Project Dissertation Report on

FINANCIAL PERFORMANCE OF MERGED BANKS IN GHANA: A CASE STUDY OF CONSOLIDATED BANK GHANA LTD

Submitted By:

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May 2022

CERTIFICATE

This is to certify that this project report titled "Financial Performance of Merged Banks in Ghana: a case study of Consolidated Bank Ghana Ltd" has been prepared by Mr Andrews Somuah Kodiah of MBA DSM 2020-22 and submitted to Delhi School of Management, Delhi Technological University, Bawana Road, Delhi-42 in partial fulfilment of the requirement for the award of the Degree of Masters of Business Administration. As per the student, it is an original work conducted by him. The report has been submitted to faculty on May 02, 2022 as part of Major Research Project of 4th Semester. The 4th semester has started on January 04, 2022. During the semester, Student has given updates to the faculty on the progress of report on the following dates April 12, 22 and 25, 2022.

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I, Andrews Somuah Kodiah, student of MBA DSM 2020-22 of Delhi School of Management, Delhi Technological University, Bawana Road, Delhi – 42, hereby declare that the project report “Financial Performance of Merged Banks in Ghana: a case study of Consolidated Bank Ghana Ltd” submitted in partial fulfilment of Degree of Masters of Business Administration is the original work conducted by me.

The information and data given in the report is authentic to the best of my knowledge.

This report is not being submitted to any other University, for award of any other Degree, Diploma or Fellowship.

The report has been submitted to faculty on May 02, 2022 as part of Major Research Project of 4th Semester. The 4th semester has started on January 04, 2022. During the semester, I have given updates to the faculty on the progress of report on the following dates April 12, 22 and 25, 2022.

Place: Delhi

Date: May 02, 2022

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Summary

EXECUTIVE SUMMARY

Banks' recapitalization is among the different reforms in banks for economies in emerging and developed countries. The banking sector recapitalization is a subject of discussion among government officials, business analysts, academia, bank regulators, and the public. Banks play a vital role in a country's financial development. Various countries have implemented financial sector transformation to build a stable financial framework. Introducing the Universal banking licence in Ghana in 2003, development in the banking industry has been experienced. However, opposing viewpoints can never be disregarded. Given a restricted limit with regards to managing, the financial area then, at that point, was more modest. Over the past sixteen years, three recapitalization programs have undergone the financial sector.

After several recapitalizations, the Bank of Ghana (BoG) announced another minimum capital for all universal banks to attain GH¢400 million by December 31, 2018. Before the said deadline, sixteen (16) banks had utterly achieved the new base capital through new capital injection or capitalisation of excess surplus or a mix of both. The BoG approved three merger proposals after some banks failed to meet the minimum requirements

Similarly, while cleaning up the financial sector in 2018, the BoG repealed the licenses of eight banks, namely, the Royal Bank, Beige Bank Limited, UniBank, Heritage Bank, Sovereign Bank, Premium Bank, Construction Bank, and GN Bank. The new bank, Consolidated Bank Ghana (CBG), founded by the Ghana Government, was given a full banking license to take over all deposits and a few selected resources of seven defunct banks. These were the Royal Bank, Beige Bank Limited, UniBank, Heritage Bank, Sovereign Bank, Premium Bank, and Construction Bank. The universal banking license of GN Bank was revoked for a savings and loans license. The above recapitalization and reforms reduced the overall total of the universal banks from 34 to 23.

The problem statement for the research is to establish how financially merged basks in Ghana have performed using Financial Ratios emphasizing on Consolidated Bank Ghana. With this, the researcher aims to assess the impact of M&A on Consolidated Bank Ghana's financial performance from 2018 to 2021. A descriptive quantitative research approach was used for this project.

In evaluating the impact of the financial performance of Consolidated Bank Ghana, the ratio analysis technique was used. A ratio analysis enables the Management to understand why their income, loans, deposits, profits, expenditures, and profitability performance have changed over time. Profitability, solvency, and Liquidity indicators were used in analyzing the performance with data sourced from company websites, Bank of Ghana publications and other literature.

In conclusion, the Government of Ghana is commended for taking the right decision to incorporate a new bank, CBG, to take over the seven defunct banks. Their financial performance improved with solid liquidity and CAR ratio, among others, after the merger from 2019 to 2021, although 2018 was challenging. The Ghana banking industry has become more assertive with various measures and policies from BoG to streamline banking activities.

Keywords: recapitalization; financial ratios; financial performance; Bank of Ghana; Consolidated Bank Ghana; mergers and acquisition.

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CHAPTER ONE

1.0 Introduction

This chapter comprises several sections, of which section 1.1 describes the background of the Study; section 1.2 explains the problem statement. Section 1.3 states the Study's objectives, section 1.4 states the research questions, and section 1.5 the limitation and scope. Finally, section 1.6 briefly describes the significance of the Study.

1.1 Background to the Study

The banking sector in Africa and the remaining developing nations have undergone considerable changes in their working environment. Banks' recapitalization is among the different reforms in banks for economies in emerging and developed countries (Kasekende *et al.*, 2009). Therefore, understanding the effect of recapitalizing monetary organizations, explicitly banks, is critical for developed and emerging economies (Obuobi *et al.*, 2020).

The banking sector recapitalization is a subject of discussion among government officials, business analysts, academia, bank regulators, and the public. Banks play a vital role in a country's financial development. It is a part of the banking industry reforms centred around the requirement for existing banks' reorientation and repositioning to accomplish a compelling outcome. It is a procedure to handle banks' indebtedness and prevent future monetary distress. Most banks and financial institutions in Ghana and different nations have suffered because of recapitalization practices, while some benefitted (Adegbaju *et al.*, 2008). Bank's market power is increased as a result of recapitalization.

The recapitalization practice in Ghana was completed on December 31, 2018. A survey of the result toward the beginning of January 2019 showed that 23 banks met the base requirement, which includesfourteen (14) foreign banks and nine (9) local banks. The year 2018 finished on a solid note with a more solidified financial area as more vulnerable and undercapitalized banks that presented dangers to financial security were settled. This has upgraded proficiency and reestablished certainty and flexibility in the financial area. Banks are better situated to help private areas drive development in the Ghanaian economy (Bank of Ghana, 2019b).

Various countries have implemented financial sector transformation to build a stable financial framework. They command a massive piece of the supply of money available for use. They can impact the nature of any country's production whenever progressed nations seek the proper equilibrium of financial guidelines, whether by expanding capital needs or forcing limitations on specific exercises. Understanding the reasonable expense of these laws is fundamental (Merton *et al.*, 1995)

With developing nations unequivocally Africa, notwithstanding the reforms dating back to the 1990s in the financial sector with a point of profitability improvement, productivity and efficiency, the operations of Commercial banks have stayed poor with significant holes in delivery of service. In any case, there is an opportunity to get better. A portion of the local banks in Africa has been performing immensely because of comparable reforms (Munyambonera, 2013).

Introducing the Universal banking licence in Ghana in 2003, development in the banking industry has been experienced. However, opposing viewpoints can never be disregarded. Given a restricted limit with regards to managing, the financial area then, at that point, was more modest. Over the past sixteen years, three recapitalization programs have undergone the financial sector (Obuobi *et al.*, 2020).

The Bank of Ghana (Central Bank of Ghana) ordered banks to enhance their capital to GH60 million in 2007. Following that, banks were required to enhance capital to GH120 million in 2012. In 2017, it was raised to GH¢400 million (Banahene *et al.*, 2018). Many thought that the activity was not done correctly, and a few banks might have been saved without recapitalizing the area. However, the Bank of Ghana (BoG) indicated that such rescue drives are methodically intended to make them more significant, steady, and powerful to strengthen the Ghanaian economy. (Obuobi *et al.*, 2020; Senyo *et al.*, 2022)

Growth in corporate bodies can be achieved either by external or internal means. (Oduro *et al.*, 2013). Banks have experienced lots of M&A with reforms like recapitalization. To sustain their survival in the industry, two or three banks could merge to meet the required minimum capital or allow themselves to be acquired by others. The industry has been sanitized, and fierce competition exists.

Mergers and Acquisitions (M&A) are the most often growth methods in the 21st century. M & A present an organization with a possibly more considerable portion of the overall industry and frees it up to a more enhanced market. M&A essentially makes an organization bigger, extends its staff and production, and gives it more resources to be a more grounded contender on the market. There are many purposes for consolidations and acquisitions. The banking industry M&A in Ghana has helped to sustain most banks and investments of the public. For example, a specific organization is excellent in administration, while others are great at advertising procedures or have many resources. If the skills of both are merged, it produces collective synergy. A new organization is formed with a lot higher and better than whatever the singular organizations recently had. By applying the guidelines of synergy, M&A can be made a triumph. (Amegah, 2012)

The aftermath of M&A must be better. The new company must be better than the previous companies. These performances can be measured using different indicators. Financial ratios will be used to ascertain the financial performance of a merged bank in Ghana, the Consolidated Bank of Ghana. Furthermore, financial ratios empower us to distinguish exceptional strengths and shortcomings, which illuminate bank liquidity, profitability and credit quality.

1.2 Problem Statement

There has been a consistent expansion in the degree of M&A in the financial sector with both local and international banks bringing about a difference in the proprietorship structure of banks. This development could likewise be ascribed to elements such as the Bank of Ghana's persistent change in guidelines concerning the minimum operating capital requirement and the liquidation challenges experienced by several banks (Kofi *et al.*, 2021).

Researchers have attempted to determine the development of financial institutions after they have gone through mergers and acquisitions. However, there have been no specific outcomes for the abovementioned. Institutions benefit from M&A, relying upon the method of funding and valuation model used.

Few institutions endeavour in all parts of their business to make investor esteem a necessary avocation for any acquisition or merging (Bruner, 2014). Whiles others bomb in the wake of going through a merger or an acquiring cycle? It could be reasoned that past examinations have no unmistakable stands concerning the introduction of merged firms, especially banks. Earlier investigations have centred around a re-visitation of investors, stocks, a strategy for funding, and arrangements for estimating the effect of M&A.

The problem statement is establishing how financially merged basks in Ghana have performed using Financial Ratios emphasizing on Consolidated Bank of Ghana.

1.3 The objective of the Study

This research aims to assess the impact of M&A on Consolidated Bank of Ghana's financial performance from 2018 to 2021. Specific objectives will be:

1. To calculate and evaluate accounting ratios (profitability, solvency, and liquidity) post-merger, 2018-2021
2. To examine and discuss the ratios computed to conclude their financial performance impact.
3. According to financial literature, to ascertain whether Consolidated Bank of Ghana experiences financial benefits derived from M&A.
4. To recommend areas for improvement.

1.4 Research Questions

1. What are the reasons companies merge?
2. Has there been capital, revenue and technology improvement?
3. What is the trend of financial performance of Consolidated Bank of Ghana?
4. What financial areas can be improved per the financial ratios?

1.5 Limitations and Scope of Study

Literature on M&A is massive. An investigation of M&A can be explored from the perspectives of different trains like Management, finance, hierarchical way of behaving, company regulation, and accounting. M&A investigations in the current paper will focus

on a specific discipline to acquire an engaged outcome, precisely financial performance matters.

The financial scope will examine financial performance using accounting ratios and whether M&A on the said Bank will be better off and be competitive in the market. More so, their credit risk and liquidy risk would be assessed. The study would help the Ghana government, a sole shareholder in its investment decision in the Bank.

1.6 Significance of the Study

The Study is a basis for future studies for students interested in finding out more about the financial operations of banks that have experienced M&A. The fundamental significance of the study is to uncover the conceivable effect of M&A on an organization's corporate performance. M&A are an essential event in corporate finance for the economy and the firm. Many literature discoveries have shown that M&A give rewards to the organization. By evaluating the effect of M&A on the corporate financial performance of Consolidated Bank of Ghana, employees, investors, government, regulatory agencies, analysts, researchers, and the company will find this study helpful. Investors and governments are typically intrigued by profits from their venture, which is accomplished through capital addition and profits payout. The examinations in the review will give them a premise to pursue informed choices. Furthermore, the study will expand other research deals with M&A and hence add to knowledge on the subject of M&A, which would be helpful to students.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 The Ghanaian Banking Sector History and Current State

Ghanaian banking began in the mid-1950s, establishing the Bank of Ghana (BoG) by the Bank of England. As a result, the BoG was split into two sections. The BoG will be changed from an issuing bank to a full central bank. Ghana Commercial Bank will become the most critical commercial savings bank in the second stage, relying on open corporate accounts. The Gold Coast gained independence from the United Kingdom on March 6, 1957, and was renamed Ghana. In July 1958, the BoG took charge of the currency management and issued its initial national currency, the Cedi, to replace the traditional West African money notes (Krakah *et al.*, 2010). The Ghana Commercial Bank took over the duties and some of the government financiers' responsibilities and began to handle the funds of most government divisions and public organizations.

The BoG is Ghana's Central Bank, in charge of all operational banks. More banks were created due to the new government's arrival. Between 1957 and 1965, the Ghana Investment Bank (as an investment banking institution), the Merchant Bank (for trader banking), the Agricultural Development Bank (for the promotion of agriculture), and the Social Security Bank (to stimulate savings) were all incorporated by legislation. Per the financial system at the period, these slew of banks were instituted as state-owned banks. Ghana faced an actual financial crunch in the mid-1960s due to its socialist policies, including strict trade restrictions and import/export imbalances. This state of emergency continued until it was lifted in 1983. (Atuahene, 2018)

The emergency and timing of the situation can be connected to a considerable drop in economic activity in the 1970s. After 1983, during the early extended periods of autonomy, the historical backdrop of the financial sector's development was strongly tied to detailed government strategy. The government interceded in every facet of the economy to hasten economic growth. Monetary policies were outlined as a part of the larger aim to replace imports through industrialization. By the 1970s, matters like loan fee regulations and credit ceilings had ensured that government-mandated need sectors like

manufacturing had access to modest finance. Heavy tax assessments from the banking sector have rolled into a critical governmental source of revenue. These, and perhaps other restrictive measures, have wreaked havoc on the banking sector. (Antwi, 2020; PwC Ghana, 2019; Ziorklui *et al.*, 2001)

With the help of the World Bank, a Financial Sector Adjustment Program was established in 1987 by the Ghanaian government to address banking and monetary issues. Government, in 1983, launched a financial recovery programme to rebuild the reverse monetary downturn trends and the economy. This made it evident to the government that recovering the then-disrupted monetary area was essential if financial improvements led to a durable economic development rebound. The Economic Recovery Program (ERP) was formed in 1983 to stabilize the economy so that development could proceed. (Ziorklui *et al.*, 2001)

The monetary changes included steps to improve financial discipline, adjustments to trade and exchange reforms, and other long-term efforts to start cost progression and free up numerous monetary operations. Following the crisis, the Banking Law was enacted in 1989, providing local governments with the right to file banking permission applications. CAL Merchant Bank, Meridien (BIAO) Trust Bank, ECOBANK, and Allied and Metropolitan were all given the authority to act as banks. (Amenu-tekaa, 2022; Senyo & Tekaa, 2022)

By 1992, the government had begun privatizing a section of the state banks. The financial sector's development has stemmed from the entry of several foreign banks and growth in the number of local banks. The financial sector advancement under the Financial Sector Adjustment Program (FINSAP) and Financial Sector Strategic Plan (FINSSIP) resulted in better investment funds, enhanced mobility, economic development, and banking industry competition. There were high lending rates, with a broader disparity between lending rates and deposits—the new Banking Act 2004 eradicated modifications in the minimum capital and secondary reserves. (Amenu-tekaa, 2022)

The initial capital was increased to GH 60 million in 2007. Another increase of GH 120 million in 2012. The Banking Act established the Universal Banking License, which allows banks to offer various banking services. With ongoing mergers such as

Intercontinental Bank and Access Bank, TTB Bank and Ecobank, and Republic Bank of Trinidad and Tobago and HFC Bank, M&A of specific banks arose mainly due to the rise in the minimum capital requirement. (Bank of Ghana, 2019b; Obuobi *et al.*, 2020; PwC Ghana, 2018)

In 2018, BoG conducted a severe clean-up operation in the banking sector to protect depositors' funds and avoid liquidation. Likewise, there is capital disintegration because of over the top non-performing loans (NPLs). (Amenu-tekaa, 2022). This arose due to a blunder and the inaccessibility of certain banks' stated capitals. The bankruptcies of Capital Bank and UT Bank and the illegal use of their stated capitals persuaded the BoG to expand its investigation into the entire banks to safeguard a healthy monetary environment. Consequently, the previously stated banks were compelled to close, allowing the GCB Bank to take over.

As a result, the BoG increased the base capital requirement for both existing banks and new entrants from GH 120 million (US$22.8 million) to GH 400 million (US$73.8 million) effective September 11, 2017, a 233.33 per cent increase. By the end of the year, in December 2018, banks must comply. According to the BoG, the purpose of the recapitalization is to "further build, reinforce, and modernize the monetary area to support the Government's financial vision and transformational plan." (Bank of Ghana, 2019b; PwC Ghana, 2018)

Many banks sought extra capital by raising cash from new financial investors reviewing non-restricting bids, or putting in the necessary effort as of July 2018. Nonetheless, a few banks continued to have difficulties attracting interested financial investors, owing to their loan books. Such institutions will almost certainly become targets for acquisitions or face license revocation. (PwC Ghana, 2018)

BoG issued the Capital Requirement Directive (CRD), the rule book for Basel II&III compliance, in January 2018 as part of initiatives to further strengthen risk management among executives across the industry. Detailing began in July 2018 under the CRD framework. The deployment is planned to correlate the level of risk that banks want to hold money, which is especially essential to safeguard investors' and depositors' cash as it

works by increasing their capital to meet the new minimum capital. (Bank of Ghana, 2018; Obuobi *et al.*, 2020; PwC Ghana, 2018)

This instruction provided these three alternatives for raising more capital were provided to banks by this instruction.

1) Injection of new capital.
2) Capitalization of surplus revenue.
3) A mix of new capital injection and revenue surplus capitalization.

After the deadline for the recapitalization workout on 31st December 2018, to maintain a minimum stated capital of GH¢400 million (US$73.4 million), twenty-three (23) banks remained in business. This included fourteen (14) foreign-owned banks and nine (9) domestically controlled banks. Increases in stated capital and deposits resulted in a 14.7 per cent increase in banks' assets in 2018. (Bank of Ghana, 2019b; PwC Ghana, 2019)

The BoG approved three merger proposals after some banks failed to meet the minimum requirements: First Atlantic Bank, Energy Commercial Bank, and Merchant Bank Limited merged; Omni Bank and Sahel Sahara, and First National Bank and GHL Bank. Due to these mergers, the three new banks merged met the increased minimum capital requirement. Their procedure worked because Ghana's private pension funds pumped new equity capital into five local banks through a one-of-a-kind holding company called Ghana Amalgamated Trust Limited (GAT). Furthermore, the state-owned banks NIB and ADB benefited from GAT. GAT chose the other recipients (the combined Universal Merchant Bank, Omni/Bank Sahel Sahara, and Prudential Bank) based on their dissolvable position and excellent corporate governance. (Bank of Ghana, 2018, 2019b)

Similarly, while cleaning up the financial sector, the BoG repealed the licenses of eight banks, namely, the Royal Bank, Beige Bank Limited, UniBank, Heritage Bank, Sovereign Bank, Premium Bank, Construction Bank, and GN Bank. The new bank, Consolidated Bank Ghana (CBG), founded by the Ghana Government, was given a full banking license to take over all deposits and a few selected resources of seven defunct banks. The seven defunct banks were the Royal Bank, Heritage Bank, UniBank, Beige Bank Limited, Sovereign Bank, Premium Bank, and Construction Bank. The last bank, GN Bank, was

granted a savings and loan licence. The Bank of Baroda, an Indian Government bank in Ghana, left the industry based on strategic grounds. The above recapitalization and reforms reduced the overall total of the universal banks from 34 to 23. (Bank of Ghana, 2018, 2019b; Obuobi *et al.*, 2020)

Table 2.1: Universal Licensed Banks operating as of June 2021 in Ghana

s/n	Banks	Previous names	Majority Ownership	Year commenced	Number of branches
1	Absa Bank Gh. Ltd)		Foreign	1917	95
2	Access Bank (Ghana) Plc		Foreign	2009	53
3	ADB Bank Limited		Local	1965	82
4	Bank of Africa Ghana Limited		Foreign	1997	26
5	CAL Bank Limited		Local	1990	32
6	Consolidated Bank Ghana Limited	1. Construction Bank 2. Beige Bank 3. Royal Bank 4. UniBank 5. Sovereign Bank	Local	2018	113
7	Ecobank Ghana Limited		Foreign	1990	67
8	FBN Bank (Ghana) Ltd.		Foreign	1996	21
9	Fidelity Bank Ghana Ltd.		Local	2006	73
10	First Atlantic Bank Ltd.		Foreign	1994	35
11	First National Bank (Ghana) Ltd.	1. First National Bank GH Ltd 2. GHL Bank Limited	Foreign	2015	11
12	GCB Bank Limited		Local	1953	196
13	Guaranty Trust Bank (Ghana) Ltd.		Foreign	2004	34
14	National Investment Bank Ltd.		Local	1963	51
15	OmniBSIC Bank Ghana Ltd.	Omni Bank Ghana Ltd Sahel Sahara Bank Ghana Limited (BSIC)	Local	2019	42
16	Prudential Bank Limited		Local	1993	44
17	Republic Bank (Ghana) Limited		Foreign	1990	42
18	Societe General (Ghana) Limited		Foreign	1975	49
19	Stanbic Bank Ghana Ltd.		Foreign	1999	40
20	Standard Chartered Bank (Ghana) Limited		Foreign	1896	23
21	United Bank for Africa (Ghana) Limited		Foreign	2005	30
22	Universal Merchant Bank Limited		Local	1972	37
23	Zenith Bank (Ghana) Ltd.		Foreign	2005	40

Source: Bank of Ghana website. www.bog.gov.gh; (PWC Ghana, 2021)

Table 2.2: Ghana banking industry performance – 2007-2018

Year/ Variable	CIR	Profit before Tax (%)	NIM (%)	Asset Quality	Liquidity	Non-Performing Loan (NPL)	CAR	ROA (before tax)	ROE (after tax)
2018	0.53	38.1	8.0	3.0	0.62	18.19	19.27	3.39	18.46
2017	0.54	36.4	9.4	3.0	0.60	21.59	18.55	3.58	18.69
2016	0.54	29.5	9.2	4.5	0.55	17.29	18.04	3.76	17.61
2015	0.53	30.7	9.8	4.6	0.48	14.67	17.81	4.64	22.15
2014	0.51	42.6	9.7	1.9	0.48	10.98	17.93	6.62	33.08
2013	0.47	45.2	9.7	1.9	0.53	12.0	18.45	6.22	30.89
2012	0.52	37.3	8.9	2.3	0.52	13.2	19.08	4.85	25.76
2011	0.6	30.5	8.0	2.3	0.50	14.15	17.41	3.86	19.74
2010	0.6	27.2	9.4	4.7	0.54	17.6	19.84	3.80	20.44
2009	0.6	19.7	7.7	4.2	0.52	16.2	18.24	2.83	17.5
2008	0.6	26.1	6.6	2.2	0.47	7.69	13.84	3.23	23.7
2007	0.6	30.4	6.7	1.5	0.41	6.91	14.76	3.67	25.83

Source: (Bank of Ghana 2019 and PwC Ghana Bank survey 2010 to 2019)

According to PwC Ghana 2018 survey report, the BoG, on July 5, 2018, released an openness guideline on mergers and acquisitions for banks, specialized deposit-taking institutions, and financial holding companies. The guideline's most important objectives are:

1) To assist with guaranteeing that the concerns of the managed financial institutions, contributors(depositors), and different partners and the steadiness of the monetary system will not be compromised by an adjustment of huge shareholding or control in such organizations;

2) To propose regulations for facilitating solicitations for proposed M&A of controlled monetary institutions;

3) To set minor circumstances that should be satisfied by blending or procuring directed financial organizations throughout the due diligence level of the investment process;

4) To give direction on the cycles and methodology used for assessing applications for M&A with the expected records or arrangements to be submitted; and

5) Lastly, to advise the post-M&A requirements.

The Bank of Ghana released a regulative mandate named "Unclaimed Balances and Dormant Accounts Directive, 2021" for Ghanaian financial institutions, supported by Section 92 of the Banks and Specialized Deposit-Taking Institutions Act, 2016 (Act 930). This is to help control and assimilate the working abilities of Section 143 of Act 930; portray procedural guidelines for idle account clients or their lawful delegates to recover reserves; and safeguard supports that are torpid at directed financial institutions (Bank of Ghana, 2021)

Another administrative mandate is the Bank of Ghana's structure on license and capital requirements for development finance institutions. As per Act 1032, this is the Development Finance Institutions Act of 2020. The Board of Governors issued a corporate governance request for rural and community banks in May 2021 as a transition to strengthen the monetary area administration frameworks of non-banking organisations' balance sheets. (Bank of Ghana, 2021)

According to the BoG quarterly report in July 2021, the financial sector's performance stayed solid during the first half of 2021. Accessible information showed sustained development in total investments, deposits and assets. The industry's assets developed due to expansion in total deposits during the survey time frame. Notwithstanding, credit development stayed low because of COVID-19 impacts (Bank of Ghana, 2021).

The administrative reliefs and strategy measures have supported the financial sector's operations. This has fundamentally been reflected in New Advances by banks regardless of the hindered, generally speaking, development in absolute credit because of the pandemic. Net restructured loans, attempted by banks to give rest to clients seriously affected by the pandemic, addressed some 7.7 per cent of the industry's loan portfolio. (Bank of Ghana, 2021)

Monetary soundness indicators stayed solid, supported by further developed dissolvability, profitability and liquidity indicators. However, the industry's Non-

Performing Loans (NPLs) ratio crawled up because of the pandemic-actuated loan reimbursement challenges, languid credit development, and bank-explicit credit reimbursement challenges. In general, the banking industry extensively oversaw the impacts of the pandemic and the sector's solid performance is supposed to go on as the economy bounces back. Credit development is supposed to improve, proved by the projected net ease in credit position and expansion in credit interest to help development (Bank of Ghana, 2021).

In the first quarter monetary report by BoG in 2022, the banking industry posted a solid performance during the initial two months of 2022, backed by a sustained expansion in total deposits and assets. The business's resources recorded a higher development, financed by expanded borrowings and liquidity streams from shareholders' funds and deposits. The first two months of the industry's new advances were higher than recorded during a similar period last year, 2021, supported by the expanded liquidity inside the industry. Albeit the pickup in the credit development indicators during the period under survey was incompletely by the bulging impact of the revaluation of foreign currency into Ghana Cedis from the high depreciation. An increase was experienced in the domestic currency dominated loans, reflecting superior credit augmentation in light of the pickup in aggregated demand. Along these lines, the banking industry will be firmly observed to recognize and address early admonition signals from a potential overflow of macroeconomic difficulties. Going ahead will assist with supporting the industry's performance. (Bank of Ghana, 2022).

To conclude, the banking sector posted a solid position statement as of February 2022, originating from higher growth in total assets and improved borrowings and deposits. Credit grew during the period and is supposed to keep growing, yet at a slower speed because of banks' projected net fixed credit position and monetary policy. In particular, the expansion in the Cash Reserve Ratio (CAR) from 8% to 12% and a raise in the Capital Conservation Buffer to 3% introduced the total interest pressures that are part of filling the ascent in inflation and the Ghana Cedi depreciation. The high degrees of borrowings, deposits, and capital offers the sector enough extension for lending. (Bank of Ghana, 2022)

2.2 Empirical Studies

2.2.1 Recapitalization Reforms and M&A

The primary purpose of banking reform is to expand bank operations and accelerate financial development. Studies in banking reforms give contrasting perspectives on the effects of a financial change on the banking industry's effectiveness and economic development. Others have experienced performance growth and the central bank's evenhanded approach to boosting financial development (Shanmugam *et al.*, 2004). Universal and commercial banks worldwide have not adopted the forgiving recapitalization approach of national banks (Adetiloye *et al.*, 2018).

Adegbaju *et al.* (2008) noted that during the late 1980s, many developing countries had executed financial reforms in broader market-oriented economic restructuring. The actions of banks worldwide show their unique significance as a growth engine in any economy. The importance of an economy's financial sector, which comprises banks and nonbank financial intermediaries, and the regulatory framework and ever-expanding financial products, in supporting economic growth is widely recognised, especially in developing economies.

Owolabi *et al.* (2013) additionally analyzed the impact of banking mergers on the performance of some chosen banks in Nigeria, utilizing 5-year pre and post-merger information on the net profit margin (NPM) and return on assets (ROA) and return on capital employed (ROCE). Because of the exercise, a statistical test of equality means was used to assess data to see if there were evidence between the approach and the parameters. Between 2001 and 2010, four banks were chosen for the examination. There was a great deal of correlation between the mean of ROCE in the pre-merger and post-merger periods, but not so much for ROA and NPM.

2.2.2 Reasons and Theories of Mergers and Acquisition

Numerous scholars express that around 70% of mergers flop as they do not gain the cost of capital for acquiring the firms. This gauge is somewhat deceptive since it incorporates numerous minor transactions where the degree of refinement is not high (Amegah, 2012). Mergers and acquisitions (M&A) are effective business tactics for the development and

growth of organizations. M&A has developed throughout the long term both in volume and worth. There are various M&A deals, and each arrangement is remarkable. In this way, the intentions behind each deal vary one from the other. Subsequently, a single theory cannot bring out the motives for takeovers or M&A (Leepsa & Mishra, 2016).

A merger strategy happens when two or more entities join to form a legal entity. According to Shim *et al.* (2011), Acquisition happens when two or more organizations come together whereby the target company is not integrated into the acquiring firm; instead, it becomes a subsidiary.

A merger occurs when two organizations pool their interest into a new organization, requiring the understanding of the two shareholders. However, an acquisition is when one organization acquires a significant part of the resources or securities of another, ordinarily, to rebuild the activities of the acquired firm. The purchase might be of all or a significant part of the voting rights of the target firm or its division (Daga, 2007).

Hopkins *et al.* (1999) identified four distinct but linked motives in the M&A thought processes identified in previous studies: strategic, economic, market and personal motives. The strategic motive is to improve the firm's strategy, resulting in synergy development, the use of an organization's growing market power, core expertise, and appropriate resources, strength, and goods to the firm. The market motive is to join new company sectors in new locations or countries by acquiring already well-known businesses as the quickest way or method to obtain entry without creating more capacity. The office issue and the board's overbearing attitude are recognised for personal motives; laying out economies of scale is remembered for an economic motive.

Leepsa *et al.* (2016) have clubbed together the different motives of M&A into two speculations. The main gathering is industrial organization speculations or theories that incorporate thought processes like expanding market power, developing effectiveness and precautionary intentions. These motives investigate esteem expanding exercises of the firm that lead to an expansion in later benefits and accordingly upgrade investor value. The second group, corporate governance theory, incorporates motives like taking care of office issues and settling inner failures and capital market defects. These thought processes do not investigate the premium of investors but the managers' interest in the

firms. Along these lines, mergers finished with such motives are not esteem expanding exercises for the firm but rather an increment in the managers' wealth.

Firms generally embrace M & M&A as an essential means to accomplish synergies, particularly in a viable environment. Synergistic advantages are understood by assuming the worth of the blended organization surpasses the worth of the two organizations taken independently (Koech, 2013).

The M&A theories can likewise be made according to the perspective of the target and acquired firm, getting advantage of further developed M&A performance. These are (1) according to the objective perspective of the firm: size hypothesis, inefficient administration theory, undervaluation speculation and price-earning ratio and (2) according to the acquired firm's perspective: firm size, capital structure, the board performance and free cash theory. (Leepsa *et al.*, 2016)

M&A's different theories are discussed below:

a. Efficiency Theory

Efficiencies are developed through M&A. Utilizing specific abilities or the target's Management, disposing of inactive assets, dividing costly technologies between the acquirer and target, advocating for critical products to both organisations, lowering transaction costs, and redistributing existing costs are all ways to increase efficiency (Wolfe *et al.*, 2011).

According to the effectiveness theory, mergers occur when two organisations have different features, flaws, and productivity levels. The differential efficiency hypothesis or theory is what this is called. Through mergers, the expertise of one organization's leaders is transferred to an underperforming management business, resulting in both societal and private benefits because it improves the presentation of the underperforming organisation and saves the economy's assets. The administrative synergy hypothesis is likewise called in light of the abundance of the administrative limit used in an organization where such proficient administrative capacity is absent. The differential efficiency hypothesis is the reason for horizontal mergers. Assuming firms complete the business exercises in

a comparative line of business, they become likely acquirers. The organizations can distinguish and keep their business activities apart and perform above and below average. Here, the firm includes unrivalled managers as they have more involvement with a specific line of business activity (Leepsa *et al.*, 2016). Facebook acquired Little Eye Labs in 2014 with the motive for their mobile development to a greater height by leveraging Facebook's outstanding infrastructure and unique applications. M&A brings an increase in the company's efficiency by eliminating inefficient Management using varied mechanisms (Kumar & Rajib, 2007).

Daga (2007) opined that synergy is mainly stated as 2+2=5. Synergy can be achieved through economies of scale, in which fixed costs turn into a smaller percentage of larger output and thus, the output can increase at a reduced cost. Efficiency theory could be based on the premise that economies of scale exist in the industry. Before M & M&A, firms were operating at stages of activity that fell short of attaining the probable economies of scale.

b. Diversification

Diversification implies the extension of one or another geography, range of products, or both. Diversification helps expand the corporate obligation limit and abate the current worth of future expense risk. Regardless of whether there is fluctuation due to consolidations, these outcomes are in the consi stency of income. Mergers are viewed as a preferred course for expansion over inner development because the timing and accessibility of imperative assets do not match through interior development (Hopkins *et al.*, 1999; Leepsa *et al.*, 2016)

Company executives frequently cite diversification as a motivation for M&A. It is commonly stated that diversifying a company's activities reduces the risk of profit volatility. When one business component suffers a setback, the loss might be compensated for or countered by higher or sustained earnings in another. This is intended to smooth a company's earnings results, which in turn smooths the company's stock price over time, providing investors more confidence in investing in the company. Mergers are also seen to have a risk-reduction function. However,

this justification has been problematic for mergers. While diversification is a desirable thing in and of itself, it is also essential to consider the venture's costs compared to other possibilities (Amegah, 2012). Diversification may not necessarily increase a firm’s value. Most times, they become less than the total of the individual firms.

c. Information and Signal Theory

The information theory alludes to the revaluation of the firm's proprietorship portions that possess new data produced during the merger interaction. Bradley *et al.* (1983) have recognized the information theory in two clarifications. One is the Kick-in jeans clarification, and the second is the sitting-on-a-gold-mine speculation. As per the previous, the executives of the target organization are enthused to work into a higher esteemed system that would prompt the revaluation of the organization, while as indicated by the last, the consolidating activity might include the conveyance of new data or lead the market to decide that the bidders have unrivalled information. After the declaration of consolidation exercises, the market may revalue already "underestimated" portions of the bidder organization. In principle, information that the "target organization is underestimated" becomes one of the intentions of the bidder to be occupied with m&A exercises (Daga, 2007).

This hypothesis recommends that two unique investors act diversely with different data. The consolidation declaration is a wellspring of information and signs to showcase the potential effect of the deal on the firm worth to the member. The declaration of mergers would mean that the worth of the target would rise or double, or the new Management would take out the supervisory group. It also means that there would be an expansion in the incomes and future qualities. In this manner, the declaration of M & M&A would flag that there would be an expansion in the future worth of the bidder firm. According to a signal theory extension, targets increase the sellers' advantage by lowering the acquirer's offer price due to information asymmetries. The implication is that sellers benefit because the target

engages in inter-organizational interactions since it works as a signal. (Leepsa *et al.*, 2016; Reuer *et al.*, 2012)

d. The Agency Theory

When the firm's managers (agents) and stockholders (principals) have a conflict of interest, it is called an agency problem. Jensen *et al.* (1976) highlighted the possible repercussions of agency difficulties. Management, for example, is seen as the company's and shareholders' agents. Management who owns a smaller amount of the company's stock devotes less effort to wealth-creation operations. All organisations cannot monitor organizational operations since it would necessitate a significant investment of resources (Kofi *et al.*, 2021; Tan *et al.*, 2019). Thus, the organization issue includes expenses like organising agreements, checking agents' activities, getting ready bonds with agents to pursue ideal choices for the organization, and remaining expenses resulting from the contrast in choices among specialists and administrators (Leepsa *et al.*, 2016).

There are two perspectives on the agency theory problem. On the one hand, the danger of a takeover might relieve the organization's agency problem by filling in for the need of individual investors to watch the managers. Then again, mergers might be a reason for agency problems instead of an answer. This is known as the "managerialism" clarification of consolidations. As indicated by it, the pay to directors is an element of the firm's size. Subsequently, they attempt to build further the firm's size (Daga, 2007). Another unique viewpoint is that mergers do not aid in the resolution of agency issues. Managerialism, on the other hand, produces more of an agency problem. Leepsa *et al.* (2016) describe managerialism, which claims that managers are motivated to expand the size of the organisation and the resources they control.

e. Free Cash Flow Theory

Free cash flow and agency costs are inextricably linked as a merger motivators. Jensen *et al.* (1976) define free cash flow as cash flow above amounts required to fund all projects with positive net present values when discounted at applicable capital costs. They also contend that agency costs resulting from contention

between the agent and principal, that is, directors and investors, over the free income, are significant reasons for any takeover movement.

As indicated by Jensen *et al.* (1976), there is generally an irreconcilable situation when a decision is to be made concerning the corporate technique that would rely on the abundance creation. Agency cost happens as discussed above, and there is no ideal answer. At the point when the organization cost is colossal, takeover assists the expense with being diminished. Rather than keeping the free income, it ought to be conveyed to investors. When the money is conveyed back to investors, the managers let completely go over the asset and lose influence that makes them look for new ventures open doors. Likewise, when different assets are required, it is wiser to go for obligation instead of value. Directors will be compelled to bring in money streams to reimburse the obligation (Leepsa *et al.*, 2016).

2.3 Types of Mergers

There are varied types of mergers. According to Amegah (2012), four merger types exist horizontal, vertical, conglomerate, and congeneric.

2.3.1 Horizontal Merger

This merger occurs when two companies in the same field of business unite, i.e., when they are in direct competition or have similar product lines and markets. Economies of scale are realized through horizontal mergers (Amegah, 2012; Yeboah *et al.*, 2015). Horizontal mergers exist in the banking industry of Ghana. The recapitalization effect leads some banks who want to survive to engage in this kind of merger (Obuobi *et al.*, 2020)

2.3.2 Vertical Mergers

A vertical merger brings together companies at various stages of the manufacturing process. For example, a vertical merger might be a cone provider merging with an ice cream factory. Another example is Walt Disney's purchase of the ABC television network to broadcast its recent films to large audiences (Amegah, 2012). Yeboah *et al.* (2015) postulate that vertical mergers occur when two companies unite at “different production phases”.

This is especially true when the merging firm's business operations include buyer-seller relationships.

2.3.3 Conglomerate Merger

A Conglomerate merger exists when two companies with unconnected business lines join forces. A conglomerate merger is an example of a combination between a bank and a media company (Amegah, 2012). Conglomerate mergers occur when two or more companies merge in unrelated industries. The entities involved in the merger do not have a "buyer-seller relationship." The acquirer might take over the target company in one of two ways: through it a statutory merger or investment. The acquiring firm takes over the target firm statutorily, with the target company's shares being exchanged for the acquiring firm's shares, backed by the target company's legal dissolution. The acquiring firm may purchase the assets and become legally accountable for the liabilities of the target firm under the purchase of assets approach (Yeboah *et al.*, 2015)

2.3.4 Congeneric Merger

Amegah (2012) opined that when entities active in related businesses but not producers of the same product (horizontal) or in a producer-supplier relationship (vertical) unite, it is called a congeneric merger. A good example is the merging of AOL and Time Warner.

2.4 Post-Merger Performance Based on Financial Data

Profitability can increase either from an abatement in actual expenses or from an ascent in costs compared with costs. Since an ascent in costs comparative with expenses can result from an expansion in market power upon the consolidation, an ascent in productivity does not demonstrate that proficiency has fundamentally expanded. Then again, assuming productivity declines, they contend that it is feasible to reason that effectiveness has fallen (Daga, 2007).

The profit after tax signifies a bank's performance. Financial ratios are the most utilized strategies to gauge bank performance (Mamatzakis, 2007). Financial ratios aid

in evaluating and deciphering bank financial and accounting records, which gives a comprehension of a bank's performance. Pandey (2015), in his book financial management, states that a mix of at least two firms might result in a reduction in cost because of operating economies.

A merging company may avoid or reduce overlapping capacity and offices. It can strengthen its management capabilities by demonstrating creative work and lowering operating costs. Different parts remain constant, and development increases profitability and shareholder value. Inside or remotely, a company might expand or differentiate its business activity. Assume the company cannot expand internally due to a lack of physical or administrative resources. In that instance, it can grow remotely by combining its activities with other firms through mergers and acquisitions (M & M&A). M&As might assist with speeding up the growth of an organization cheaply and convenient. (Joash *et al.*, 2015; Koech, 2013; Musah *et al.*, 2020)

According to Bruner (2014), saying anything significant about M&A performance relies on the trust in the techniques and measures from which we extract knowledge. His research offers four ways to deal with M&A profitability measurement.

2.4.1 Event Studies

These examine the shareholder's abnormal returns throughout the period preceding the transaction's announcement. The change in the share price plus any dividends received, divided by the closing share price, is the crude return for one day. The anomalous return is essentially the crude return minus a benchmark of what financial backers expected on that particular day. Often, the benchmark is the return dictated by the capital asset pricing model (CAPM) or the profit from an extensive market index, such as the S&P 500. These investigations are forward-looking, understanding that share prices are the current worth of anticipated future incomes to investors. Since the 1970s, these examinations have seemingly ruled the field.

2.4.2 Accounting studies

These examine acquirers' financial statements before and after acquisitions to see how monetary performance changed. The focus of these investigations is

on the firm's overall profit, return on assets or equity, earnings per share (EPS), liquidity, and leverage. The most acceptable investigations are set up as matching acquirers and non-acquirers based on industry, matched-sample comparisons, and business size. The question in these investigations is whether the acquirers outflanked their non-acquirer counterparts.

2.4.3 Executives survey

Simply asking Management if an acquisition added value seems to be a no-brainer. These surveys use a structured questionnaire on a group of executives and then gather the findings to derive a broad view from the data.

2.4.4 Clinical studies

These studies concentrate on a single transaction or a small slice in great detail, frequently based on field interviews with executives and expert observers. This is an example of inductive inquiry. The researchers frequently produce new insights by delving into a trade's details and factual backdrop.

2.5 Financial Performance

It is a measurement of how businesses carry out their operations to meet their financial objectives. Financial performance is a metric that gauges how profitable a company is. This is accomplished by using numerous evaluation methodologies and financial indicators (DePamphilis, 2018). Pautler (2003) studied evidence of M&A and claims that examining information from financial statements is a secondary technique for measuring merger impacts. This is conducted before and after the merger or acquisition to determine what transpired afterwards. Cash flow statements, profit margins, and accounting rate of return were covered in the research.

As Irungu (2021) and Akenga *et al.* (2017) indicated, financial performance is a proportion of activities completed by a firm to accomplish its financial objectives. Akenga *et al.* (2017) concentrated on the link between financial performance and growth in assets after M&A. Their study tracked down an inconsequential connection between resource development and financial performance.

The method of assessing the financial performance of a company's operations and policies is referred to as financial performance. It is calculated as a percentage of an organization's overall financial health during a specified period. Various institutions have different monetary performance measures. However, the Return on Assets (ROA) and Return on Equity (ROE) are the standard proportions of financial performance. ROE is the ratio that indicates how much profit an organisation obtains compared to the total sum of investors' value put into the firm (Pandey, 2015). Return on equity demonstrates how well a company's Management utilises investors' funds; the higher the ROE, the more effectively the Management employs investors' capital.

ROE shows how the bank executives successfully handle investors' assets to create profits. There is an inclination to an exceptional yield on equity, for it shows that Management is productive in dealing with the investors' assets to create profits (Joash *et al.*, 2015). A review by Al Nu'animat *et al.* (2012) and Otekunrin *et al.* (2018) on the connection between accounting performance indicators for Jordanian and Nigerian firms showed a positive connection between ROE ratio and market power per share. Joash *et al.* (2015) concluded that shareholder value and bank profitability substantially impacted the changes in the ROE of banks that had undergone M&A operations. The two independent variables positively impacted the banks' return on equity, i.e., an increase in the variable resulted in a rise in the bank's ROE.

Ogada *et al.* (2016) researched the impact of collaboration on combined financial institutions in Kenya. Their investigation discovered a link between the financial performance of the institutions, and operating and financial synergies, resulting in a significant improvement in operations following mergers. Akenga *et al.* (2017) studied the impact of M&A on Commercial banks' financial performance. Their investigation discovered that M&A raised the investors' worth of the combined banks.

Murangu (2007) studied the impact of securing the financial performance of non-listed banks in Kenya. The research demonstrated a critical improvement in the operations of these non-listed banks that converged as contrasted to the unmerged non-listed banks.

Financial performance may differ in meaning; however, any action that neglects to improve investors' worth and esteem cannot be considered a success Joash *et al.* (2015). A drawn-out decrease in investor wealth of M&A can term the combination interaction to be a disappointment (Pike *et al.*, 2006). The progress of any consolidation was estimated by the centre skills produced to make worth or improve enterprise value. It was estimated using the indicators like competitive positioning and market attractiveness because of cost administration and differentiation in products (Joash *et al.*, 2015).

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

Research is the original investigation conducted to add up to existing literature and knowledge. It is also a creative activity that adds to creating new ideas and knowledge. Knowledge is new when facts, interpretations, and theories explaining the findings may not appear in similar studies. For research to be reliable, its conclusions must be original and executed with a suitable research method.

This chapter shows the research design, approach, data and analysis techniques.

3.2 Research Design

The research design establishes the conceptual framework within which a study is carried out. It serves as a blueprint for data gathering, measurement, presentation, and analysis. The researcher's thoughts are organised so that faults and flaws can be recognised with the help of study design. The impact of financial performance can be quantified by comparing two or more relevant indicators. This can be done by gathering data from multiple points in time and examining their correlations. As a result, the researcher determined that an explanatory design was the most fantastic fit for this study and utilized it. (Adinew, 2016; Sinha, 2021)

3.3 Research Approach

There are three typical business and social research methods in investigative studies: quantitative, qualitative, and mixed methodologies (Marvasti, 2007). Quantitative research examines the relationship between variables to test objective ideas. It entails event counting and measurement and statistical analysis of a set of numerical data. However, a qualitative research approach studies and comprehend the meaning individuals or groups attach to a social or human situation to establish a hypothesis or pattern. (Adinew, 2016).

Finally, a mixed-method emphasizes the study topic and employs all possible methodologies to solve it.

The descriptive quantitative research approach was used for this project. This research process reviewed several existing theories to provide a more profound and better theoretical understanding. Quantitative research entails substantial activity to quantify concepts using scales that yield quantitative values that may subsequently be employed in data analysis, either directly or indirectly. When faced with a study subject requiring numerical data, most researchers opt for the quantitative approach. (Marvasti, 2007)

3.4 Data Collection and Analysis

Data collection is the technique used to collect research data. Thus, how the researcher gathers data. Questionnaires, interviews, focus groups, observations, secondary data, and tests are various methods used to collect data (Marvasti, 2007)

Two types of data exist thus, primary and secondary data. The Primary data are those gathered afresh and original. The secondary is the data already collected and has passed through various processes.

The researchers collected secondary data from the annual financial statement of the website of our case company, Consolidated Bank of Ghana (CBG) Ltd., from 2018 to 2021. When using secondary data, one must look out for the reliability and quality of the dataset. The researcher used audited annual financial reports of CBG that were downloaded from their website (www.cbg.com.gh) and various publications and reports from the Bank of Ghana website (www.bog.gov.gh). It was the most convenient method for this research.

Financial statements are examined to answer several questions using some techniques. Some of these techniques are:

1. Using common-size statement analysis – is performed yearly to explain the changes in the asset-liability mix and structure. This happens when financial statements are reduced on a percentage basis. The common-size statement analysis shows each line item of the profit and loss or the balance sheet as a percentage of the net sales and total assets, respectively.

2. Trend analysis – growth is essential for long term survival; as such, managers are interested in assessing the growth of various components. They achieve it by taking a base year as 100, then other years adjusted to show the growth rate. It signifies the growth level that a bank has achieved during the years on each financial statement item.

3. Ratio analysis – we use ratio analysis to know how a company performed on the productivity of assets, profitability, and risk. Companies' performance on these indicators is usually assessed by calculating essential ratios.

The most famous technique for analyzing a bank's financial statement is ratio analysis. A ratio analysis enables the Management to understand why their income, loans, deposits, profits, expenditures, and profitability performance have changed over time. Profitability, solvency, and Liquidity indicators were used in analyzing the performance of CBG.

3.4.1 Benefits of Financial Ratios

In financial reporting, financial ratios are critical (Faello, 2015). Financial ratios achieve the following benefits as opined by Faello (2015); Kumi *et al.*. (2013); Pike *et al.*. (2006); and Subalakshm *et al.*. (2018):

1. Ratios help in summarising data in a manner that is more easily comprehended, evaluated, and compared. Ratios can give a more precise knowledge of the interrelationships between individual financial statements and better comprehend the financial statements themselves.

2. Ratios help with long-term patterns in financial condition, operations, cash flows, and comparisons across time.

3. Ratios can determine the consistency of relationships inside an entity over time and common relationships across entities in the same industry.

4. Financial ratios show a company's past, but they also show where it is going in the future.

5. From an academic standpoint, financial ratios are critical in modelling. In a linear regression model, vital independent variables, such as financial ratios, are used to

estimate a target variable (dependent variable). Several bankruptcy prediction models employ financial ratios.

3.4.2 Limitations of using financial ratios

Financial ratios contain inherent limitations that, if not addressed, could lead to incorrect data interpretations. Financial ratios have several severe disadvantages, which are detailed below.

1. Ratios that differ significantly from the norm merely reflect the effects of a problem. Additional analysis based on internal data is required regularly to isolate the problem's sources. Ratio analysis focuses solely on the predictably weak features. It does not provide irrefutable proof; instead, it only reveals that a problem exists. (Lesáková, 2007)
2. A financial ratio is made up of a numerator and a denominator. If the numerator or denominator are incorrect, the financial ratio will be erroneous. A numerator or denominator error could occur due to human error. (Healy & Wahlen, 1999)
3. Accounting principles, accounting procedures, and accounting classes calculate financial ratios from a company's financial statements. These decisions may not be constant over time or between companies, putting comparability at risk (Faello, 2015).

CHAPTER FOUR

CASE STUDY ANALYSIS, DISCUSSION AND RECOMMENDATIONS

4.0 Introduction and Background of the Case Company

The Bank of Ghana announced another new minimum capital for all universal banks to attain a minimum capital of GH¢400 million by December 31, 2018. Before the said deadline, sixteen (16) banks had utterly conformed to the order on the new base capital, either through injection of new capital or capitalisation of excess surplus or a mix of both. Three requested mergers, including six banks, were endorsed by the Bank to assist them with meeting the prerequisite capital (Bank of Ghana, 2018).

While cleaning up the financial sector, the BoG repealed the licenses of eight banks, namely, UniBank, the Royal Bank, Beige Bank Limited, Heritage Bank, Sovereign Bank, Premium Bank, Construction Bank, and GN Bank. The new bank, Consolidated Bank Ghana (CBG), founded by the Ghana Government on August 1, 2018, was given a full banking license to take over all deposits and a few selected resources of seven defunct banks. The seven defunct banks were the Royal Bank, Heritage Bank, Beige Bank Limited, UniBank, Sovereign Bank, Premium Bank, and Construction Bank. The last bank, GN Bank, was granted a savings and loan license. The Bank of Baroda, an Indian Government bank in Ghana, left the industry based on strategic grounds. The above recapitalization and reforms reduced the overall total of the universal banks from 34 to 23. (Bank of Ghana, 2018, 2019b; Obuobi *et al.*, 2020)

Bank of Ghana (2018) and PwC Ghana (2018) stated the following identified vulnerabilities as the cause of the above banks' licenses revocation.

a. Poor risk management practices
b. Poor corporate governance
c. Unsafe and unsound banking practices
d. Weak credit administration
e. General non-compliance with prudential norms, and
f. There were diversions of customer deposits into unproductive ventures.

Efforts by BoG to improve these insolvent and weak institutions' capital positions prove futile. BoG had to revoke their licenses as these banks posed a substantial risk to the entire financial sector. This led to the birth of CBG on 1st August 2018 by the Government of Ghana to oversee the defunct banks' deposits and resources. (Bank of Ghana, 2018; PwC Ghana, 2018)

Consolidated Bank Ghana Limited (CGB) is a local limited liability Ghanaian bank with a universal license by BoG under the Specialized Deposit-Taking Institution Act, 2016 (Act 930). CBG is wholly owned by the Government of Ghana and was incorporated on August 1, 2018. The Bank is Headquartered in Accra, the capital of Ghana, with one hundred and fourteen (114) branches across thirteen (13) regions in Ghana. It is currently the second-largest bank after GCB Bank. CBG is not listed on the Ghana Stock Exchange as the Government of Ghana wholly owns it. (CBG, 2018, 2019)

CBG is uniquely placed with strengths to leverage people, products, services, technology, branch network and balanced sheet size. Its core values are Integrity, excellence, innovation and teamwork. It prides itself on its vision to be the most trusted bank in Ghana. With a mission of being the preferred Ghanaian bank providing a simple, secured and differentiated banking experience to customers. (CBG, 2018, 2019, 2020, 2021)

4.1 Financial Highlights of CBG From 2018 to 2021

The financial statements of CBG were prepared in compliance with the International Financial Reporting Standards (IFRS) and required by the Ghana Companies Act, 2009 (Acts 992) and the Banks and Specialized Deposit-Taking Institutions Act, 2016 (Act 930). . (CBG, 2018, 2019, 2020, 2021)

Table 4.1 CBG Statement of Financial Position from 2018-2021

CONSOLIDATED BANK GHANA LIMITED Statement of Comprehensive Income (all amounts in thousands of Ghana Cedis)				
	2018	**2019**	**2020**	**2021**
Interest income	460,760	1,021,462	1,139,385	1,485,497
Interest expense	(338,793)	(544,867)	(625,853)	(861,115)
Net Interest income	***121,967***	***476,595***	***513,532***	***624,382***
Fee and commission income	10,403	34,367	56,176	88,012
Fee and commission expenses	1,254	3,177	(8,578)	(8,260)
Net fees and commission income	9,149	31,190	47,598	79,752
Net Trading Inicome	7,096	52,094	52,394	69,914
Other income	-	9,538	16,066	4,639
Operating Income	**138,212**	**569,417**	**629,590**	**778,687**
Impairment losses on financial assets	(13,478)	(4,959)	(17,419)	(21,687)
Impairment (losses)/release on ther financial assets	-	63	(53,660)	(48,377)
Personnel expenses	(57,504)	(209,864)	(253,643)	(332,753)
Depreciation	(13,634)	(62,811)	(56,423)	(55,305)
Other expenses	(82,001)	(188,122)	(171,729)	(217,909)
Profit/(Loss) before Income Tax - PBT	*(28,405)*	*103,724*	*76,716*	*102,656*
Income tax (charge)/credit	5,565	(29,491)	(26,559)	(21,412)
Financial Sector recovery levy	-	-	-	(3,850)
National fiscal stabilisation levy	-	(5,186)	(3,836)	(5,133)
Profit/(Loss) after Tax - PAT	***(22,840)***	***69,047***	***46,321***	***72,261***
Other Comprehensive Income:				
Items that may be reclassified to profit or loss changes in the fair value of debt instruments at fair value through other comprehensive income	-	(3,286)	31,312	(16,064)
Deferred income tax relating to other comprehensive income item	-	822	(7,828)	4,016
Total Comprehensive Income / (Loss)	***(22,840)***	***66,583***	***69,805***	***60,213***

Source: Annual financial statements of CBG from 2018 to 2021

Table 4.2 CBG Statement of Comprehensive Income from 2018-2021

CONSOLIDATED BANK GHANA LIMITED STATEMENT OF FINANCIAL POSITION AS AT 31st DECEMBER, All amounts are in thousands of Ghana Cedis)	2018	2019	2020	2021
Assets:				
Cash and Cash equivalents	1,121,869	370,060	763,879	1,332,426
Investment securities	6,232,573	5,405,844	7,060,759	6,731,794
Non-Pledged trading assets	-	575,291	839,218	971,140
Loans and advances to customers	3,546	227,878	861,736	1,330,480
Intangible assets	-	14,778	28,702	30,217
Right-of-use assets	-	109,139	90,956	68,308
Property and Equipment	123,623	104,394	115,616	146,608
Current income tax asset	-	-	-	223
Deferred income tax assets	5,565	6,266	13,006	17,507
Other assets	1,557	129,340	187,890	122,461
Total Assets	***7,488,733***	***6,942,990***	***9,961,762***	***10,751,164***
Liabilities:				
Deposits from customers	5,512,313	5,096,350	6,866,118	6,751,075
Due to other banks/Borrowed funds	1,175,808	698,284	1,614,630	2,426,796
Lease liabilities	-	108,571	103,719	78,585
Other liabilities	373,452	540,026	804,369	693,163
Current income tax liability	-	6,016	9,378	-
Total liabilities	***7,061,573***	***6,449,247***	***9,398,214***	***9,949,619***
Equity:				
State Capital	450,000	450,000	450,000	627,784
Retained earnings	(22,840)	11,683	34,844	70,974
Fair value reserve	-	(2,464)	21,020	8,972
Statutory reserve	-	34,524	57,684	93,815
	427,160	***493,743***	***563,548***	***801,545***
Total Equity and Liabilities	***7,488,733***	***6,942,990***	***9,961,762***	***10,751,164***

Source: Annual financial statements of CBG from 2018 to 2021

Table 4.3 CBG Statement of Cash Flow for the year ended 2018-2021

CONSOLIDATED BANK GHANA LIMITED STATEMENT OF CASH FLOW FOR THE YEAR ENDED (All amounts are in thousands of Ghana Cedis)	2018	2019	2020	2021
Profit / (loss) before income tax	(28,405)	103,724	76,716	102,656
Adjustments for:				
Depreciation and amortisation	13,634	62,811	56,423	55,305
Impairment loss on investment securities	1,252	-	-	-
Impairment loss on loans and advances	-	4,959	17,419	21,687
Impairment (losses)/release on other financial assets	-	(63)	53,660	48,377
Net interest income	-	(476,595)	(513,532)	(624,382)
Unrealised exchange loss on lease liability	-	2,575	13,557	3,636
Profit on asset disposal	-	(8,024)	(837)	(110)
Fair value changes recognised in P&L (staff loan)	-	282	4,301	4,560
Lease remeasurement impact	-	-	-	4,560
Interest income on investment securities	(453,540)	-	-	-
	(467,059)	(310,331)	(292,293)	(383,711)
Changes in:				
Loans and advances to customers	(3,546)	(224,332)	(633,858)	(490,431)
other assets	(1,557)	(128,453)	(58,550)	17,320
Investment securities	-	(128,386)	(1,481,492)	113,983
Non-pledged assets	-	(575,291)	(290,545)	(131,922)
Deposits from customers	(1,307,774)	(415,963)	1,769,768	(115,043)
Mandatory cah reserve	(551,231)	551,231	(197,289)	(342,797)
Due to other banks/borrowed funds	(428,021)	(477,524)	916,346	812,166
Other liabilities	272,849	166,371	264,342	66,712
Cash flow used in operations	(2,019,280)	(1,232,347)	288,722	(70,012)
Interest received	-	1,021,462	1,139,385	1,480,937
Interest paid		(544,867)	(625,853)	(856,663)
Tax Paid	-	(28,337)	(42,822)	(40,255)
	-	448,258	470,710	584,019
Net Cash Flow used in Operating Activities	***(2,486,339)***	***(1,094,420)***	***467,140***	***130,296***
Cash flow from Investing activities:				
Acquisition of Property and equipment	(546)	(30,357)	(38,599)	(45,755)
Proceeds from disposal of property and equipment	-	23,911	313	164
Acquisition of intangible assets	-	(16,605)	(22,564)	(12,483)
Purchases of investment securities maturing over 91 days	(11,118,835)	-	-	-
Proceeds from redemption/sale of investment securities	14,463,856	-	-	-
Net Cash flow generated from Investing Activities	***3,344,475***	***(23,051)***	***(60,850)***	***(58,074)***
Cash flow from financing activities:				
Proceeds from issue of share capital	450,000	-	-	-
Payment of principal portion of lease liabilities	-	(37,545)	(36,337)	(44,763)
Net Cash flow generated from financing activities	***450,000***	***(37,545)***	***(36,337)***	***(44,763)***
Net Increase in cash and cash equivalents	**1,308,136**	**(1,155,016)**	**369,953**	**27,459**
Balance at the beginning of the year/period	246,106	1,554,242	399,226	769,179
Cash and cash equivalents at 31 December	***1,554,242***	***399,226***	***769,179***	***796,638***

Source: Annual financial statements of CBG from 2018 to 2021

4.2 Ratio Analysis

4.2.1 Profitability Ratio

Profitability ratios are the ability of an institution to generate a fair profit and return on investment is indicated by its ability to generate a decent profit and return on investment. The ratios are a good predictor of a company's financial health and how well it manages its assets. (Lesáková, 2007)

In evaluating CBG's profitability, four (4) ratios were used, namely Return on Equity (ROE), Return on Assets (ROA), Net Interest Margin (NIM), and Cost to Income Ratio.

4.2.1.1 Return on Equity (ROE)

ROE is the ratio that signifies how much Profit an organization obtains compared to the total sum of investors' value put into the firm (Pandey, 2015). ROE demonstrates how well a company's Management utilizes investors' funds; the higher the ROE, the more effectively the Management employs investors' capital. It is calculated as Profit after-tax upon Shareholders' equity.

$$ROE = \frac{\text{Profit After Tax}}{\text{Shareholders' Equity}}$$

Table: 4.4: ROE of CBG

ROE = Profit After Tax / Shareholders Equity				
(amount in thousand Ghana Cedis)	**2018**	**2019**	**2020**	**2021**
Profit After Tax	(22,840)	69,047	46,321	72,261
Shareholders Equity	427,160	493,743	563,548	801,545
ROE	**-5.35%**	**13.98%**	**8.22%**	**9.02%**
Industry Average	18.50%	19.90%	21.40%	21.50%

Source: researcher's computations from CBG financial reports

Despite the higher growth in the profit after-tax, ROE reported a rise and fall from 2018 to 2021. CBG in 2018 had an ROE of -5.35%; it improved in 2019

to 13.98%; it declined to 8.22% in 2020 (due to covid-19), and now improved to 9.02%. Although it had not been able to meet up with the average industry indicators, it had been better within itself. ROE increases as Profit after tax increases.

4.2.1.2 Return on Assets (ROA)

The ratio demonstrates how effectively management has used its resources to generate revenue (Lesáková, 2007). The return on assets (ROA) is a statistic that compares income to total assets (or, in other words, total liabilities and equity capital). It can be interpreted in two ways. First, it evaluates management's ability to generate operating profits from the company's assets. Second, regardless of the source of money, it reports the overall return accruing to all capital suppliers (debt and equity). (Al Nimer *et al.*, 2015)

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

Table: 4.5: ROA of CBG

ROA = Profit before Tax / Total Assets				
(amount in thousand Ghana Cedis)	**2018**	**2019**	**2020**	**2021**
Profit before Tax	(28,405)	103,724	76,716	102,656
Total Assets	7,488,733	6,942,990	9,961,762	10,751,164
ROA	**-0.38%**	**1.49%**	**0.77%**	**0.95%**
Industry Average	3.40%	4.10%	4.40%	4.30%

Source: researcher's computations from CBG financial reports

There has been an improvement in ROA over the period. ROA in 2018 was poor at -0.38%; profit before tax (PBT) improved though total assets decreased in 2019, bringing ROA to a positive of 1.49%. In 2020, PBT reduced, and total assets increased, reducing ROA to 0.77%. Both PBT and Total Assets increased in 2021; this brought a rise in ROA to 0.95%. CBG management has been efficient in generating profits from the company's assets.

4.2.1.3 Net Interest Margin (NIM)

NIM indicates a bank's net return on earning assets, such as investment securities, loans, and leases. The interest income minus interest expenditure divided by earning assets is the interest income to interest expense ratio. The main source of income for banks is net interest income. The dynamics in the term structure affect banks' net interest revenue in the short run due to maturity transformation. As a result, growth in interest rates usually results in a decrease in net interest revenue in the years following. The medium and long-term implications of interest rate fluctuations, on the other hand, are little understood. Anecdotal data implies that increasing interest rates benefit net interest income in the medium and long term. (Busch *et al.*, 2015)

Table: 4.6: NIM of CBG

NIM = (Interest Income - Interest Expense) / Total Asset				
(amount in thousand Ghana Cedis)	**2018**	**2019**	**2020**	**2021**
Interest income	460,760	1,021,462	1,139,385	1,485,497
Interest expense	(338,793)	(544,867)	(625,853)	(861,115)
Net Interest income	121,967	476,595	513,532	624,382
Total Assets	7,488,733	6,942,990	9,961,762	10,751,164
NIM	**1.6%**	**6.9%**	**5.2%**	**5.8%**
Industry Average	9.5	11	10.9	

Source: researcher's computations from CBG financial reports

Interest income has increased over the years more than the increase in the interest expense leading to an increase in the net interest margin from 2018 (1.6%), 2019 (6.9%), 2020 (5.2%), and 2021 (5.8%).

4.2.1.4 Cost to Income Ratio

The cost-to-income ratio is derived by dividing operating expenses by operational income, including net interest income and other sources of income. Divide the operating costs by operating income and multiply the total by 100 to get the cost-to-income ratio. The ratio provides a clear picture of how well

a bank is operated; the lower the ratio, the more profitable the bank. Changes in the ratio, significantly if it rises from one period to the next, can reveal possible concerns. It signifies that expenses are increasing faster than income. As a result, the cost-to-income ratio and the bank's profitability are inversely related. (CFA Institute, 2020; Wolfe *et al.*, 2011; Yeboah *et al.*, 2015)

Table: 4.7: Cost to income ratio of CBG

Cost to income ratio = (Operating Expenses / Operating income) *100				
(amount in thousand Ghana Cedis)	**2018**	**2019**	**2020**	**2021**
Operating Income	138,212	569,417	629,590	778,687
Operating Expenses	166,617	465,693	552,874	676,031
Cost to income ratio	**120.6%**	**81.8%**	**87.8%**	**86.8%**
Industry Average	58.30%	54.80%	51.40%	77%

Source: researcher's computations from CBG financial reports

Changes in the ratio, significantly if it rises from one period to the next, can reveal possible concerns. The lower the ratio, the more profitable the bank is. Though it was more profitable in 2019, there was an increase in the CIR ratio to 87.8% in 2019, bringing profits low and improving to 86.8% in 2021.

4.2.2 Liquidity Ratio

4.2.2.1 Liquid Asset/Total Deposit

The liquid asset to total deposit ratio is the balance sheet's composition relating liquid (short-term) assets to volatile liabilities. The difference between the two indicates the bank's net liquidity position (deficit or surplus) and its exposure to liquidity risk (Adinew, 2016). The central bank (BoG) uses this metric as a controlling mechanism or indicator of liquidity for financial institutions, requiring them to maintain a specific degree of liquid assets relative to their current obligations, revised from time to time.

$$\text{Liquid Asset/Total Deposit} = \frac{\text{Liquid Assets}}{\text{Total Deposits}}$$

Table: 4.8: Liquid assets to total deposit ratio for CBG

= Liquid Asset/Total Deposit				
(amount in thousand Ghana Cedis)	**2018**	**2019**	**2020**	**2021**
Liquid Assets	7,357,988	6,579,073	9,525,592	10,365,840
Total Deposits	6,688,121	5,794,634	8,480,748	9,177,871
Liquid Assets/Total Deposit	**110%**	**114%**	**112%**	**113%**
Industry Average	91.46%	92.08%	89.01%	98.88%

Source: researcher's computations from CBG financial reports

The above shows that CBG, over the past four (4) years, has been in a favourable position to meet its total deposits with increasing figures above the industry average.

4.2.2.2 Net Working Capital Ratio

The working capital ratio might provide insight into a company's ability to make its payments. A working capital ratio of 2:1 is generally considered good. A higher ratio shows a better capacity to achieve ongoing and unforeseen bills, reducing cash flow constraints (Delen *et al.*, 2013; Palombini *et al.*, 2012). Being in a liquid state has several benefits, including negotiating cash discounts with vendors. A lower ratio could suggest that a company has more trouble paying short-term obligations and that extra working capital is needed (Palombini *et al.*, 2012). Having to pay expenses before receiving funds is likely the problem, in which case an overdraft might help. However, accumulating a cash investment reserve could result in an excellent financial position. (Pandey, 2015)

It is calculated as $= \dfrac{\text{Current Assets} - \text{Current Liabilities}}{\text{Total Assets}}$

Table: 4.9: Net working capital ratio of CBG

= (current assest - current liabilities) / Total Asset				
(amount in thousand Ghana Cedis)	**2018**	**2019**	**2020**	**2021**
Current Assets	7,357,988	6,579,073	9,525,592	10,365,840
Current liabilities	6,688,121	5,800,650	8,490,126	9,177,871
Net Working Capital	669,867	778,423	1,035,466	1,187,969
Total Assets	7,488,733	6,942,990	9,961,762	10,751,164
Net Working Capital Ratio	**8.94%**	**11.21%**	**10.39%**	**11.05%**

Source: researcher's computations from CBG financial reports

Being in a liquid state has several benefits. CBG is in a favourable liquid state as it can meet its current liabilities. With an increasing net working capital ratio from 8.94% in 2018 to 11.05% in 2021. Management is prudent in utilizing its funds to settle its short term debt and has sufficient to meet unforeseen events.

4.2.3 Solvency Ratio

Solvency ratios are an essential part of financial analysis since they help determine if a company has enough cash flow to pay its debt obligations. Solvency ratios are also known as leverage ratios (Jensen, 1986; Palombini & Nakamura, 2012; Yeboah *et al.*, 2015). A corporation with a low leverage ratio is more likely to fail to satisfy its financial obligations and default on loan payments. Businesses having a higher solvency ratio are more likely to meet their financial obligations. Those with a smaller solvency ratio, on the other hand, pose a risk to creditors and banks. Industry-specific solvency ratios exist. A solvency ratio of 0.5, on the other hand, is always considered a respectable value and a good measure.

4.2.3.1 Debt to Equity Ratio

One of the best commonly utilised debt solvency measures is debt-to-equity. It is also known as the D/E ratio. The debt to equity ratio is derived by dividing a firm's total liabilities by its shareholders' equity (Tarsh *et al.*, 2021). These figures are from the company's financial statements' balance sheet. It is a critical statistic for

determining its financial leverage (Enekwe *et al.*, 2014). This ratio determines if the shareholder's equity can satisfy all debts in a business failure (Delen *et al.*, 2013).

It is calculated as Debt to equity ratio = $\frac{\text{Total Liabilities}}{\text{Shareholders' equity}}$

A high debt-to-equity ratio indicates that the company relies on debt to fund its expansion, which carries a higher risk for the organisation. It also means that the corporation is bankrupt (Jensen, 1986).

Table: 4.10: Debt to Equity ratio of CBG

.= Total Liabilities / Shareholders' Equity				
(amount in thousand Ghana Cedis)	**2018**	**2019**	**2020**	**2021**
Total Liabilities	7,061,573	6,449,247	9,398,214	9,949,619
Shareholders capital	427,160	493,743	563,548	801,545
Debt to equity ratio	**16.53**	**13.06**	**16.68**	**12.41**

Source: researcher's computations from CBG financial reports

CBG's debt to equity ratio fluctuates. A current ratio of 12.41% in 2021 as against 16.53% and 2017 signifies an improvement in debt management against equity.

4.2.3.2 Equity Ratio

Equity ratios are another name for proprietary ratios. It links the owner's funds and the company's net assets or capital (Arvanitis *et al.*, 2016). Total equity is divided by total assets to arrive at the equity ratio (Vale, 2011). These figures accurately reflect the total number of accounts in each category. In other words, the equity ratio is calculated using all of the assets and equity recorded on the balance sheet (Haimi, 2016).

It is written as $\frac{\text{Total Equity}}{\text{Total Assets}}$

Table: 4.11: Equity ratio of CBG

= Total Equity / Total Assets				
(amount in thousand Ghana Cedis)	**2018**	**2019**	**2020**	**2021**
Total Equity	427,160	493,743	563,548	801,545
Total Assets	7,488,733	6,942,990	9,961,762	10,751,164
Equity ratio	**6%**	**7%**	**6%**	**7%**

Source: researcher's computations from CBG financial reports

Owners' funds are utilized efficiently to generate total assets in the company. There is a proportional increase in equity to the total assets. With total equity of GH¢801,545 in 2021, total assets also increased to GH¢10,751,164, signifying a 7% in 2021.

4.2.3.3 Net Worth Ratio

If all profits were delivered to shareholders directly, the net worth ratio would represent the possible return on their investment in a company. As a result, rather than the firm, the ratio is determined from the shareholder's standpoint. It's a metric for assessing investment returns.

It is determined as Net worth ratio = $\frac{\text{Net profit after tax}}{\text{Shareholder's capital + retained earnings}}$

Table: 4.12: Net Worth ratio of CBG

.= Net profit after tax / (shareholders capital + retained earnings)				
(amount in thousand Ghana Cedis)	**2018**	**2019**	**2020**	**2021**
Net profit after tax	**(22,840)**	**69,047**	**46,321**	**72,261**
Shareholders capital	450,000	450,000	450,000	627,784
Retained earnings	(22,840)	11,683	34,844	70,974
	427,160	**461,683**	**484,844**	**698,758**
Net Working Ratio	**-5.35%**	**14.96%**	**9.55%**	**10.34%**

Source: researcher's computations from CBG financial reports

If all profits were delivered to shareholders directly, the net worth ratio would represent the possible return on their investment in a company. Starting in 2018 on a wrong note, as-5.53% in 2018 to 10.35% in 2022. Their net worth ratio had improved.

4.2.3.4 Capital Adequacy Ratio (CAR)

The CAR, also known as the Capital Risk-Weighted Assets Ratio, is a straightforward indicator of a bank's financial strength (Hassan *et al.*, 2003). The ratio represents the bank's capital as a percentage of its risk-weighted assets (CBG, 2021; Obuobi *et al.*, 2020). This ratio defines the maximum amount of money a bank can lend based on the amount of capital it has on hand. (O Abba *et al.*, 2018).

Tier 1 capital, also known as primary capital, comprises equity and disclosed reserves. The fully paid ordinary share capital and permanent non-cumulative preference share are referred to as equity. Disclosed reserves are increased by or created appropriation of after-tax surplus or retained earnings and statutory reserves but do not include credit risk reserves (Bank of Ghana, 2019a; CBG, 2019).

Tier 2 capital, also called secondary or supplementary capital, is the revaluation reserves, latent revaluation reserves and hybrid capital instruments. Latent revaluation reserves are the unrealized gains on equity instruments classified as available for sale (Bank of Ghana, 2020; CBG, 2021; Obuobi *et al.*, 2020).

Risk-weighted assets are established according to specified conditions that reflect the varying levels of risk connected to assets and off-balancing sheet exposures (Haimi, 2016).

Table: 4.13: Capital Adequacy ratio of CBG

CAR = (Tier 1 Capital + Tier 2 Regulatory Capital) / Risk-Weighted Assets				
(amount in thousand Ghana Cedis)	**2018**	**2019**	**2020**	**2021**
Tier 1 Capital	420,038	458,126	454,960	691,595
Tier 2 Regulatory Capital	-	(2,464)	21,020	8,971
	420,038	455,662	475,980	700,566
Risk-Weighted Assets	1,231,503	1,782,972	2,408,500	3,237,800
CAR	**34.11%**	**25.56%**	**19.76%**	**21.64%**
Industry	**21.90%**	**17.50%**	**19.83%**	**21.00%**
BoG requirement	10.00%	13.00%	11.50%	11.50%

Source: researcher's computations from CBG financial reports

During the current uncertain operating climate, the more excellent capital adequacy ratio (over the statutory threshold) emphasizes banks' enhanced flexibility to expand lending and absorb any potential losses from increasing lending using their capital buffers (Bank of Ghana, 2022)

CBG, over the period, has improved beyond the industry averages and BoG requirements. BoG sets a minimum requirement that banks are to maintain as CAR. In 2018, their CAR was 34.11%; in 2019, 25.5%; 2020, 19. 76%; and 2021, 21.64%; compared to the BoG requirement of 10%, 13%, 11.5% and 11.5% in 2018, 2019, 2020 and 2021 respectively.

4.3 Findings and Recommendations

4.3.1 Ratio Analysis

Table 4.14: Summary of Ratio Analysis from 2018- 2021

Profitability Ratio for CBG				
	2018	**2019**	**2020**	**2021**
ROE	-5.35%	13.98%	8.22%	9.02%
ROA	-0.38%	1.49%	0.77%	0.95%
NIM	1.6%	6.9%	5.2%	5.8%
Cost to Income ratio	120.6%	81.8%	87.8%	86.8%
Liquidity Ratio for CBG				
Liquid Asset/Total Deposit Ratio	110.02%	113.54%	112.32%	112.94%
Net Working Capital Ratio	8.94%	11.21%	10.39%	11.05%
Solvency Ratio for CBG				
Debt to Equity ratio	16.53	13.06	16.68	12.41
Equity ratio	6%	7%	6%	7%
Net Worth ratio	-5.3%	15.0%	9.6%	10.3%
CAR	34.1%	25.6%	19.8%	21.6%

Source: researcher's computations from CBG financial reports

CBG has performed well over the years since its incorporation. As seen from the table:

1. **Profitability ratios**

   Profitability indicators analyzed were ROE, ROA, NIM and Cost to income ratio. Profitability improved over time. 2018 was challenging with low productivity in all the four indicators used (ROE, ROA, NIM and cost to income ratio). 2019 gave a better picture of the merged bank. After the merger, it became profitable. Although 2020 was challenging with the covid-19 pandemic, it managed to survive. Profits increased in 2021, affecting all variables. Management was able to utilize assets efficiently.

2. **Liquidity ratio**

   CGB is now more liquid compared to individual banks before the merger. The defunct banks that made up CBG had liquidity and other issues. But when they

merged, they had been better—signifying that they had been better off after the merger. They now meet their short-term obligations and have a buffer for unforeseen events. It is evident from their Liquid assets to deposit ratio from 2018 (110%) to 2021 (112.94%).

3. **Solvency ratio**

   Solvency ratios are an essential portion of financial analysis since they assist in determining if a company has enough cash flow to meet its debt commitments. With a better Capital Adequacy Ratio, CBG's capital requirement per cent is 21.6%, as against the requirement set by the Bank of Ghana of 11.5%.

   CBG could do better in the foreseeable future. They must work on improving their cost to income ratio and ROA. They can implement ways of reducing their interest expenses and improving interest income. CBG should continue with their positive liquidity ratios to stay more competitive in the industry.

4.3 Limitation of the Study

- Past data cannot predict success for the future of the company.
- There are no financial statements on the individual banks before the merger to help assess pre-and post-merger performance.
- Company data may be inappropriate, leading to errors in the ratio analysis as financial data were obtained from the company's website.

CHAPTER FIVE

5.0 CONCLUSION

The research objectives were to calculate and evaluate the financial ratios from 2018 to 2021 and ascertain whether CBG had become better off after the merger. The financial ratios calculated should be more liquid, profitable and solvent now than previously.

In conclusion, the financial statements of Consolidated Bank Ghana had improved after the merger from 2019 to 2021, although 2018 was challenging.

The Government of Ghana took the right decision of incorporating CBG to improve public deposits and help in the sustenance of the banking industry. With this, the Ghana banking industry has become more assertive with various measures and policies from BoG to streamline banking activities.

This paper recommends future research into other merged banks' performance using other performance indicators within Ghana and its sub-regions.

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