THE FINANCIAL PERFORMANCE APPRAISAL OF MPONUA RURAL BANK IN THE BIRIM NORTH DISTRICT IN THE EASTERN REGION

By

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A thesis submitted to the department of finance and accounting, school of business,

Kwame Nkrumah University of Science and Technology

In partial fulfillment of the requirement for the degree of

MASTER OF BUSINESS ADMINISTRATION (FINANCE)

KNUST School of Business

College of Art and social sciences,

August, 2009

DECLARATION

I hereby declare that this submission is my own work towards the Master of Business(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 parents, and brother and sisters for their love, support and prayers during my course of study at Kwame Nkrumah University of Science and Technology.

May the Almighty God richly bless them.

ABSTRACT

The performance of the banking industry is very significant in view of the tremendous role banks play in the economy. The financial intermediation of the banks has accelerated economic growth and development by providing credits especially to private sectors. However, in the wake of intense competition in the banking sector, most management and administrators of the rural banks have had their attention drawn to improving of financial performance of their operations.

The aim of this research is to appraise the financial performance of Mponua rural bank using ratio analysis from 2000 to 2008. The study appraised performance in terms of profitability, liquidity, leverage and investor ratios. In addition, the researcher considered deposit mobilization and customer base trend as well as loans trend.

The study made use of Annual Financial Statements in the form of profit and loss accounts and Balance sheets of the bank ranging from 2000 to 2008. Similarly, informal discussions were held to elicit responses from management and staff of the bank.

The result of the study was that the bank met her liquidity requirements during the period under study. Profit of the bank also increased fairly throughout the period with few variations sometimes causing the figures to fall slightly. Loans and advances to all sectors as well as deposit base did increase throughout the period.

It is recommended that, the bank should improve upon its profitability by granting more loans/advances to customers on reasonable terms, and reduce investment in stationery to make resources available to improve its liquidity position.

ACKNOWLEDGEMENT

I wish to gratefully acknowledge my indebtedness to some special people who in diverse ways helped me to make this research study a success.

I wish to render my sincere thanks to my supervisor, Mr. J. M. Frimpong, acting Dean of the school of business for his patience, diligence, useful comments and suggestions which helped me tremendously towards the successful completion of this research work.

I am most grateful to the management of Mponua Rural Bank especially the Supervising Manager, Mr. Victor Adu, his accountants, Mr. John Tommeti and Felicia Boamah and all other staff of the bank who took their time off the busy schedule to attend to me at the head office, Amuana Praso.

Also, my sincere thanks go to all my course mates who in diverse way contributed to the successful completion of this work, especially my room mate, Mr. Joseph Akanyako.

Finally, I wish to dedicate this work to my mother for her financial support and prayers throughout my studies. May Almighty God bless her abundantly in all her endeavours.

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1.0 INTRODUCTION

1.1 BACKGROUND TO THE STUDY

Governments across the developing world have intervened in rural financial markets in order to promote income expansion and alleviate rural poverty during most part of the World War II. From 1950's to the late 1980's, Ghana employed the directed credit approach to intervene in rural credits market. The Bank of Ghana made several attempts in the 1960's and 1970's to implement this approach by establishing a Credit Department charged with mobilizing investments funds for agriculture and the small scale sector in the early 1960s. At the same time, the central government implemented additional measures to promote rural development through the Directed Credit approach. By the end of the 1960's, institutional rural credit for smallholders was 'non-existent'.

Despite all government efforts including the imposition of sectorial credit allocation requirements on commercial banks by the early 1970's, only 9% of all commercial banks and development finance institutions went to agriculture and small scale sector (Yeboah, 1994). The formal financial sector did not only view agriculture as unprofitable due to high administrative cost associated with screening, monitoring and enforcing repayments on small loans disbursed over wide geographical areas, along with perceived default risk but also imposed stringent requirements such as provision of full business records and land titles as collaterals for credit. Institutional credit therefore was beyond the reach of Ghana's smallholders.

In the light of this, the bank of Ghana undertook a comprehensive study of the rural credit situation which resulted in the decision to establish the rural bank programme in 1976. Rural banks evolved as an economic development approach intended to benefit low income micro and small-scale entrepreneurs in the rural areas. They are created to perform financial intermediation to the rural people. Thus, rural banking concept is a development tool that can be used to alleviate poverty by providing financial service.

A rural bank is a unit bank owned and managed by the local community with a statutory operating radius of 38 kilometres. The characteristics of the rural bank (RB) have been summed up in the Rural Bank Operational Manual published by the Bank of Ghana as follows:

- A Rural Bank, a public limited liability company under the companies' code, is a unit bank. It is to mobilize savings and provide lending to the people within its radius of operation;
- A Rural Bank operates in the rural communities and specializes in the extension of credit facilities to small peasant farmers, fishermen, cottage industry operators and merchants;
- A Rural Bank belongs to the people in an area and its management and control are vested in the people;
- A Rural Bank shall have the power to engage in the business of banking within the framework and limitations and in the manner provided for in the Banking Law 1989(Decree 225) and in the guidelines issued by the Bank of Ghana.

The nature of the business which a Rural Bank carries out is to:

- Mobilize savings from residents in the rural community
- Accept cash and cheques for the credit on current and savings accounts

- Ensure a proper and accurate handling of all money transactions entrusted to the Rural Bank
- Provide trustworthy and sound accounting to their customers
- Accept securities for safe custody
- Provide loans and overdrafts for its customers
- Assist customers in respect of their activities with a view to consolidate, extend and develop their undertakings
- Engage in any economic activity that will promote social and economic development of the community.

The Rural Bank Programme, according to Yeboah (1994), contained many elements of the Directed Credit Approach. Each Bank is a formal financial institution and is subject to all national commercial bank legislations and requirement. In addition, each bank must adhere to specific sectorial credit allocation requirements, a minimum of 50% of its loan portfolio must be in Agriculture, a maximum of 20% can be in the Trade and Transport and 30% should go to cottage industries. The operation of Rural Community banks since its inception in 1976 had not only been encountering problems of weak management as a result of their inability to attract qualified and suitable personnel but also have low capital base since shareholders are normally poor and cannot make substantial investments. Besides, poor technology, lack of adequate communication facilities to promote modern banking operations and inadequate bookkeeping, poor internal control measures and lack of regular auditing and inspection are serious challenges that militate against its operation.

There is therefore that compelling effort or action to deepen understanding on how the financial performance system of the Mponua rural bank is being managed to improve the situation.

1.2 OBJECTIVE OF THE STUDY

The general objective of the study is to appraize and analyzes the financial performance of mponua rural bank in the rural banking sector and to recommend measures to improve its performance.

Other specific Objectives include;

1. To assess the bank deposit growth trends from 2000 to 2008.
2. To assess the sectorial allocation of loans and advances for the period.
3. To establish the viability of liquidity positions of the Bank
4. To analyze the adequacy of the capital, based on the level of activity by the bank;
5. To ascertain problems militating against the performance of Mponua rural bank's activities as financial institution.

1.3 RESEARCH QUESTIONS

1. What has been the trend of the Mponua rural bank operational lending practices from 2000 to 2008?
2. What are the trends in deposit growth of the bank from 2000 to 2008?
3. Which sectors does the bank channel most of its advances and loans to?
4. How efficiently does the bank employ the resources at its disposal?
5. What is the growth of the bank in term of revenue and profit and its expenditure?

1.4 METHODOLOGY

Data that would be used are normally of the secondary type. Data would be gathered from the financial reports of the bank. Other secondary sources of data will come from bank's newsletters and annual reports of the bank. The secondary data will be supplemented by primary data. The primary data are to be gathered through informal discussion. Moreover, both descriptive and quantitative methods of data analysis will be used.

1.5 STATEMENT OF THE PROBLEM

The competitive banking environment had made the business of banking challenging which called for seasoned board of directors and management who could live up to the task of managing to improve upon the lending rate practices of rural banks.

Some management and directors of rural and community banks do not have the competence and experience needed to manage a bank (Twumasi, 2006). The consequences are that, some Rural Banks have not had only lending practice problems but also customers' deposits and repayment rate had dwindled which had led to poor practices and subsequent closure. Sometimes, loans are not sent to the required area or sector and corporate social responsibilities of some of the banks have been relegated to the background.

1.6 SIGNIFICANCE OF THE STUDY

The availability of the empirical data would help the general public and other stakeholders to assess the lending practice system of the Mponua rural bank and to make suggestions for improvement.

The study will not only bring to light critical lending performance indicators of the bank to assist prospective investors in their investment decisions but also deposit growth of the bank. Furthermore, the findings of the research will serve as a document of reference to students, lecturers and other researchers investigating into rural banks activities in Ghana.

1.7 SCOPE OF THE STUDY

The study would cover a 9-year period i.e. 2000 to 2008 (both years inclusive) and would involve only Mponua Rural Bank. Ratios that would be used included profitability, liquidity, leverage and investors ratios as well as other monitoring indicators to determine the performance trend for that period. Also, the corporate social responsibility would be considered.

1.8 LIMITATION OF THE STUDY

There was some difficulty in obtaining data due to the confidentiality associated with information concerning the bank financial statements. Also, due to non-availability of industrial benchmarks for the Rural Banking Industry, intra-firm analysis was conducted which made findings of the study applicable only to Mponua rural bank. In addition, some amount of limitations came from limited funds to time constraint which made the study being extended to other banks difficult.

1.9 ORGANIZATION OF THE STUDY

The study is divided into five chapters. Chapter one introduction addressed the general background of the rural banks in Ghana. In Chapter two, the literature review analyzes some previous work done before and theories on financial performance appraisal related to rural banks in Ghana.

Chapter three looks at the methodology and the profile of Mponua rural bank. Chapter four focuses on analysis of data collected. Lastly, chapter five deals with findings, conclusions and recommendations of the study.

1.10 HYPOTHESIS

The general overviewed of financial performance of the rural bank, reviewed of relevant prior literature, research questions and sets of objectives have led to the following to be tested:

- The rural bank is not bankrupt
- The sound financial performance enhances the shareholders' wealth maximization

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 INTRODUCTION

This chapter seeks to find out what others have written about the subject matter. The section primarily deals with what other authors have done on this subject matter. Both theoretical and empirical literature on performance had been reviewed. All the ratios considered in determining performance appraisal were also discussed. Ghana's financial structure and banking industry from its development to the present condition, their products and the role of rural banks were all reviewed.

2.2 HISTORY OF BANKING AND OTHER FINANCIAL SERVICE FIRMS

According to historical records, banking is the oldest of all financial service professions. Now, the question is 'where did these powerful financial institutions come from'?

Linguistics (the science of language) and etymology (the study of word origins) tell us that the French word 'banque' and the Italian ' banca' were used centuries years ago to refer to a "bench" or "money changer's table". This describes quite well what historians have observed about the first bankers offering their services more than 2000 years ago. They were money changers, situated usually at a table in the commercial district, aiding travelers by exchanging foreign coins for local money or discounting commercial notes for a fee.

The earliest bankers pledged a lot of their own money to support these early ventures but it was not long before the idea of attracting deposits and loaning out those same funds emerged. Loans were granted to shippers, landowners, and others at interest rates as low as 6% to as high as 48% a month for the riskiest ventures. Most of the banks were Greek in origin.

In 1953 the Bank of the Gold Coast was set up by the Government and Alfred Engleston, formerly of the Bank of England. Eventually the Bank was split into two: the Bank of Ghana, operating as a bank of issue, to be developed into a complete central bank; and the Ghana Commercial Bank, to be developed into the largest commercial bank with a monopoly on the accounts of public corporations.

On March 6, 1957 the Gold Coast attained independence from Great Britain and became known as Ghana. In July, Alfred Engleston was appointed as the first Governor of the Bank of Ghana. As expected, the Bank of Ghana took over the management of the currency and in July 1958 issued its first National Currency - the Cedi - to replace the old West African currency notes. The Ghana Commercial Bank assumed the role and functions of Government bankers and began to take over the finances of most Government departments and public corporations.

The Bank of Ghana quickly developed into a strong competitor of the expatriate banks by opening branches in most of the towns and centres in which they had been operating as well as moving into new areas such as the Ashanti and the Northern Regions.

The advent of the new Government, elected by popular vote in 1957, brought the establishment of more banks. Banks incorporated by legislation between the periods

1957 to 1965 include: the Ghana Investment Bank as an Investment Banking Institution; the Agricultural Development Bank for the development of Agriculture; the Merchant Bank for merchant banking; and the Social Security Bank to encourage savings. In conformity with the economic policy of the time all these institutions were incorporated as state-owned banks.

The first national Government commenced its tenure with a large surplus on its Balance of Payments Account and with a comparatively good infrastructure to enable it to succeed. However, by 1963 it was becoming increasingly clear that the country was experiencing serious economic difficulties due to its Socialist policies. In 1961, Exchange Control had been extended to cover all payments to non-residents and to all places outside Ghana; to imports and exports from or to all countries; and to the issue and transfer of almost all securities to or by non-residents.

These economic difficulties led to a change in Government in 1966. However, the country continued to face economic problems until 1983 when, in an attempt to reverse the situation, the Government, with the assistance and guidance of the International Monetary Fund (IMF), introduced the Economic Recovery Programme (ERP). This signaled the end of Socialism in Ghana and provided a useful tool for economic development by embracing the market economy; privatization; the liberalization of trade and financial restrictions; and the divestiture of Government interests in public corporations.

Import licensing was quickly abandoned and exemptions were granted in relation to many of the restrictive clauses of the Exchange Control Act. Furthermore, an

Investment Code was enacted to make provision for the relaxation of many of the earlier restrictions in trade and finance and to encourage private investments. These newly adopted concepts were incorporated into legislation, particularly in regards to banking, non-banking financial institutions and securities.

Furthermore, the Banking Law was enacted in 1989, enabling suitable locally incorporated bodies to file applications for licenses to operate as banking institutions. Subsequently, a number of corporate entities were licensed to operate as banks, including Meridian (BIAO) Trust Bank, CAL Merchant Bank, Allied and Metropolitan and ECOBANK.

Provision is made for the licensing of non-banking financial institutions under the Financial Institutions (Non-Banking) Law 1993 (P.N.D.C.L. 328). This legislation makes provision for the licensing of non-banking financial institutions seeking to operate as inter alia, discount companies, finance houses, building societies, or leasing and hire-purchase companies. Such institutions now include the Home Finance Corporation which provides finance for the acquisition of houses and the City Savings and Loans Limited which grants various forms of financial assistance and accommodation to small scale business enterprises (Vidal, 1999).

2.3 THEORETICAL FRAMEWORK ON PERFORMANCE

Different frameworks and reference models for measuring business performance have evolved from a variety of origins. Frameworks are approaches to measurement that businesses frequently adopted, often with significant diversity in their design and use. The various frameworks looked at included balanced scorecard, economic value added, among others.

Specifically, business performance measurement (BPM) and control systems are the formal, information-based routines and procedures managers use to maintain or alter patterns in organizational activities (Simmons, 2000). A typical performance measurement helps businesses in periodically setting business goals and then providing feedback to managers on progress towards those goals. The time horizon for these goals can typically be about a year or less for short-term goals or span several years for long-term goals (Simmons, 2000). Since a BPM system measures performance, it is important to define what performance is? According to (Lebas and Euske, 2002), they provide a good definition of performance as "doing today what will lead to measure value outcomes tomorrow." BPM then is concerned with measuring this performance relative to some benchmark, be it a competitor's performance or a preset target.

2.4 EMPIRICAL EVIDENCE ON PERFORMANCE MEASUREMENT

A lot of empirical evidences had been done in this respect by the students of this great institution.

According to (Amina, 2004) in his review and analysis of the performance of Guinness Ghana Limited from 1992 to 2002, calculated various ratios including profitability, leverage and activity and its correlation. He compared the ratios calculated with industrial index and concluded that the liquidity position of the company was higher than those in the industry as a result of the tremendous increase in profit from 4.16% to 20.7%.

Moreover, (Kumah 2005) in his thesis assessed performance in Micro Financing in First Allied Savings and Loans Limited considered liquidity ratio, efficiency and profitability, deposit mobilization trend as well as corporate social responsibility. The researcher adopted the trend analysis of the firm and compared it with the international micro-financing industrial average. His conclusion was that the average liquidity ratio for the seven years of the company was 40% compared with international industrial average of 15%, and that indicated high average performance.

Also, (Sulemana 2005) in his thesis titled financial performance of Ghana Water & Sewerage Company (GWSC), conducted trend analysis from 1994 to 2003 using financial ratios. Ratios calculated included liquidity, activity and fixed asset turnover which brought to light the poor liquidity state of affairs of the company for the stated period.

2.5 MEASURING OF BANK'S PERFORMANCE APPRAISAL

Performance refers to how adequately a financial firm meets the needs of its shareholders (owners), employees, and depositors and other creditors, and borrowing customers. At the same time, financial firms must find a way to keep government regulators satisfied that their operating policies, loans and investment are sound, protecting the public interest (Peter and Sylvia, 2008).

Appraisal refers to a critical review with a view to improve performance. It evaluates the actual performance in the light of predetermined targets, measures deviations in between actual and targets, locate alternatives and suggest remedial action. Therefore, the term performance appraisal can be defined as a critical assessment or evaluation of various activities in different area of operation of an organization (Agarwal, 2003).

Moreover, (Kohler, 1985) referred to performance as "a general term applied to part or all of the conduct or activities of an organization over a period of time, often with reference to some standard such as past or projected costs, an efficiency base, management responsibility or accountability". For the purpose of this research, this definition given by (Kohler, 1985) was used as the working definition.

2.6 FINANCIAL RATIO ANALYSIS

Among all the definitions given above in terms of performance, performance needs to be measured by established methods which included ratios. Ratio analysis is normally applied to financial statements and other similar data in order to assess the performance of the bank; to find out whether it is solvent and financially sound; to assess the risk attached to its financial structure; and to analyze the returns generated for its shareholders and other interested parties.

Analysis is also done when a financial analyst evaluates performance over time. Comparison of current to past performances utilizing ratios analysis allows the company to determine whether it is progressing as planned.

According to (Weston and Copeland, 1989), they asserted that ratios are snapshots of the position as at one point in time, but there may be trends in motion that are in the process of rapidly eroding a relatively good present position or that may suggest that a relatively weak position is improving at a rapid rate. The analyst can observe developing trends by using many years comparisons, knowledge of these trends should assist the company in planning future operations.

A financial ratio is simply a comparison of two measurements of a business to each other. Thus, it helps us to identify some of the strengths and weaknesses of a company. The ratios give us two ways of making meaningful comparisons of a firm's financial data; either by examining the ratio across time to identify any trends or to compare the firm's ratios with those of other firms. Data for financial ratios come from the balance sheet, the cash flow statement, and the income statement. The balance sheet is a listing of the assets and liabilities of the business and the resulting equity on a given date. Equity is the difference between the assets and the liabilities. A cash flow statement records the cedis going in and the cedis going out of a business. It shows where the money comes from — the inflow of cash — and where the money goes — the outflow of cash. The income statement is a listing of the receipts and the expenses of a business, including depreciation, and the resulting net income for a specific period.

Financial ratios can be put to many uses. They may be used by a business manager in managerial analysis; they also may be used by a lending agency in credit analysis; and they may be used by an investor in investment analysis. Thus, it must provide information that will aid in evaluating the effectiveness of the business, and in decision making.

2.7 CATEGORIES OF RATIOS FOR THE STUDY

Computation and interpretation is used if the researcher uses some sort of analytical framework when using financial ratios for analyzing financial performance. According to Weetman, (1999) cited by Denzil, 2007 suggests that a systematic approach to ratio analysis should initially establish a broad picture, before focusing on area of concern. A systematic approach to ratio analysis is also facilitated by using ratio pyramids as an analytical aid, but the study focused on the division of ratios into groups or categories which are linked to particular areas of concern.

There is widespread agreement on the main ratios included in each category, even though the same category may be given different names by different authors. In general, there are 4 kinds of financial ratios that a financial analyst will use most frequently, these are:

2.7.1 LIQUIDITY RATIOS

Liquidity measures the ability of a business to meet short term financial obligations as they fall due in the ordinary course of business, without disrupting the normal operations of the business. The normal obligations that are expected to mature in one year are called current liabilities and are usually paid through the use of assets that are expected to be converted to cash within a year called current assets. It is composed of two types, namely current ratio and quick or acid-test ratio.

Current ratio:

Current ratio measures a company's ability to meet its financial obligations as they fall due, and is given by the ratio current assets to current liabilities. In other words, it indicates the extent to which current assets, if liquidated, would cover current liabilities. A ratio of 1.50 indicates that the company has 1.50 of current assets for every cedi of current liabilities. It is often said that normal current ratio should be around 2.00.

Quick ratio:

It is argued that the current ratio may overstate the ability to meet financial obligations because it includes stock. It is particularly costly to convert stocks to cash in a panic situation since it might mean liquidating stocks at very low prices. The quick ratio adjusts the current ratio by subtracting the amount of stocks from current assets. In effect, the quick ratio compares liquid current assets with short-term liabilities. The common rule of thumb is that it should be closed to one.

2.7.2 PROFITABILITY RATIOS

These ratios indicate how successful the managers of a company have been in generating profit. These ratios offer several different measures of the success of the firm at generating profits. They include return on capital employed, net profit margin, net asset turnover and gross profit margin.

2.7.3 LEVERAGE RATIOS

These ratios show 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, debt to assets ratio, and equity multiplier.

2.7.4 INVESTOR RATIOS

These will primary be used by investors and analysts in order to decide whether they should buy or sell the shares of particular companies. Ratios in this category include return on equity, dividend per share, earnings per share, dividend cover, price/earnings ratio and dividend yield.

2.8 STRUCTURE AND PERFORMANCE OF RURAL AND MICRO FINANCE INDUSTRY

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

Formal: Formal financial institutions are those incorporated under the Companies Code 1963 (Act 179), and licensed by the Bank of Ghana (BOG) under either the Banking Law 1989 (PNDC 225) or the Financial Institutions (Non-Banking) Law 1993 (NBFI Law) to provide financial services under Bank of Ghana regulation. Rural and Community Banks (RCBs) operate as commercial banks under the Banking Law, except that they cannot undertake foreign exchange operations, their clientele is drawn from their local catchments area, and their minimum capital requirement is significantly lower. Among the nine specified categories of non-bank financial institutions (NBFIs), the Savings and Loans Companies (S&Ls), which are restricted to a limited range of services, are most active in micro and small-scale financial intermediation using microfinance methodologies.

Semi-formal system: Non Governmental Organizations (NGOs) and Credit Unions (CUs) are considered to be semi formal; that is, they are 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.

Informal system: 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 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 (17 in total) and reaches only about 5% of households, most of which are excluded by high minimum deposit requirements.

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

2.9 TRANSFORMATION OF GHANA'S BANKING INDUSTRY

The banking industry in Ghana started from latter part of the nineteen century, taken one step at a time to arrive at where it is today in the 21st century. Because there was no uniform currency in Ghana especially along the entire west coast of Africa until 1880, trade was conducted in cowries, shells and other tokens (Ghana Association of bankers, 2007).

From 1960 to 1983, the early part of the period was characterized by the establishment of predominately state owned banks, and strict exchange regulations (exchange control act). The exchange control act was enacted to primarily establish a system of control over imports and exports and capital movements. Restrictions were placed on the remittances of capital in any form including foreign exchange currency out of Ghana. During this period, the central bank of Ghana under the provisions of bank of Ghana act 1963 was given the duty to regulate and direct the credit and banking system in accordance with the economic policy of the government (Ghana Association of bankers, 2007).

In 1983, the banks accounts of many of the large state owned industrial and agricultural institutions reflected very huge bad debts and non performing loans. Rigid controls over exchange rates and interest rates chargeable by banks at that time made it almost impossible for the economy to show rapid growth through the banking system lending to the private sector was at its lowest level.

In 1988, the government embarked on a financial sector reform progamme to undertake the restructuring of financially distressed banks including privatization in certain cases such as soundness of the banking system through an improved regulatory and supervisory framework, and at the same time encourages healthy competition among banks. The banking industry saw a positive development as a result of the financial sector reforms programme of 1988.

There are twenty three (26) licensed banks all operating competitively whereas there were nine (9) banks in 1988. ARP apex bank limited which is the umbrella bank for the rural community banks today supervises and provides administrative support for over 123 rural banks in the country.

The deposit taking of non bank financial institutions (NBFIs) have also increased considerably offering an ever increasing number of banking products to the public. The 1980 banking law (PNDC Law 225) and its successor have helped in no small way to strengthen the licensing, regulatory and prudential supervisory powers that the bank of Ghana has over the banks. In order to preserve the interest of depositors, Bank of Ghana has under the Act 673 (The Banking Act) been given extensive powers to examine banks issues, desist orders and, it deems necessary, to assume control of banks that are financially weak or not in compliance with the provision of the banking Act (Ghana Association of bankers, 2007).

2.10 CHANGES IN BANKING SERVICES

The changes taking place in the banking sector has led to ever increasing number of innovative banking products being created and introduced to make it possible for the banking services to be delivered to customers more efficiently. Some of these changes include computerized on line banking whereby customers at home may instruct the bank to comply with orders to allow withdrawals of money and effect payment to specified parties without necessarily going to the bank premises. Also, the usage of 'telephone banking' whereby the customer can use coded instructions to his bankers to either debit his account and credit another person's account or vice versa. The future of the financial services industry should be one that is vibrant and well anchored in financial stability and a stable and predictable legal and regulatory framework, better to serve as a pillar for economic growth as quoted by Governor of Bank of Ghana (Ghana Association of Bankers, 2007).

2.11 GHANA'S RURAL BANKS

Since its independence in 1957, the Ghanaian government has made several attempts to promote rural development in an effort to increase the living standard of the people who reside in rural areas (Kudiabor, 1974). These projects have failed for several reasons, including the power of lobbying groups, the high cost of living for farmers, and the lack of coordination between government agencies (Brown, 1986). In the last three decades, the Ghanaian government has instituted new changes in government organization and developed new sources of rural credit to encourage private investment.

The first rural bank in Ghana was founded in July 1976. A rural bank is a community owned and managed bank, with initial financial and technical support of the central bank of Ghana, Bank of Ghana (BoG). The need for rural banks arose by the turn of the 1970s as it became clear that previous formal institutions formed with the goal of replacing the perceived "harmful" informal operators, especially moneylenders, and intermediating credit to the rural sector of the economy - upon which Ghana's agricultural economy depends - had been failing to achieve their objectives. These attempts began in the 1920's with the formation of cooperatives, taking a new turn in the 1950s with government financed loans schemes. and in the 1960s special banks - National Investment Bank and Agricultural Development Bank. Commercial banks. notably the Ghana Commercial Bank. were also involved in these rural credit schemes. But rather than giving credit to the rural producers, these banks were draining the rural areas of savings, to be invested in the commercial and housing sectors in the urban areas.

These earlier failures were attributed to the nature of large organizations, employing bureaucratic imperatives such as demand for collateral security and written documentation, which the rural people could not meet. Thus large institutions are regarded as structurally biased against the rural poor.

It is in reaction to this state of affairs that the BoG initiated action, based on early models of community banks springing up in Asia (Philippines, for instance), culminating in the formation of the first rural bank. By December 1992, there were 123 rural banks in Ghana (Kwawukume, 2003).

2.12 THE NEED FOR THE RURAL CREDIT

The 1992 Constitution of the Republic of Ghana makes a commitment to rural development as part of a national strategy to improve the living conditions in rural areas. In an effort to mitigate the government agency coordination problems, the constitution incorporates a decentralization approach under which the national government establishes political and administrative Regions and Districts. The decentralization follows a fused hierarchy model, with close ties between the center and periphery. Ghana's District Assembly system requires government appointees and elected representatives to plan district activities together. Local participation for rural development is fostered. There is anecdotal evidence that the efforts of the District Assemblies are making improvements in the lives of the rural people. The primary areas of development have included the rehabilitation and building of new schools, feeder roads, place of convenience (public toilets), market places, health centers, and water treatment facilities.

Despite the District Assembly governments' successes, the national government has recognized a need for rural credit. Access to rural credit increases the participation of rural people in development activities. A rural credit policy that mobilizes rural resources and redistributes them to the rural sectors creates the potential for more development.

Traditionally, rural development credit has been provided by two types of sources: institutional and non-institutional. In rural communities, non-institutional credit is provided by moneylenders, relatives, friends, traders, commission agents, cooperatives, consumers, distributors of farm inputs, and processors of agricultural products. Research has shown that the most common providers of loans in rural areas are friends and relatives who usually charge no interest or collateral (FAO 1994). This credit market is small, however, and the total credit from these non-institutional sources is insufficient to implement rural development programs. For rural development to proceed at a smooth pace, larger institutional sources of credit need to be created. In Ghana, institutional sources of credit are the commercial banks, the Agricultural Development Bank, the National Investment Banks, and the Bank of Ghana Rural Banks. Until recently very few rural people, other than wealthy farmers and businessmen, had access to credit from these sources. The lack of interest in small rural credits by the National Investment Bank and the commercial banks is explained by the high cost of administering a large number of small credits spread over a wide area, coupled with the comparatively high level of default that has often accompanied small credits. The inability of rural borrowers to offer adequate security for loans, and the enormous risks associated with agricultural production, are the typical reasons given for the urban-based bias of commercial lending. The Agricultural Development Bank was created to service the rural sector in particular. It too, however, eventually began to concentrate on traditional urban-based banking activities.

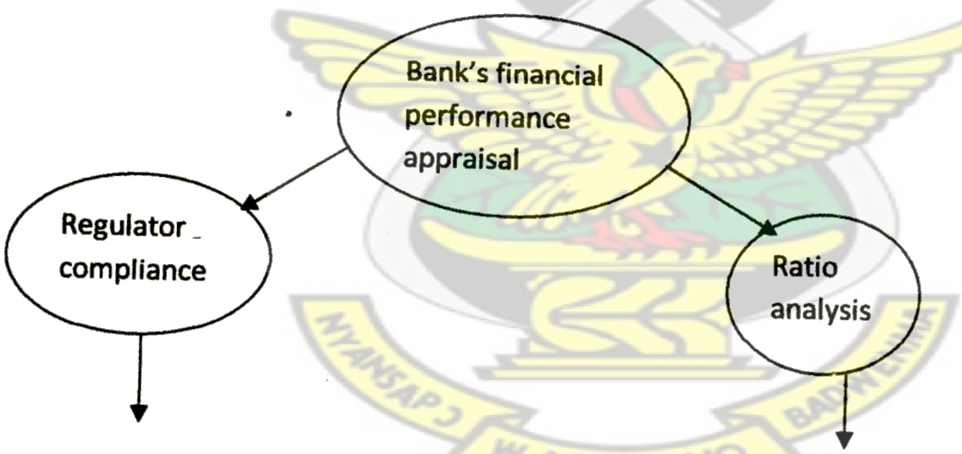
To overcome many of these difficulties, the Ghanaian government, through the Bank of Ghana, introduced the idea of rural banking into the country in 1976. According to the Association of Rural Banks (1992), "The aims of Rural Banks are:

i. To stimulate banking habits among rural dwellers;

ii. To mobilize resources locked up in the rural areas into the banking systems to facilitate development; and

iii. To identify viable industries in their respective catchments [areas] for investment and development."

2.13 CONCEPTUAL FRAMEWORK



a. Capital adequacy ratio

a. Ratio for evaluating Operating performance

b. Ratio for evaluating asset quality

CHAPTER THREE

3.0 METHODOLOGY AND PROFILE OF MPONUA RURAL BANK

3.1 INTRODUCTION

This chapter discusses the research design and techniques. It also discusses the instruments used in the data collection, the procedure for data collection and the method for data analysis. It also looked at the profile of the Mponua rural bank.

3.2 RESEARCH DESIGN

Research design is a strategy that would be used to embark on the research activity. As there are many strategies available, and every research must have appropriate strategy, the case study strategy was employed in this instance. Case study is defined as the development of detailed, intensive knowledge about a single 'case' or a small number of related 'case' (Robson, 1993).

This strategy is of particular interest if it is intended to gain rich understanding of the context of the research and the processes being enacted (Morris and Wood, 1991). Furthermore, case studies emphasize detailed contextual analysis of a limited number of events or conditions and their relationships.

Critics of the case study method believe that the study of a small number of cases can offer no grounds for establishing reliability or generability of findings. Others feel that the intense exposure to study of the case biases the findings. Some dismiss case study research as useful only as an exploratory tool.

In spite of this, researchers continue to use the case study research method with success in carefully planned and crafted studies of real-life situations, issues and problems. Social scientists, in particular, have made wide use of this qualitative research method to examine contemporary real-life situations and provide the basis for the application of ideas and extension of methods.

Data collection method employed for case study may include questionnaires, interviews, observation and documentary analysis.

The study would be depended on the primary data obtained from an informal discussion held with selected staff of the bank. Moreover, secondary data in the form of annual reports and financial statements were obtained from the bank.

3.3 DATA COLLECTION PROCEDURE

PRIMARY SOURCE OF DATA

Primary data: This is the name given to data that were collected under the control and supervision of the person or the organization making particular study. These data were gathered through informal discussion because of the type of information needed as well as its confidentiality. The researcher had informal meeting with the manager, his assistant and other staff of the bank. These class of personnel were selected because they are directly involved in the day to day administration of the bank and preliminary discussion with them revealed that they were ready to provide information for analysis of the financial performance of the bank. All the responses of the informal meeting were recorded and used in the analysis of the data.

SECONDARY SOURCE OF DATA

Secondary data: This is the name given to data that are being used for some purpose other than that for which they were originally collected. Data were gathered from the financial reports of the bank. These are Balance sheet and profit and loss account for a period of nine years. Other secondary source of data were the bank's annual reports form 2000-2008 as well as internet search engines.

The researcher used the financial reports because those reports had gone through auditing process which had been certified as true and fair view of the operations of the bank for the specified period.

The secondary data were obtained following a formal request made to the management of the bank.

3.4 DATA ANALYSIS

The data were organized into tables and the results analyzed using percentages and line charts. Both descriptive and quantitative methods of data analysis were used. This method was adopted since ratios of performance of the bank for the years under consideration could be compared and conclusions drawn.

3.5 PROFILE OF MPONUA RURAL BANK

3.5.1 ESTABLISHMENT

The Mponua rural bank limited was incorporated under the laws of Ghana on the 18th day of January, 1983. The certificate to commence business was obtained on the 14th of February, 1989 but the actual business was commenced on 16th September 1983. The objective of the bank was to provide financial services to the rural communities. It was also to serve as catalyst or agent for rapid economic development in rural communities through mobilization of deposits and granting of credits to productive areas like the cottage industry. The catchment area of the Bank falls in the tropical rain forest region of the country, and as such the population is largely agricultural. The dominant cash crop cultivated is Cocoa. On a subsistence level, maize, plantain, cocoyam and cassava are cultivated. Along the river banks, tomatoes and okra are cultivated.

About 70% of the population is engaged in agriculture. Oil palm is cultivated commercially in the North Birim District especially around New Abirim, Afosu and their environs. Koforidua and Nkawkaw towns are urban in nature so the inhabitants are mostly traders, drivers and artisans.

3.5.2 BRANCHES/AGENCIES

At the moment, the bank has six branches spread over four Districts in addition to its head office at Amuana Praso in the Birim North District of the Eastern Region; namely

Nkawkaw: Kwahu West district of the Eastern Region

Asankare: Asante Akyem south district of Ashanti Region

Koforidua: New Juaben district of the Eastern Region

Obogu: Asante Akyem south district of Ashanti Region

New- Abirim: Birim North district of the Eastern region

Asuboni Rails: Kwahu west district of the Eastern Region

3.5.3 PRODUCTS

The current products of the bank include current account, Savings account, Apex link, International money transfer, domestic money transfer, loans and microcredit scheme and Susu scheme of door to door mobile banking.

3.5.4 VISION

The vision of the bank is to be an efficient regional Bank networking with other financial institutions in and outside Ghana to impact positively on the financial intermediation of our catchment area and the country at large.

3.5.5 MISSION

As an innovative and growing Unit bank, we plan to offer superlative financial services tailored to suit the needs of our customers; and to offer attractive returns on our shareholders investment.

We also seek to provide rewarding and satisfactory career paths to our staff while ensuring the socio-economic development of the population in our catchment area. We also seek to comply with provisions of the Regulatory and Supervisory bodies of the state.

3.5.6 BOARD OF DIRECTORS

Mponua Rural Bank has currently a four member board of directors made up of chairman, the vice chairman, and two other directors, all elected by the shareholders. The board is made up of a good mix of seasoned and respected people.

3.5.7 CORPORATE GOVERNANCE AND BOARD PRACTICE

The bank is committed to the principles of good corporate governance and their implementation. It recognizes the valuable contribution that this makes to long term business prosperity of ensuring accountability to its shareholders. The Bank therefore adopts standard accounting practices and implements sound internal controls to ensure the reliability of its financial statements.

3.5.8 EMPLOYEES

Mponua Rural Bank had staff strength of 53 as at December 31, 2008. The notable personalities of the Bank's staff strength are as follows:

Supervising Manager – Mr. Victor Adu

Assistant Manager/ Internal Auditor – Mr. Alfred Twum Antwi

Deputy Manager – Mr. Kwadwo Faakye

Accountant – Mr. John Tommeti

3.5.9 ORGANOGRAM OF THE BANK

The bank puts emphasis on the flow of authority in the running of the bank. Management ensures that all employees are aware of those in authority and also ensures that line of reporting is carried out appropriately. The bank's organizational structure is in appendix A.

CHAPTER FOUR

4.0 ANALYSIS OF THE STUDY

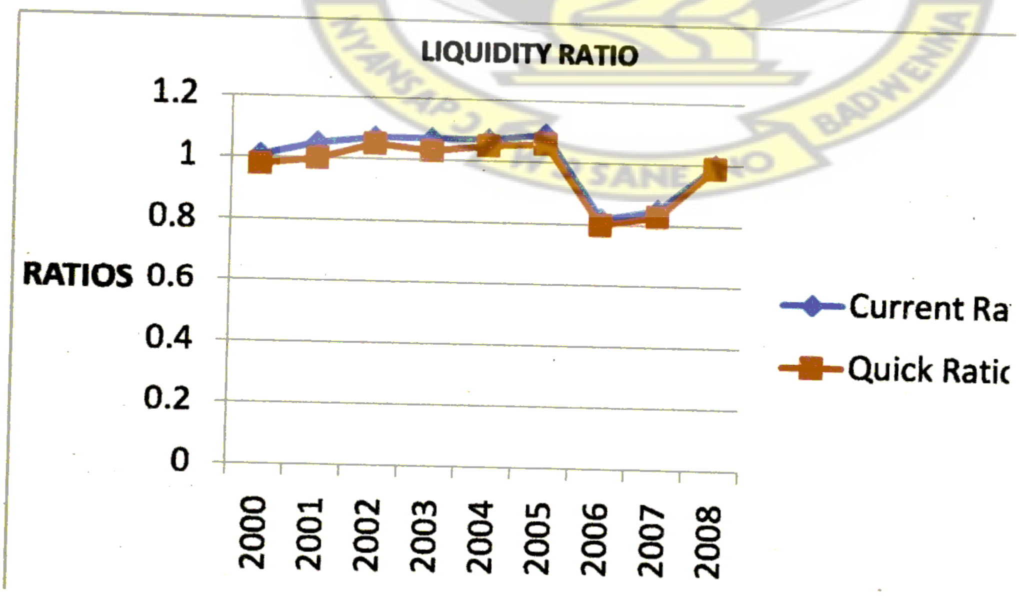
4.1 INTRODUCTION

This chapter looked at the analysis and interpretation of data collected from the annual and financial statements of Mponua rural bank. The data were analyzed with respect to the financial data of the bank and to the objectives stated in chapter one. The data were presented by the use of quantitative and descriptive statistics in which the findings were represented in tabular forms. The inferences were established by means of ratios, percentages and line graphs.

TABLE 1 LIQUIDITY RATIO

DETAILS	2000	2001	2002	2003	2004	2005	2006	2007	2008
CURRENT RATIO	1.01	1.05	1.07	1.07	1.07	1.09	0.82	0.85	1.00
QUICK RATIO	0.98	1.00	1.05	1.03	1.05	1.06	0.80	0.83	0.99

Figure 1



4.2 ANALYSIS OF LIQUIDITY RATIOS

As shown above in figure 1, the bank current ratio has almost been above one, beginning from 1.01 in 2000 and increased marginally to 1.09 in 2005. It however fell to 0.82 in 2006 and 0.85 in 2007 due to reduction in the current assets and, subsequently rose to 1.00 in 2008. This is a healthy situation as far as the bank's ability to meet its current maturing debt is concerned even though the bank could experience cash flow problems in the near future.

The reasons for the variations are attributable to the deposit base of the bank when it increases or decreases and then proper management and utilization of its resources. Due to strong policy of door to door Susu undertaken by the bank, bank was able to increase its liquid assets.

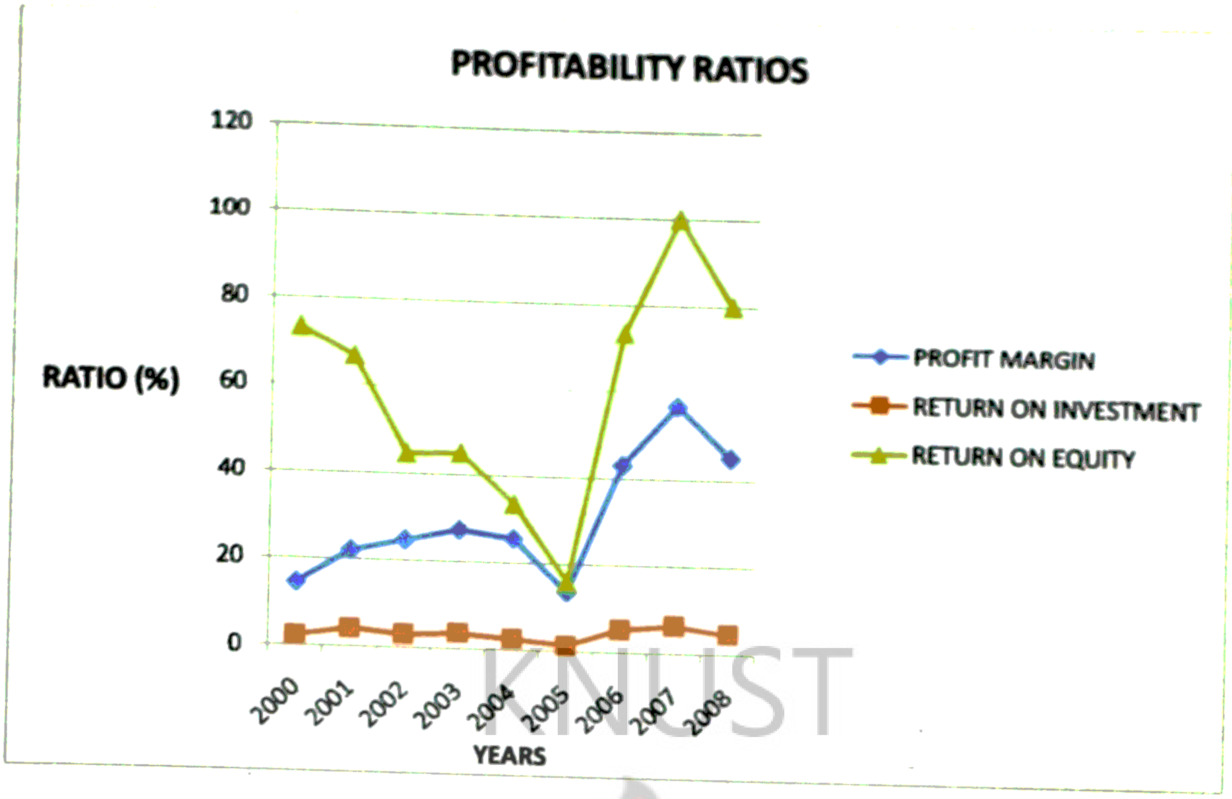
The quick ratio measures assets that are quickly converted into cash and they are compared with current liabilities. This ratio tends to realize that some of the current assets are not easily convertible to cash; for instance, inventories. Since inventories are usually not very liquid, the quick ratio adjusts the current ratio by subtracting inventories from current assets.

Referring to above figure 1, the quick ratio depicted a fairly increasing trend from 0.98 in 2000 to 1.06 in 2005 but fell marginally to 0.80 in 2006 before rising again to 0.99 to 2008. This shows the bank's ability to meet its maturing debts without accounting for inventories. The reasons accounting for these upward and downward trends might be depended on the deposit base when it increases or decreases. Moreover, the funds made available in the form of Social investment funds from central government to be administered to small scale farmers might have contributed to these upward trends.

In total, the bank's working capital situation, which reflects the ability of a bank to pay its short term creditors from the realization of its current assets and without having to resort to selling its fixed assets, was encouraging. Ideally, the figure should be at least two, which would indicate that there are sufficient assets available to pay liabilities should the need arises.

TABLE 2 PROFITABILITY RATIOS

DETAILS	2000	2001	2002	2003	2004	2005	2006	2007	2008
PROFIT MARGIN	14.44%	22.06%	24.74%	27.36%	25.59%	13.62%	43.15%	56.73%	45.12%
RETURN ON INVESTMENT	2.44%	4.25%	3.15%	3.70%	2.70%	1.48%	5.38%	6.46%	4.74%
RETURN ON EQUITY	73.29%	66.81%	44.75%	45.00%	33.61%	16.03%	(7324)%	100%	80%



4.3 ANALYSIS OF PROFITABILITY RATIOS

Profitability is the ability of a business to earn profit over a period of time. It may be due to a larger number of policies and decisions. The profitability ratios show the combined effects of liquidity, asset management (activity) and debt management (gearing) on operating results. Each of the various profitability measures relates the returns (profit) of the bank to its assets, invested capital or equity. The overall measure of success of a business is the profitability which results from the effective use of resources.

Referring to figure 2 above, profit margins of the bank rose from 14.44% in 2000 to 27.36% in 2003 and thereafter fell to its lowest margin of 13.61% in 2005. It however, rose again to 56.73% in 2007 before falling to 50.50% in 2008.

The increase in profit which was recorded amidst difficult economic conditions indicates the bank resilience in adapting to harsh effects of the brave economic policies of the government which result in the fall of Treasury bill rates, reduction of interest rates and the escalating fuel prices on the world market. The increases also were due to revenue from commissions and fees and by the increasing advances, thereby increasing the interest income. However, the fall in profits were attributed to loan defaults which caused the bank to make provision for bad debts, especially in the year 2006, which were deducted before the final profit itself.

Income is earned by using the assets of a business productively. The efficiency of production leads to profitability of the business. The rate of return on total assets indicates the degree of efficiency with which management has used the assets of the bank during the accounting period. This particular ratio is mostly the important for all researchers of financial statements.

Secondly, investors have given out funds to managers of businesses to purchase assets which will be used to generate returns. If the return is not better than what investors can achieve elsewhere, they will instruct the managers to sell the assets, and rather invest elsewhere.

Again, referring to figure 2 above, the undulated return on investment of the bank spanned from the lower of 1.48% to the highest of 6.46% due to efficient utilization of assets and impaired risk asset portfolio. Thus, between 2004 and 2005, the bank focused on relocation and refurbishment of some of its agencies. This involved substantial amount of expenditure which affected its returns. The increment in the return on investment has been due to efficient utilization of the assets.

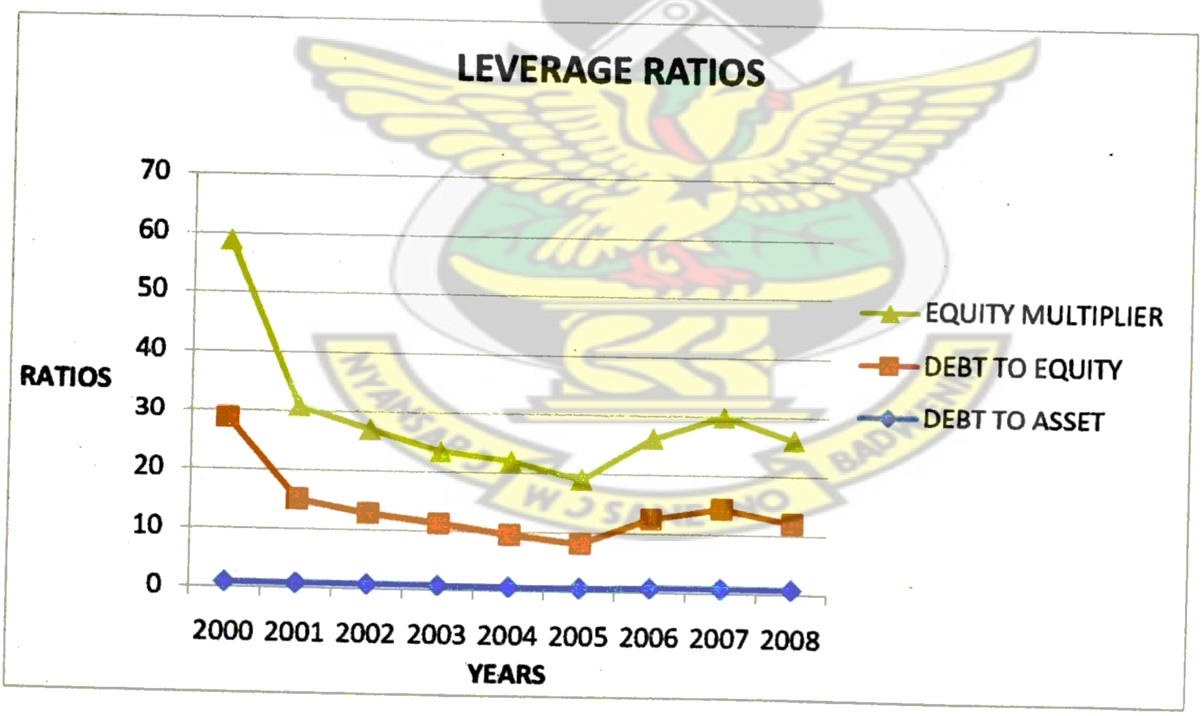
The last but not the least is the return on equity ratio which shows the profit attributable to the amount invested by the owners of the business. It also shows what potential investors to the business hope to receive as a return. The stockholders' equity includes share capital, share premium, distributable and non-distributable reserves.

Still referring to figure 2 above, the subsequent year's returns from 2000 to 2005 showed a downward trend which was an indication that shareholders funds were not utilized effectively. Also, the decreased might have caused by the high cost of funds. Since income is normally affected by provision of bad debts and shareholders' fund is increased as a result of capital surplus arising out of revaluation of assets, both might caused returns to decrease. The bank made maximum use of the funds for both 2007 and 2008 recording high percentages. In effect, the effective treasury management practices resulted in the increase in net interest income which added to the high level of commissions and fees as well as cutting down of operating costs. The year 2006 was a special one for the bank recording a huge loss due to huge amount of bad debt allocation within the year.

TABLE 3 LEVERAGE RATIOS

DETAILS	2000	2001	2002	2003	2004	2005	2006	2007	2008
DEBT TO ASSET RATIO	0.93	0.90	0.85	0.86	0.71	0.69	0.86	0.87	0.90
DEBT TO EQUITY RATIO	27.88	14.18	12.02	10.45	8.84	7.50	11.69.	13.54	10.00
EQUITY MULTIPLIER	30.00	15.72	14.20	12.19	12.45	10.86	13.62	15.62	16.50

Figure 3



4.4 ANALYSIS OF LEVERAGE RATIOS

Debt to asset ratio measures the financial strength that reflects the proportion of capital which has been funded by debt, including preference shares. With higher debt to asset ratio, the security the creditors might require would not be present. Therefore, any company would find it relatively difficult to raise additional financial support from external sources if such situation occurs. Thus, the higher the debt to asset ratio, the more difficult it becomes for that firm to raise debt.

From figure 3 shown above, debt to asset ratio has been very high and on certain occasions, either increasing or decreasing. This means that the bank mostly financed its assets by debts through borrowings to support its operations as depicted for 93% in 2000, 90% in 2001, 85% in 2002, 86% in 2003, 71% in 2004, 69% in 2005, 86% in 2006, 87% in 2007, 90% in 2008 respectively. This is an indication that substantial assets of the bank were financed from debts. Infact, this was not a healthy situation as should there be a shortage, the bank would not be able to support its assets and it might therefore be unable to meet its reserve requirement. Therefore, equity financing would be needed to balance the rising trend of debts.

Moreover, debt to equity ratio indicates the extent to which debt is covered by shareholders' funds. It reflects the relative position of both the equity holders and the lenders, and indicates the company's policy on the mix of capital funds.

Similarly, referring to figure 3 above, both debt to equity and equity multiplier were high initially posing a greater financial risk but there were gradual reduction in the two ratios being reduced to 7.50 and 10.86 respectively in 2005 before risen again to 11.20 and 14.1 in 2008 respectively. With respect to debt to equity, the declining period was due to significant reduction in the level of borrowing and retained part of the profits combined. This showed that shareholders fund registered a gradual increase from 2000 to 2005 thus reducing the bank's dependence on debts.

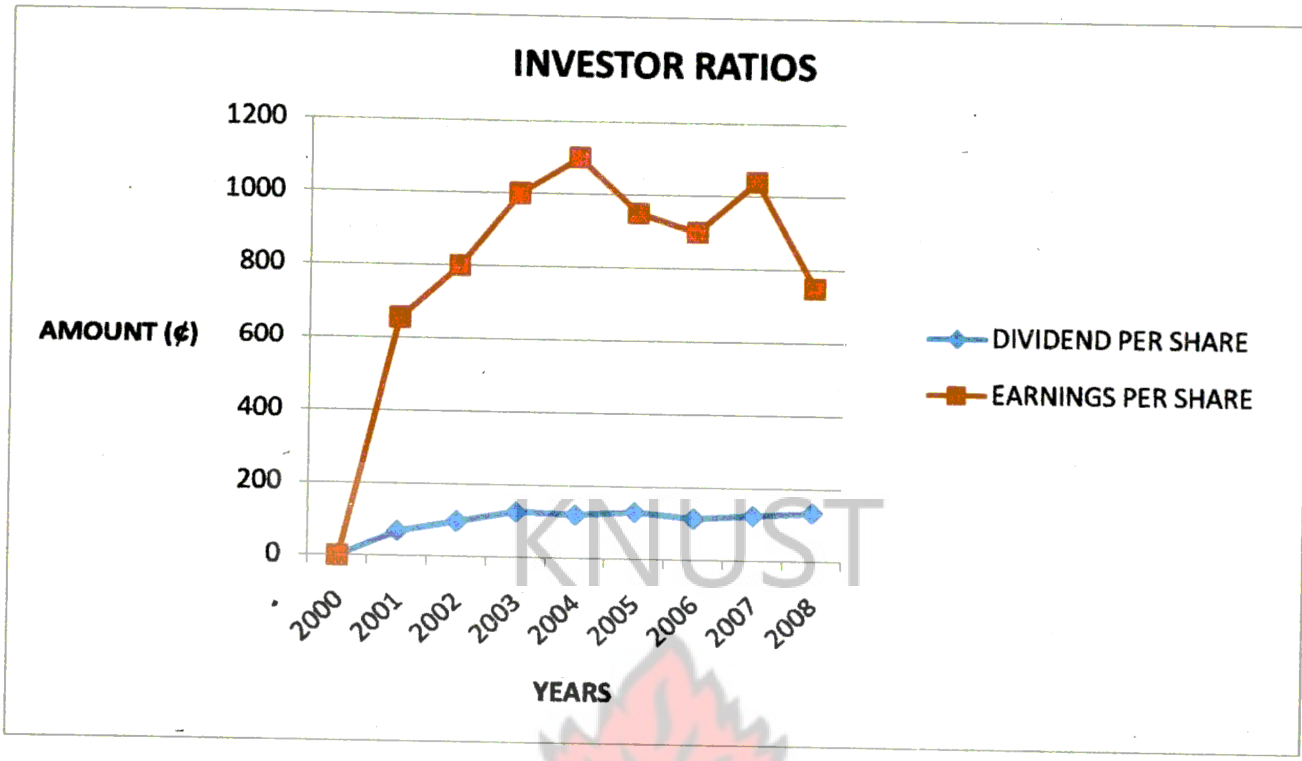
With respect to equity multiplier, it compares the bank's equity with that of assets and, shows the bank's reliance on debt to finance its operations. The capital surplus arising out of the revaluation of the bank's assets which built up the bank's equity position also brought equity multiplier down.

Meanwhile, lower figures are more acceptable showing that the bank is predominantly financed by equity while high leverage shows an over reliance on borrowings for a significant proportion of the bank's capital requirements.

TABLE 4 INVESTORS RATIO (¢)

DETAILS	2000	2001	2002	2003	2004	2005	2006	2007	2008
DIVIDEND PER SHARE	0.00	68.81	98.20	126.34	120.40	130.00	115.35	125.00	134.72
EARNINGS PER SHARE	0.00	655.33	800.15	1000.83	1100.55	950.70	900.25	1040.00	750.45

Figure 4



4.5 ANALYSIS OF INVESTOR RATIOS

Referring to figure 4 above, there was fairly an increased in dividend from 2001 to 2008 despite the zero dividends recorded on 2000. Dividend per share stood at ¢68.81 in 2001, increased to ¢130.00 in 2005, fell to ¢115.35 in 2006 before climbing to ¢134.72 in 2008. Dividend declared depended on profit and the power of the directors to satisfy the shareholders despite the fall of profit (i.e. loss) in 2006.

Similarly, from figure 4 above, earnings per share have been growing steadily despite no growth in 2000. However, earnings per share fall to ¢950.70 in 2005 and ¢900.25 in 2006. The shareholders are particularly interested in knowing how much has been earned during the financial year on each of the shares held by them. The growth in earnings per share is dependent on the profit.

TABLE 5: DEPOSIT MOBILIZATION TREND (GH¢)

DETAILS	2000	2001	2002	2003	2004	2005	2006	2007	2008
SAVINGS	450654.55	692473.33	745245.65	790627.45	890432.40	936748.80	1141354.70	1225628.82	1358446.07
CURRENT	195368.40	201752.86	212746.35	217483.94	230735.97	236615.30	269274.30	273794.73	327178.76
FIXED DEPOSIT	29245.60	35975.62	41767.50	46286.72	51379.19	55240.00	76970.90	70090.00	64440.00
SUSU	145805.85	188645.50	200271.53	216037.38	206835.26	219809.80	266184.40	238487.28	317439.26
TOTAL	**821074.40**	**1118847.31**	**1200031.03**	**1270435.49**	**1379382.82**	**1448413.90**	**1753784.30**	**1808000.83**	**2067504.09**

SOURCE: MPONUA RURAL BANK

TABLE 6: DEPOSIT BASE OF CUSTOMERS (NUMBER OF CUSTOMERS)

DETAILS	2000	2001	2002	2003	2004	2005	2006	2007	2008
SAVINGS	8225	9228	10345	12021	12942	14101	11106	10703	13155
CURRENT	1444	1590	1664	1892	2155	2454	3356	3979	2456
FIXED DEPOSIT	72	77	83	91	99	102	177	104	66
SUSU	9225	9832	11907	13886	14552	15145	10381	7891	12839
TOTAL	**18966**	**20727**	**23999**	**27890**	**29748**	**31802**	**25020**	**22677**	**28516**

SOURCE: MPONUA RURAL BANK

FIGURE 5

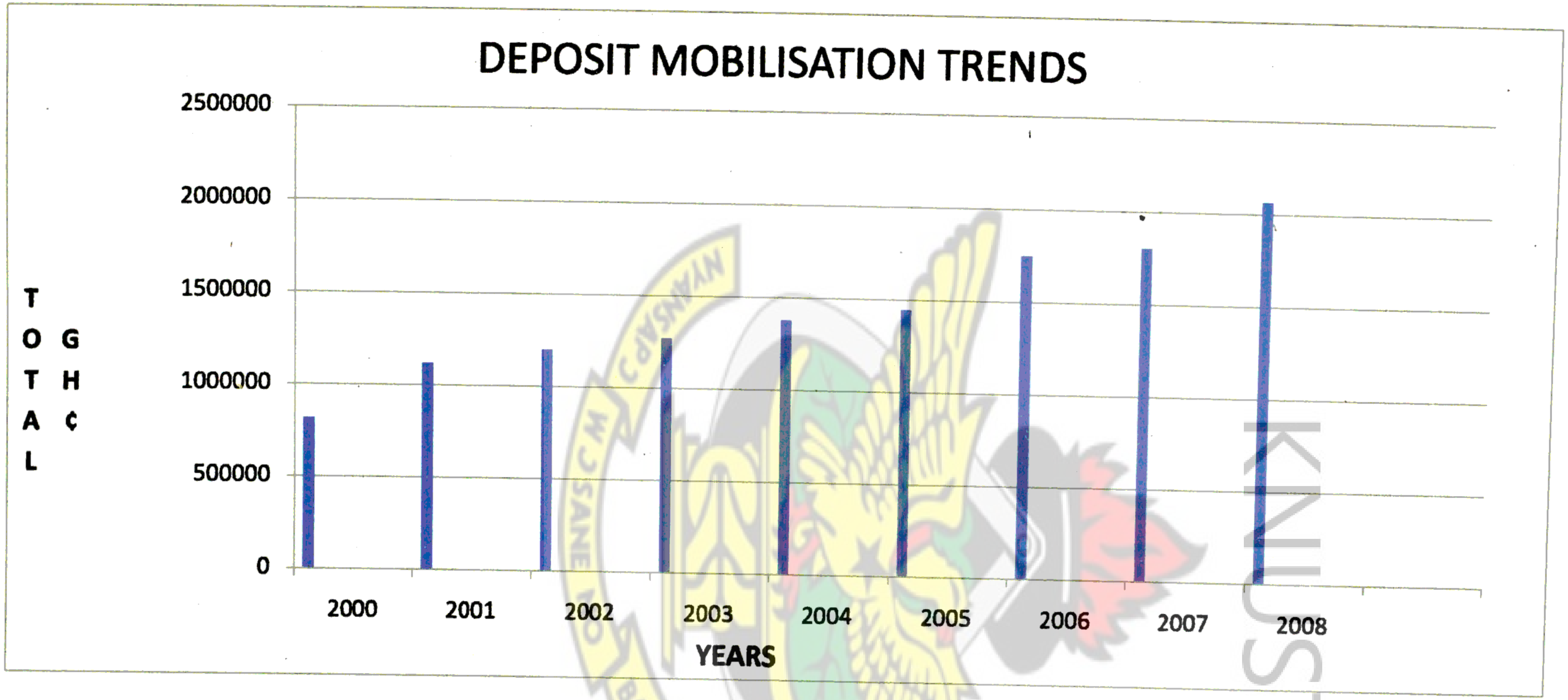
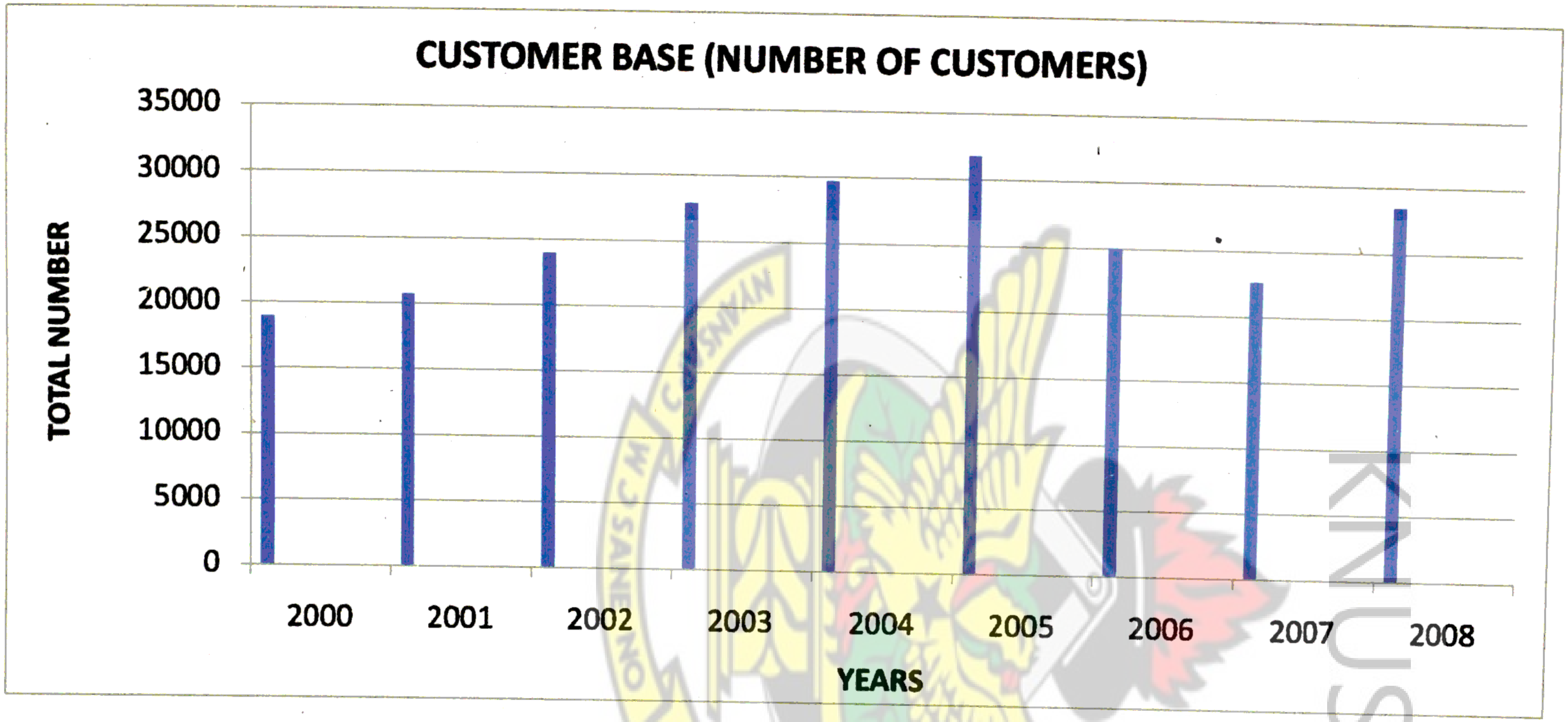

DEPOSIT MOBILISATION TRENDS
2500000
2000000
1500000
1000000
500000
0
TOTAL
GH¢
2000
2001
2002
2003
2004
2005
2006
2007
2008
YEARS

FIGURE 6


CUSTOMER BASE (NUMBER OF CUSTOMERS)
TOTAL NUMBER
35000
30000
25000
20000
15000
10000
5000
0
2000
2001
2002
2003
2004
2005
2006
2007
2008
YEARS

4.6 ANALYSIS OF DEPOSIT MOBILISATION AND CUSTOMER BASE TREND ANALYSIS

Deposit mobilization to the bank rose to 36.3% in 2001 but fell to 7.5% in 2002. In 2004, deposit fell by 8.60% but in 2006, it rose again to 21% until in 2008, it fell to 14.4%. The average growth rate was 11.3%. In spite of the very competitive banking environment, Mponua rural Bank limited has been able to capture a sizeable share of the deposit market in the rural bank industry. This has been made possible through the bank's innovative product development and aggressive marketing programs aimed at attracting new and retaining old customers and, also increasing deposits. Although the growth rate was not encouraging due to number of constraints, the bank has been able to make some strides in the banking industry. The Susu, including the susuhybrid, reflects the bank's innovation in mobilizing funds to increase its market share.

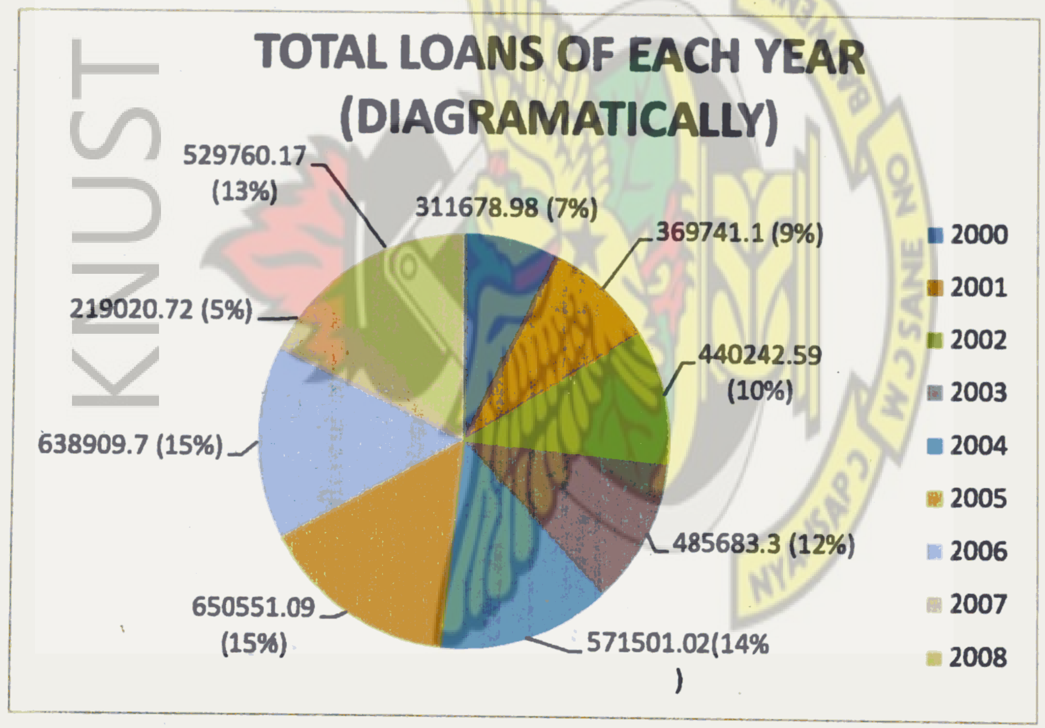
In connection with the customer base, the bank had a customer base of 18966 from 2000, and has an average growth of 12.4% given total customers of 28516 as at 2008. The inculcation of banking habits among the people by the bank played a major role. Also, some customers decided to open account with the bank with a view to attract loans to finance their business.

TABLE 7 LOANS/ADVANCES OF THE SECTORS (GH¢)

SECTORS	2000	2001	2002	2003	2004	2005	2006	2007	2008
AGRIC	21900.10	30127.25	28901.40	38234.70	58340.38	65730.56	72706.40	48697.38	60984.90
COTTAGE	15590.40	30452.30	22605.45	45001.35	65910.20	72071.57	67168.10	51401.12	35203.48
TRANSPORT	18903.26	16204.56	28933.45	38673.90	35000.46	43387.72	35872.00	14370.63	18645.62
TRADING	122839.58	145748.30	172456.73	150234.45	211903.34	259575.58	207963.40	104551.59	157320.11
OTHERS/SALARIED WORKERS	132445.64	147208.69	187345.56	213538.90	200346.64	209785.64	255199.80	178897.53	257606.06
TOTAL	**311678.98**	**369741.10**	**440242.59**	**485683.30**	**571501.02**	**650551.09**	**638909.70**	**219020.72**	**529760.17**

SOURCE: MPONUA RURAL BANK

Figure 7


TOTAL LOANS OF EACH YEAR (DIAGRAMATICALLY)
529760.17 (13%)
311678.98 (7%)
369741.1 (9%)
219020.72 (5%)
440242.59 (10%)
638909.7 (15%)
485683.3 (12%)
650551.09 (15%)
571501.02(14%)
2000
2001
2002
2003
2004
2005
2006
2007
2008
KNUST

4.7 ANALYSIS OF THE LOANS/ADVANCES TREND OF THE SECTORS

Loans granted to agriculture sector increased by 37.57% in 2001. However, the loans granted fell the following year before reaching the highest of 52.58% in 2004. There was another decreased in loans by 33.02% in 2007 but rose to 25.23% in 2008. All these loans granted were in fulfillment of the mandatory requirement and the availability of funds from deposits mobilization, other sources of interest income and also the social investment funds from government. Moreover, prior to the period of bumper harvest especially for cocoa, most of the cocoa farmers requested for loans which would pushed the figures up. Furthermore, farmers have adopted the habit of not paying the money they took from the bank when the time was due for repayment, hence causing a shortage of the total loan figures within the sector. They moved rather to different bank altogether for the same loan amount.

On cottage industry, the loans increased by 95.33% in 2001 but went down the following year to 25.76%. However in 2003, it increased to 99.07%. In addition, the remaining years experienced rise and fall during the periods of loans due to the fact that the loans itself did not increase evenly. The rise and fall of loans had depended on the deposit mobilization available as well as the social investment funds from government.

On the part of transport sector, generally there had also been that rise and fall in the loans and advances granted. It rose to the highest of 78.55% in 2002 but during the subsequent years, the transport sector experienced zigzag-type of loans until it got to 29.75% in 2008. The increased was due to the availability of funds and the monthly repayment of loans by borrowers.

In the trading sector, the loans allocated experienced zigzag pattern as before throughout the years reaching its peak of 50.47% in 2008. This trend reflected the availability of the funds from deposits and government funds. In addition, most traders gone in for loans during the period of festivities especially when Christmas is approaching for Christmas goods and, also when school reopens.

The 'others'/salaried workers represent those who have transfer their salaries to the present place of work. Infact, the bank channeled most of their loans to salaried workers as compared to other sectors because of its risk-free payments. The sector accounted for bulk of the loans given out as deduction was done before actual payment to the workers. The irregular nature of either increasing or decreasing stemmed from 11.15% in 2001, with the rest having the zigzag patterns before reaching the highest of 43.99% in 2008. The fall was due to fewer numbers of workers and vice versa.

Table 8 INVESTMENTS IN TREASURY BILLS (GH ¢)

DETAILS	2000	2001	2002	2003	2004	2005	2006	2007	2008
TOTAL INVESTMENTS OF T-BILLS	255600	280000	355000	342720	390365	396500	584000	554000	50400
INTEREST INCOME	46132	50343	53250	47981	101494	51545	87600	60940	12600

4.8 ANALYSIS OF INVESMENT MADE BY THE BANK

From Table 5, it is seen that the investments made by the bank increased gradually from GH¢ 255600 in 2000 until it got to GH¢ 584000 in 2006. The investments started to dwindle from 2007 to 2008. This was due to the fact that the bank experienced a strong cash trap between 2007 and 2008 because money used on the head office building was huge enough to drain its investments made. This affected the investments made since lot of money was withdrawn to satisfy their numerous customers' needs. These returns or the interest income from the investments helped to increase the bank's profits declared at the end of the year. Hence the working capital of the bank would be increased tremendously which will later affect its profitability and liquidity ratios of the bank.

Besides, with respect to shares, it is mandatory that every rural bank within the country should own shares from Apex Bank. Apex Bank is the parent bank of all rural banks in this country. Mponua Rural Bank has shares worth GH¢ 2000 since 2000 up to date.

TABLE 9 PERFORMANCE MONITORING INDICATORS (GH¢)

DETAILS	2000	2001	2002	2003	2004	2005	2006	2007	2008
SHARE CAPITAL	10000	12000	15000	14000	15000	20000	30000	40000	50000
EARNINGS	40000	40000	45000	45000	48000	60000	100000	150000	200000
INVESTMENT	150000	200000	250000	250000	300000	600000	900000	1200000	1500000
DEPOSITS	600000	800000	1000000	1100000	1000000	1500000	2000000	2500000	3000000
LIQUIDITY(PRIM.)	10%	10%	12%	12%	12%	15%	15%	15%	15%
LIQUIDITY(SEC.)	20%	20%	25%	30%	30%	40%	45%	48%	50%
CAPITAL ADEQUACY RATIO	**8%**	9%	**10%**	12%	**11%**	12%	11%	**13%**	**13%**

SOURCE: MPONUA RURAL BANK

4.9 ANALYSIS OF THE PERFORMANCE INDICATORS

4.9.1 CAPITAL

The paid up capital which stood at GH¢10000 in 2000 rose by 50% to GH¢ 50000 in 2008. This was achieved by intensified mobilization rallies in all the catchment areas and also by attracting potential shareholders with attractive incentive schemes.

4.9.2 EARNINGS

Profitability would be enhanced by controlling expenditure. Better quality loans would also be advanced to earn adequate interest on them.

4.9.3 INVESTMENT

This was normally held in gilt-edged Government stocks and bonds. The figure rose from GH¢ 150000 in 2000 to GH¢ 1500000 in 2008, increasing in tenfolds due to bank's earnings.

4.9.4 DEPOSITS

By vigorous mobilization rallies and the development of new products like door-to-door mobile savings schemes, deposits of the Bank increased by half from GH¢ 600000 to GH¢ 3000000.

4.9.5 LIQUIDITY

The bank was able to maintain its primary reserve ratio constantly at 15% from 2005 up to date, which was above the regulatory limit of 8%. Secondary Reserves were also maintained at 50% in 2008, above the required limit of 30%. The regulations from the Central Bank, the banking law, and the companies' code all made it possible for these to be achieved.

4.9.6 CAPITAL ADEQUACY

Capital adequacy ratio is the ratio which determines the capacity of the bank in terms of meeting the time liabilities and other risk such as credit risk, operational risk, among others. In the simplest formulation, a bank's capital is the "cushion" for potential losses, which protect the bank's depositors or other lenders.

From a ratio of 8% in 2000, the bank achieved a capital adequacy ratio of 13% in 2008. The decrease in ratio was due to shareholders' fund not improving and also the rise in advances. The strategy adopted for the high figure includes;

I. Investing more in Treasury bills and bonds

II. Keeping the acquisition of fixed assets to the barest minimum necessary

III. Improving risk assets quality by rigorous debt recovery while ensuring that new advances were of high quality.

In summation, the bank of Ghana's minimum requirement of 10% was achieved as at 2008.

CHAPTER FIVE

5.0 SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION OF THE STUDY

5.1 SUMMARY OF FINDINGS OF THE STUDY

The major factors affecting the movement include low capital in relation to its risk assets which caused the ratio to drop drastically. Capital inflows and relatively high levels of profitability accounted for the increase in Capital adequacy ratio.

Liquidity ratios of the bank were healthy to enable the management to pay maturing short – term debts of the bank. Considering the current ratio and quick ratio, the bank was in a better position to service customers demand within the nine year period.

On the profitability of the bank, its profit rose from 14.44% in 2000, increased to 27.36% in 2003, attained a maximum of 56.73% in 2007. Despite the volatile interest rates, high cost of funds due to high competition which impacted negatively on the bank's profitability, generally the bank's ability to generate profit has been encouraging. The high profit has been due to successful rollout of some of the new products onto the market; for instance door-to-door Susu.

Return on investment rose from 2.44% in 2000, attained the highest 6.46% in 2007 but decreased to 4.74% in 2008. This implied that resources were idle due to customer's inability to provide collaterals to take advantage of loan facilities to expand their operations.

Return on equity had initial figure of 73.29% in 2000 but decreased afterwards until it increased again to 80% in 2008. This is attributed to under-utilization of resources because shareholders fund continued to increase fairly over the entire duration.

On the part of debt to total asset ratio, the figures which range from 93% in 2000 to 90% in 2008, the bank's total assets financed by debt which was high. This implied that the bank is highly geared.

Similarly, the bank's debts to equity ratio as well as the equity multiplier are both high, registering from 27.88 to 7.50 and from 30 to 10.86 respectively. This would affect the bank's profitability in the future since cost of debt would be high.

Looking at the dividend per share, there has been an increasing trend from ¢ 68.81 in 2001 to ¢ 130.00 in 2005. It went down afterwards but rose again to ¢134.72 per share in 2008.

On the part of earnings per share, there was also an increasing trend from ¢ 655.33 in 2001 to ¢1100.55 in 2004 before decreasing to ¢750.45 in 2008. Generally, shareholders would be happy anytime their earnings increase.

Loans and advances to Agriculture and cottage industries increased by an average growth of 14.88% and 7.75% respectively. Similarly, transport and trading sector loans increased on an average by 7.20% and 7.60% respectively. The sector referred to as "others" or salaried workers registered an average growth rate of 9.63%.

Deposit mobilization growth was at an average of 11.3% whereas customer base average growth rate stood at 5.55%.

Capital adequacy ratio (CAR) serves to promote stability and efficiency of the financial system by reducing the likelihood of bank becoming insolvent. Any incident of sanctions being applied to the bank for failing will send a negative signal to its customers and shareholders. Having achieved a ratio of 13%, above the minimum requirement is encouraging due to prudent decisions made by management.

5.2 Conclusion of the study

The financial performance appraisal of Mponua Rural Bank has been impressive in terms of its liquidity position for both current and quick ratios for nine years under consideration. However, its profitability which began on good note started to dwindle midway before rising again.

The leverage ratio of the bank is very high. This implied that the bank's assets are financed mostly by its debts.

On dividend, the rate per share continued to increase fairly throughout the period under study with the highest occurring in 2008 at ¢134.74. Moreover, earnings per share increased consistently fairly throughout with the fall in 2008 having ¢750.45.

Even though loans and advances portfolio to agriculture and cottage industries were not all that high, there were enough average growth rates of 14.88% and 7.75% respectively for the bank in terms of loans granted.

Despite the continued increased in the customer base with an average rate of 5.55%, deposit mobilization increased by an average rate of 11.30%.

On the whole, the bank's financial performance showed improvement over the past nine years of study. The bank has performed tremendously well in spite of stiff competition from other banks within the district and its environs.

5.3 RECOMMENDATIONS OF THE STUDY

The following are recommended to Mponua Rural Bank to improve its financial performance:

- It is recommended that Mponua Rural Bank should improve its profitability by advancing more loans to customers on reasonable terms in view of the competitive nature of banking business in recent times. Efficient screening of loan applications and effective monitoring of credit facilities to minimize the high incidence of nonperforming loans must be adopted.
- It is also suggested that the bank should improve its liquidity by reducing investment in stationery to make resources available to meet the short term debts of the bank. The liquidity ratio needs improvement so that current assets should meet current liabilities twice. This will be a safe level for the bank.
- It is suggested that earnings per share should be improved so that shareholders both existing and potential ones would be encouraged to invest more in equity shares.
- It is recommended that the bank should continue its programme to increase its deposit mobilization to expand its activities. Moreover, intensifying the mobilization of low cost deposit (savings and currents deposits) rather than relying on borrowed funds, fixed and time deposits which are expensive.
- It is recommended that the bank should contribute to health education programmes and health facilities to improve the health needs of the people in areas of its operation.
- Similarly, the bank must be able to cater for the housing needs of its employees. The bank should construct affordable housing units to meet the growing housing needs of its employees.
- Avoid excessive expenditure on fixed assets including the bank's current head office at Amuana Praso with the cost of GH¢ 250,000.00

- Institute internal controls to check fraud and other malfeasance that can affect profitability.
- The researcher recommends that the bank should refocus on target market to include more retail products in its operations

5.4 Some Challenges facing the Bank

There are some problems facing the Mponua rural bank. These include

1. Lack of provident fund for the workers except giving out loans to the employees at no interest rate to help in their children education.
2. Billion of cedis being spent on the bank's headquarters building at Amuana Praso at the cost of 2.5billion cedis. As a result, the majority of the working capital money is locked up in the project.
3. Since there is no incentive for the employees, employees' turnover is very high in this bank.
4. Corporate social responsibility which should feature strongly on the bank's calendar is totally missing. The bank does not offer any help to the community except sponsoring one or two students from the area who are brilliant but needy. This sponsorship goes to the children of the shareholders of the bank.

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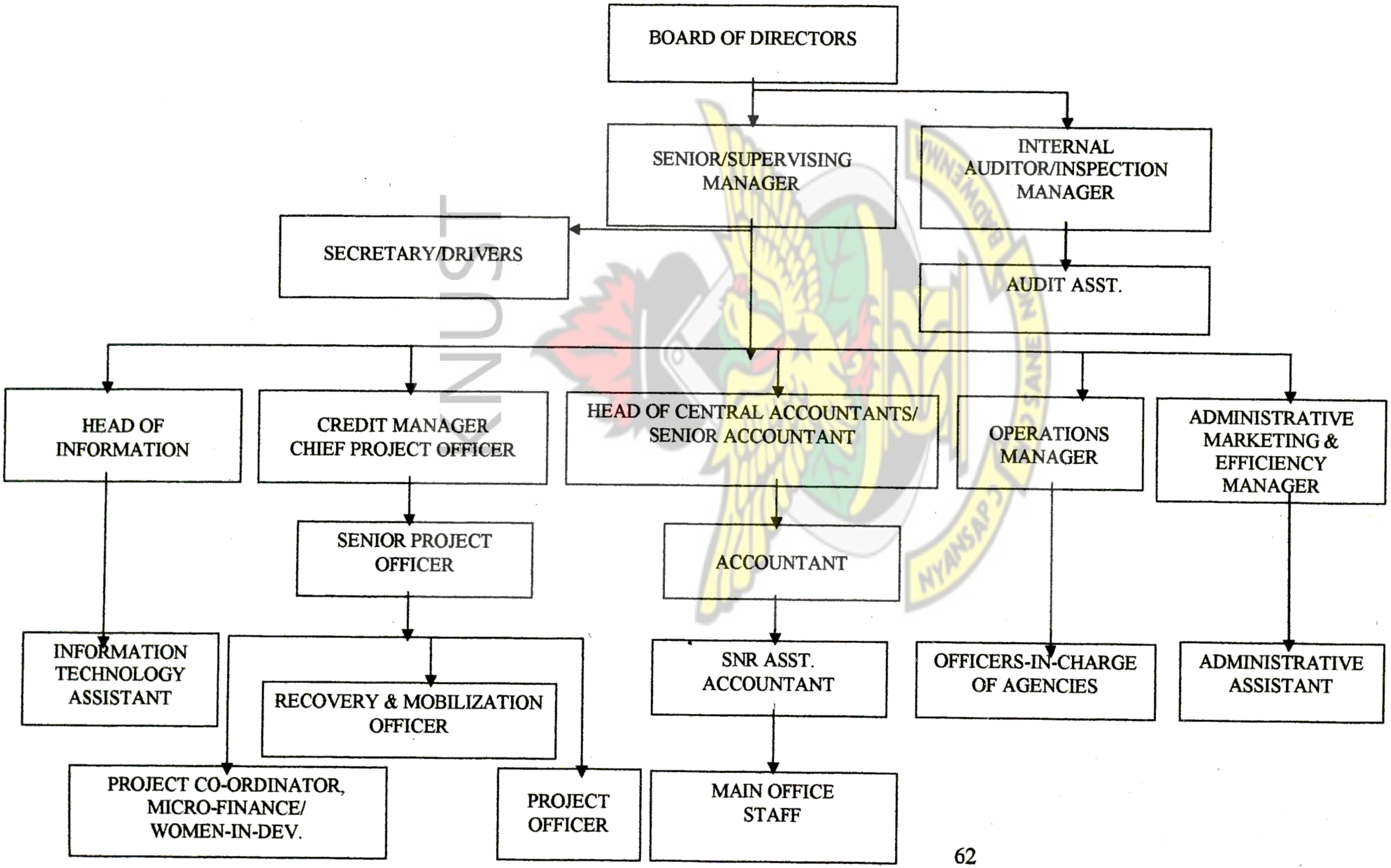
APPENDIX A

MPONUA RURAL BANK LIMITED

ORGANIZATIONAL CHART



APPENDIX B

RATIOS USED IN FINANCIAL PERFORMANCE APPRAISAL

LIQUIDITY RATIOS

1. CURRENT RATIO = $\frac{\text{CURRENT ASSETS}}{\text{CURRENT LIABILITIES}}$

2. QUICK RATIO = $\frac{\text{CURRENT ASSETS – STOCK}}{\text{CURRENT LIABILITIES}}$

PROFITABILITY RATIOS

3. PROFIT MARGIN = $\frac{\text{NET PROFIT}}{\text{TURNOVER/SALES}}$

4. RETURN ON ASSETS = $\frac{\text{NET PROFIT}}{\text{TOTAL ASSETS}}$

5. RETURN ON EQUITY = $\frac{\text{NET PROFIT}}{\text{SHAREHOLDERS FUNDS}}$

LEVERAGE RATIOS

6. DEBT TO ASSETS = $\frac{\text{INTEREST PAYING DEBTS}}{\text{TOTAL ASSETS}}$

7. DEBT TO EQUITY = $\frac{\text{INTEREST PAYING DEBTS}}{\text{SHAREHOLDERS FUNDS}}$

8. EQUITY MULTIPLIER = $\frac{\text{TOTAL ASSETS}}{\text{SHAREHOLDERS FUNDS}}$

INVESTORS RATIOS (SHAREHOLDERS RATIOS)

9. DIVIDEND PER SHARE $= \dfrac{\text{TOTAL DIVIDEND PAID}}{\text{NUMBER OF SHARES OUTSTANDING}}$

10. EARNINGS PER SHARE $= \dfrac{\text{NET PROFIT}}{\text{NUMBER OF SHARES OUTSTANDING}}$

APPENDIX C

DEFINITION OF TERMS AND ABBREVIATIONS

RFM's ------------------- Rural financial markets

BPM -------------------- Business Performance Measurement

PNDC -------------------- Provisional National Defence Council Law

NGO's -------------------- Non Governmental Organizations

CU's -------------------- Credit Unions

NBFI -------------------- Non Banking Financial Institutions

RCB's ------------------- Rural Community Banks

S & L's ------------------ Saving and Loans

ERP ------------------- Economic recovery programme

IMF -------------------- International monetary fund

BOG -------------------- Bank of Ghana

GWSC -------------------- Ghana water & Sewerage Company

RMFI --------------------- Rural and Micro-finance industry

APPENDIX D

BALANCE SHEET FROM 2000 – 2008 (GH¢)

DETAILS	2000	2001	2002	2003	2004	2005	2006	2007	2008
Cash	38201.5333	84807.9905	161706.2263	219039.7000	193991.5604	273185.4194	201345	227582	234582
Investment	111158.0000	186140.0000	206740.0000	306740.0000	618500.0000	398500.0000	583541	553564	655342
Advances	52023.5502	105438.6158	219959.5164	511457.7000	604614.8096	612520.9028	600751	507977	498762
Other Asset account	56514.6466	32716.3593	150292.8077	130566.7058	474325.2037	796532.9940	297843	371522	332679
Current assets	257897.7301	409102.9656	738698.5504	1167804.1058	1891431.5737	2080739.3162	1683480	1660645	1721365
Fixed assets	5915.5564	7913.9028	7074.2137	21142.2035	234766006	15018.7779	360012	423756	402351
Total Assets	**263813.2865**	**417016.8684**	**745772.7641**	**1188946.3093**	**1914908.1743**	**2095758.0941**	**2043492**	**2084401**	**2123716**
Deposit liabilities	245069.1006	376157.7705	631188.4227	1019312.0000	1360385.9264	1448384.1954	1753784	1808001	1609834
Creditors & Accruals	8248.8250	12627.3129	60372.4126	70368.5768	400670.0786	454350.2443	63629	142912	133989
Due to other banks	1704.1319	1704.1319	1704.1319	1704.1319	0	0	227579	0	203344
Total Liabilities	**255022.0575**	**390489.2153**	**693264.9672**	**1091384.7087**	**1761056.0050**	**1902734.4397**	**2044992**	**1950913**	**1947167**
Stated Capital	5895.7593	6565.7593	13521.5093	14672.9000	19254.9301	27487.4301	54408	54694	50234
Income surplus account	2135.5502	10340.4743	23490.2457	56417.0554	95198.4593	118402.6981	(103041)	31660	30553
Statutory Reserve Fund	759.9195	96214195	15496.0419	26471.6452	39398.7799	47133.5262	47133	47133	49334
Shareholders funds	**8791.2290**	**26527.6531**	52507.7969	**97561.6006**	153852.1693	**193023.6544**	**(1500)**	**133487**	**130121**
Total liabilities & Shareholders funds	**263813.2865**	**417016.8684**	745772.7641	1188946.3093	1914908.1743	2095758.0941	**2043492**	**2084400**	**2077288**