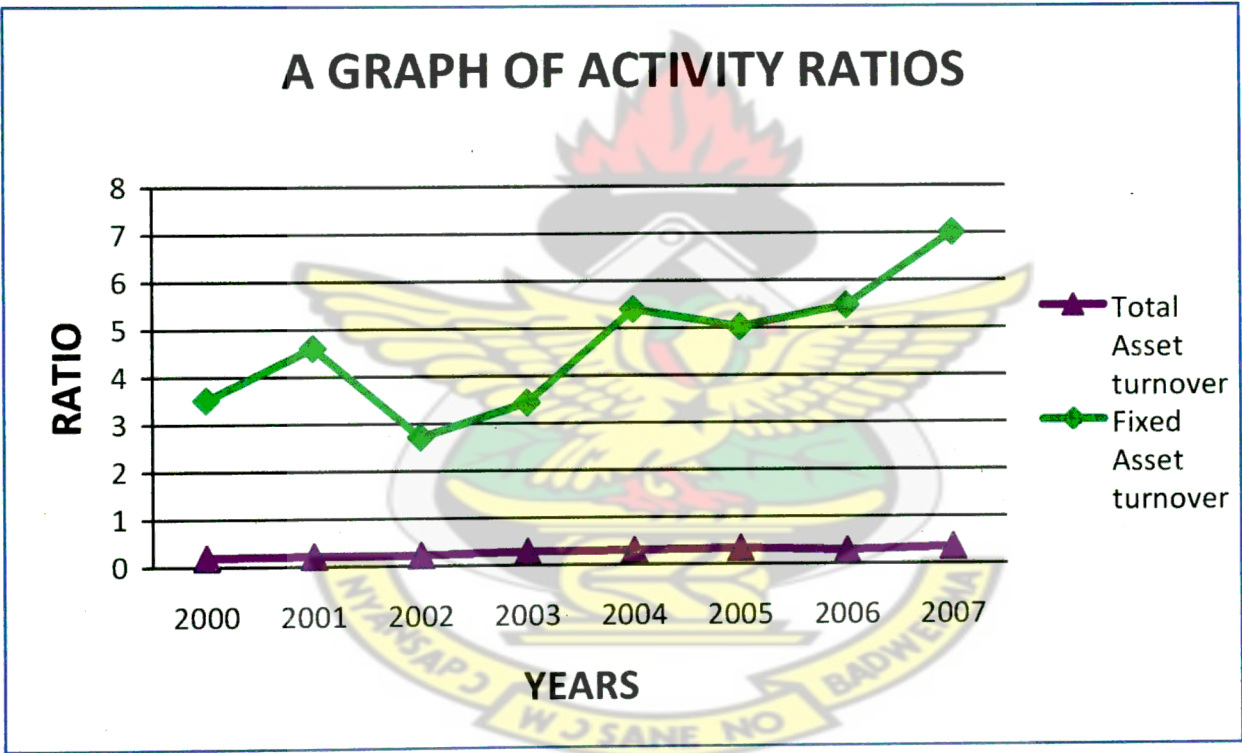
Total asset turnover has shown an increasing trend until 2006 were there was a drop in the ratio but however started to pick up in 2007. The average total asset turnover is 0.3 times which is below the industry average of 0.5times. This means that the bank does not make the required turnover from its total assets.

The fixed asset turnover ratio has not shown a consistent rise. The best performance so far is 2007 where the fixed asset turnover is 7.02times.The average fixed asset turnover of the bank for the period under review is 5times which is above the industry value of 3.5times.This is an indication of good performance.

4.2 ANALYSIS OF OPERATIONAL EFFICIENCY

Table 9

INDICATOR/ YEAR	Operational efficiency (X_1)
2000	0.718
2001	0.701
2002	1.166
2003	0.802
2004	0.743
2005	0.732
2006	0.813
2007	0.721

Source: Author's computation

The operational efficiency ratio shows how operating expenses can be settled by net interest income. A value of 0.718 shows that in 2000 the bank had quite a substantial net interest income to cover its operating expenses. The value increased by 2.236% in 2001and this was due to the fact that net interest income increased by a greater margin than operating expenses. The bank made enough efforts to control expenses on operations. In 2002 the bank could not cover its

operating expenses out of interest income as shown in the ratio of 1.166.This should be the case in that whereas interest income declined interest expenses and operating expenses rose beyond expectation. In 2003 the bank could cover its operating expenses out of net interest income and this is due to greater increment in net interest income than operating expenses.2004 saw a further improvement in operational efficiency by 7.36%.Operational efficiency improved in 2005 by 1.48% but declined in 2006 by 11.07% .Even though interest expense was not huge, operating expense more than net interest income.2007 saw a tremendous improvement due to a greater increase in net interest income than operating expenses.

4.3 ANALYSIS OF ASSET MANAGEMENT

Table 10

INDICATOR/YEAR	Asset management(X_2)
2000	0.0198
2001	0.0423
2002	0.0489
2003	0.0295
2004	0.0318
2005	0.0250
2006	0.0278
2007	0.0206

Source: Author's computation

Asset Management measured by asset utilization ratio shows the ability of Management to effectively manage its assets to generate income .Performance in 2001 increased as compared to

2000 by a margin of 113.364% and a plausible explanation is that in 2001 the bank started a Susu programme where it takes money directly from customers with the aim of depositing it. The bank with this move has generated a lot of income which was not obtained in 2000. 2002 saw a further improvement though by a small margin. 2003 however saw decline in the performance of Asset Management. Susu income which has been the greater contributor of operational income declined in 2003 and this triggered the decline in operational income resulting in a relaxed performance in asset management. Performance in 2004 through to 2007 has shown a fluctuating trend.

4.4 CORRELATION ANALYSIS

Correlation between operational efficiency and asset management

Table 11

YEARS	2000	2001	2002	2003	2004	2005	2006	2007
X_1	0.718	0.701	1.166	0.802	0.743	0.732	0.813	0.721
X_2	0.0198	0.0423	0.0489	0.0295	0.0318	0.0250	0.0278	0.0206
Rank of X_1 (RX_1)	7	8	1	3	4	5	2	6
Rank of X_2 (RX_2)	7	2	1	4	3	7	5	6
$D(RX_1 - RX_2)$	0	6	0	-1	1	-2	-3	0
D^2	0	36	0	1	1	4	9	0

Source: Author's computation

Using the Spearman's rank correlation coefficient;

$$\rho = 1 - \frac{6 \sum D^2}{n(n^2 - 1)}$$

$\sum D^2 = 51$

n=8

$\rho = 1 - \dfrac{306}{8(8^2-1)}$

$= 1 - 0.607$

$= 0.393$

KNUST

This shows that there is a positive moderate correlation between operational efficiency and asset management. Therefore increasing operational efficiency will consequently result in an increase in the performance of asset management. That is if Management want to see an impressive performance in terms of operational efficiency then asset management will be have to increase and vice versa

Correlation between operational efficiency and Asset size

Table 12

YEAR	X_1	X_3	Rank of $X_1(RX_1)$	Rank of $X_3(RX_3)$	$D(RX_1.RX_3)$	D^2
2000	0.718	1050292.23	7	8	-1	1
2001	0.701	2057584.92	8	7	1	1
2002	1.166	3677979.88	1	6	-5	25
2003	0.802	6140088.32	3	5	-2	4
2004	0.743	9467531.04	4	4	0	0
2005	0.732	10194201.02	5	3	2	4
2006	0.813	15059799.32	2	2	0	0
2007	0.721	19704524.90	6	1	4	16

Source: Author's computation

Using the Spearman's rank correlation coefficient;

$$\rho = 1 - \frac{6 \sum D^2}{n(n^2 - 1)}$$

$\sum D^2 = 51$

$n = 8$

$$\rho = 1 - \frac{6 \times 51}{8(8^2 - 1)}$$

$$= 0.39$$

This shows that there is a positive but moderate relationship between operational efficiency and bank's size (Total Assets). If the bank should increase its operational efficiency this will be positively reflected in its Assets such as interest income earned from loans and charges from customers .A decline in operational efficiency has a negative effect on Assets of the bank.

Correlation between Asset Management and Asset size

Table 13

YEARS	X_2	X_3	Rank of X_2(RX_2)	Rank of X_3(RX_3)	D(RX_2-RX_3)	D^2
2000	0.0198	1050292.23	7	8	-1	1
2001	0.0423	2057584.92	2	7	-5	25
2002	0.0489	3677979.88	1	6	-5	25
2003	0.0295	6140088.32	4	5	-1	1
2004	0.0318	9467531.04	3	4	-1	1
2005	0.0250	10194201.02	7	3	4	16
2006	0.0278	15059799.32	5	2	6	36
2007	0.0206	19704524.90	6	1	5	25

Source: Author's computation

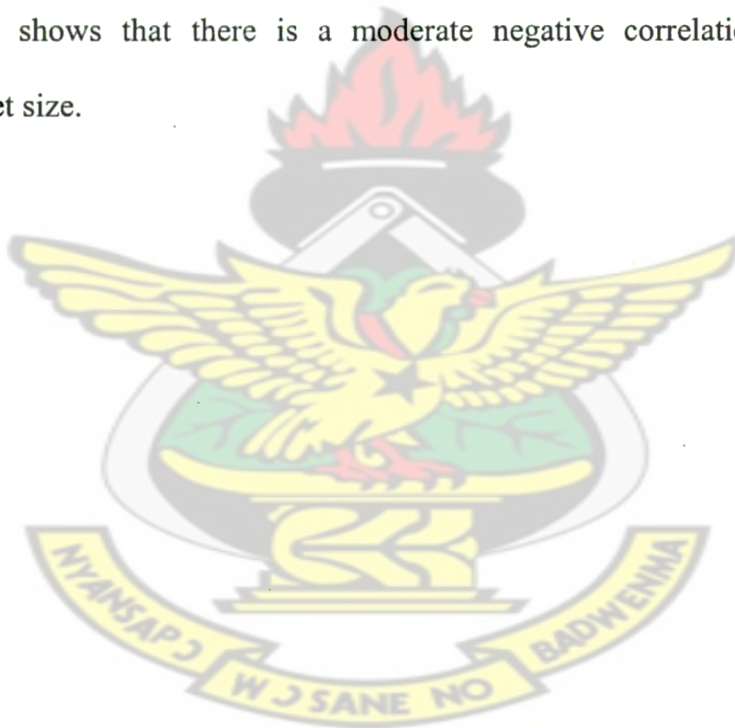Using the Spearman's Rank correlation coefficient;

$$\rho = 1 - \frac{6 \sum D^2}{n(n^2 - 1)}$$

$$\sum D^2 = 130$$

$$n = 8$$

$$\rho = 1 - \frac{6 \times 130}{8(8^2 - 1)}$$

$$= -0.548$$

The value of -0.548 shows that there is a moderate negative correlation between Asset Management and Asset size.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECCOMMENDATION

5.0 SUMMARY OF FINDINGS

Atwima Kwanwoma Rural Bank which started at Pakyi No. 2 has seen a consistent growth in its total deposits over the years considered in the research and this is due to the hardworking nature of its credit officers as they went round encouraging people to deposit with the bank in order to qualify them for loans. With regard to net advances there was higher growth rate between 2000 and 2004.The growth rate however declined between 2005 and 2007 due to the high rate of default between that period. Within the same period there were other attractive investments aside the issue of loans and overdrafts such as Government of Ghana Securities, Vanguard Assurance securities among others which caught the banks attention.

In terms of total assets the bank has consistently increased its assets which include cash balances and income generated from investment in securities, however investment in securities by the bank declined after 2005 due to the fall in rates. Number of customers and ordinary shares increased tremendously over the years. Analysis on the trend of growth in net profits revealed the bank has consistently grown its net profits.

Analysis of profitability of the bank reveals that the bank has been generating quite a considerable amount of profitability. Though the return on asset indicator shows that the bank is not doing well, the return on equity indicator for example has shown that the bank has over the years been efficient in generating profit from shareholder equity. The return on capital employed indicator among other profitability indicators also gave the picture of good performance.

In terms of liquidity, the ratio analysis reveal that the bank is not liquid enough since the current ratio fell short of the industry average of 200%. Also the cash ratio reveals that the bank has no enough cash and cash equivalents to meet its liabilities.

The debt/equity revealed that the bank is more debt financed than equity. This is not surprising because majority of its customers are from the rural areas and do not have much equity capital to invest in the bank but rather will deposit in order to attract interest. The interest coverage of 3.2 times was above the industry average of 1.5 times indicating a good performance.

In assessing the ability of the bank to meet its bad debt provisioning, the provision of bad debt to interest income revealed that the bank has generated a lot from interest to cover its bad debts and has consistently met the provisioning given by Bank of Ghana. The return on earning assets indicator also as a measure of efficiency recorded an average value greater than the industry. It therefore be said that the bank is doing well.

Dividend per share started to pick up after 2004 and this gives a good signal to investors who will want an equity stake in the bank that the bank rewards its shareholders as and when it is necessary to do so.

In assessing the bank's operational efficiency results reveal that the bank has been efficient in its operations except for 2002 and reasons were that interest income declined that year as compared to the previous year whilst interest expense and operating expenses rose.

In terms of performance in asset management there the bank could do better in order to maintain a consistent and good performance.

Correlation analysis conducted revealed that there exist a positive correlation between operational efficiency and asset management. Therefore the bank in its quest to increase its operational efficiency must also aim at increasing the ability to manage its assets. Results also show that there is a positive correlation between operational efficiency and asset size. The more the bank is efficient in its operations the more it can increase its asset base. Surprisingly results indicate that there exist a negative correlation between asset management and asset size.

5.1 CONCLUSION

Atwima Kwanwoma Rural bank since its establishment went through turbulent periods between 1989 – 1993 where it suffered higher staff turnover, fraud and Mismanagement among others and these affected its performance. In 1993 the bank was restructured and since then its performance has been improving. Even in the midst of the increased number of commercial banks posing competitive pressures the bank is not adversely affected. Strong Management, operational efficiency and commitment to good corporate governance explains Atwima Kwanwoma Rural Bank's performance. It can therefore be concluded that though liberalization of the financial sector has increased the number of players in the banking industry Atwima Kwanwoma bank, a rural bank has rose up to the challenge of competition and therefore is doing well.

5.1 RECCOMMENDATIONS

Additional information on financial statements

It is recommended that the financial statements of the bank have footnotes giving certain explanations in detail. This will help investors and researchers to be able to make proper analysis regarding the bank.

Creative Accounting

In the course of the research there were certain inconsistencies in the figures on the financial statements and it is hereby recommended that a second look be taken at the financial statements before they are published.

The development of automated systems to improve quality of performance

In order to remain competitive in the midst of increasing number of commercial banks it is recommended that the bank invests in automated systems such as Automated Teller Machines and proper IT infrastructure to promote E-banking. This in the long run would help increase the assets of the bank in that customers pay charges for using some of these facilities.

### Meeting short term liquidity needs

The bank's ability to meet its short term liquidity needs has been poor it is hereby recommended that steps are taken towards generating more income to meet it short term needs. It is also recommended that the bank take steps towards minimizing its current liabilities.

Relationship banking

Competition in the banking sector has been fierce and relationship banking is taking a centre stage. In order for the bank not to lose its customers to competitors it is recommended that the bank set up a relationship banking division in all their branches to give advice and to address the needs of their customers

Capital Structure

The capital structure of the bank is composed of more debt than equity. It is therefore recommended that the bank improves its equity composition. The bank can do this by enlisting on the stock exchange where it can float shares to the public.
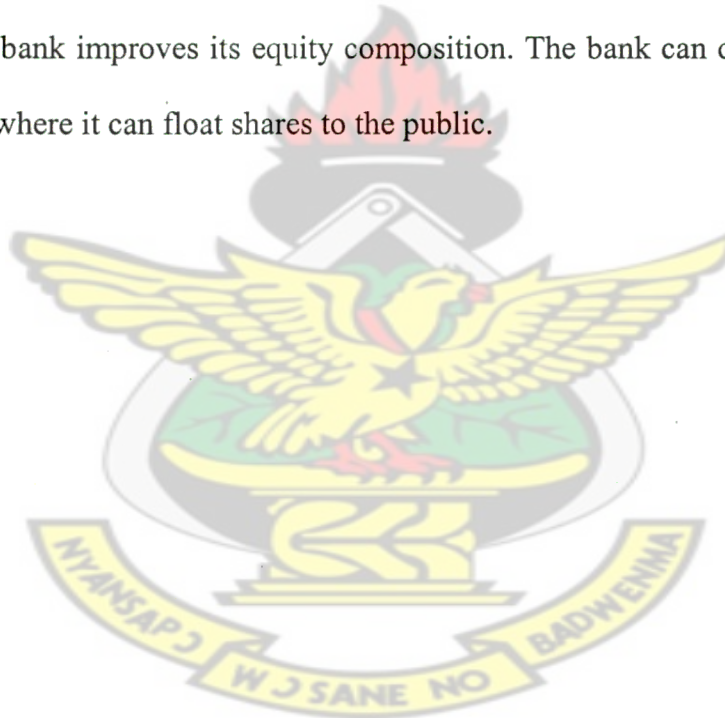
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