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Analysis of Financial Performance and Liquidity Trends of Banks in Ghana

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ABSTRACT

The purpose of this study was to analyse financial performance and liquidity trendsof some selected banks in Ghana. A review of literature on financial performance and liquidity concerns was done due to the current challenges confronting these banks. The study then examined 180 corporate annual reports of these banks in Ghana during the periods 2006-2015. The trend analysis revealed that the banks were liquid throughout the study period except that these banks were less liquid at certain periods, particularly, in 2013 and 2014 which recorded average liquidity of 1.54 and 1.41 respectively. The banks financial performance during the periods was quite intermittent. The year 2006 recorded the lowest performance for these banks, representing 6.74% and 0.83% for ROE and ROA respectively whilst 2014 was highest point, registering a return on equity of 24.23% and a return on assets of 4.57%. The study recommends that efficient and effective liquidity management should be adopted by bank managers to ensure that banks operate profitably and do not become insolvent. Since, it has been established empirically that high levels of liquidity will guarantee better financial performance.

Keywords: *liquidity, banks, performance, return on equity, return on assets, current ratio, acid test ratio, liquid funds total deposits ratio, liquid funds total interest-bearing liabilities ratio and loan deposit ratio.*

INTRODUCTION

Liquidity is viewed as the ability of a company to readily meet all its short-term obligations as and when they fall due. Liquidity is sometimes loosely used to refer to liquid assets (that is cash and any other asset that can easily be converted to cash at no extra cost).

According to the Board of Governors of the Federal Reserve System (2014) liquidity is a measure of the ability and ease with which the assets of a company can be converted into cash to settle maturing financial obligations. A higher ratio signifies a greater coverage of liquid assets to short-term maturing obligations, which means the company, will be able to meet all of its maturing obligations and fund its existing operations (CMA, Australia, 2013). However, a significantly higher ratio could denote an unproductive use of resources and a lower ratio too could mean insolvency. However, a ratio of 2:1 is considered ideal (CMA, Australia, 2013).

The importance of liquidity to any business organization cannot be over emphasized. Many businesses have collapsed not because of profitability but for lack of cash (Rob, 2010). According to Rob, profit is meaningless unless it can be transformed to cash through receipts from debtors. An otherwise profitable business can still fail if it has a problem with it cash flows. Banks are especially vulnerable when it comes to liquidity risk because of their financial intermediation role in every economy.

Amer (2007) argued that financial intermediaries and banks whose assets are "typically less liquid than their liabilities and so depend on the confidence in the payment of liabilities for their continued viability" are exceptionally vulnerable when it comes to liquidity risk. The assurance in the banking sector will be significantly dented if banks cannot meet the withdrawal needs of customers (Gomez, 2008).

In fact, Gomez asserted that the continuous existence of a bank is predicated on public confidence and the bank can only build that confidence if it is capable of converting its assets into cash to meet the withdrawal requests of depositors. In order to remain viable, financial

institutions such as banks should have adequate liquid assets to address its maturing obligations (Board of Governors of the Federal Reserve System, 2014). For this reason, the Bank of Ghana (BoG) as part of its regulatory function requires banks doing business in Ghana to have Assets and Liabilities Management Committee (ALCO), which meets at least once a month to review the bank's balance sheet amongst other functions by looking at sources and application of funds vis-à-vis costs and yields. Besides ALCO, banks doing business in Ghana amongst other reports are required to submit a weekly liquidity report which shows compliance or non-compliance with the mandatory primary reserve ratio. The most popular measures of liquidity are the current ratio, the quick (acid test) ratio and the cash ratio. However, in the banking business apart from the above, there are other measures of liquidity such as the loan deposit ratio (LDR), liquid assets to total deposits and so on.

Banks are reasonably expected to keep some cash to mitigate their short-term obligations particularly the withdrawal needs of depositors and also to take advantage of investment opportunities to make some profit for their shareholders (Tan, 2005). However, apart from the mandatory 10% primary reserve ratio (PRR) and the prudential cash reserve ratio (CRR) of about 3%, which the Bank of Ghana requires banks doing business in Ghana to keep. Overly concentrating on profitability could mean ignoring the risk that could be associated with targeting higher returns, thereby endangering customer deposits. Nonetheless, banks would have to make profit in order to return value to their owners. In order to resolve this dilemma, section 31 of the Banking Act, 2004, Act 673, has empowered the BoG to impose liquidity requirements on banks to affirm that banks hold some funds on their statement of financial position as security for customer deposits. However, banks can choose to keep such assets in a surplus to the regulatory requirements set by the BoG. Non-compliance with the provisions of section 31 could result in some punitive measures as provided in section 33 of Act 673.

The association between banks financial performance and liquidity has been a subject of disagreements amongst researchers and industry players. Some have alluded that the relationship is more of perception than empirical. LarteyAntwi and Boadi(2013) study found a weak positive association between profitability and liquidity of banks in Ghana. Banks in Ghana, especially within the last three to five years, are engrossed in a serious tug of war over deposit mobilization in order to increase their customer deposits, as if higher customer deposits will automatically guarantee better financial performance. Banks are consistently running deposit promotions, employing large sales teams and massive branch network expansion across the length and breadth of the country. These machinations cost substantial amounts of money and other resource. In the light of this, the study sought to examine the financial performance and liquidity trends of some selected banks in Ghana.

Literature Review

Self-Liquidating Paper Theory

This theory has been widely accepted as a means of maintaining liquidity of banks. According to Leonard (2011),short-term loans which the bank gives to finance saleable goods from the producer to the consumer are the most liquid loans the bank can advance. These were considered self-liquidating loans since the goods financed were soon sold and the loan paid off. These short-term self-liquidating loans were advanced to addressthe working capital requirements of borrowers. Shekhar and Shekhar (2005) postulate that the self-liquidating commercial papers or short-term loans are intended to provide current working capital, which in itself are self-liquidating nature. A bill of exchange, typically example of a self-liquidating paper originating from a genuine trade transaction, which is a secured loan by physical goods, repayable out of the price fetched by their sales (Gomez, 2008).

The theory also referred to as commercial loan theory encourages banks to refrain from long term lending. Gomez (2008) criticized the commercial loan theory for having injurious repercussion on business activities and reducing the purchasing power of borrowers, if all bank loans were real bills or all banks trying to reduce their loans; also in depression times, goods do not move readily into the normal channels of trade and may occasion some losses to sellers. Therefore, the traders are not able to meet the bills on maturity.

Shiftability Theory

This theory was popularized by Moulton (1918) to replace the self-liquidating paper theory, although loans continued to be an important source of banks liquidity. The theory holds that bank liquidity is maintained if it has assets,

which can be shifted to other banks before maturity, if it becomes necessary. An institution can maintain liquidity by holding assets that can be shifted, transfer or sold for cash promptly with minimum transaction costs or loss in value (Bhattacharya, 2008).

According to Gomez, (2008) the maximum shift ability is achieved if the assets held could be shifted or sold to the Central Bank which is the lender of last resort. The bank should hold highly marketable securities that can be shifted to other banks and the Central Bank easily for liquidity. The theory posits that the bank should acquire assets, which are shift able, marketable and transferable to ensure that they can generate some liquidity for the bank when the need arises. The major criticism of this theory is that during times of depression cost of shifting assets may be high because securities would not be attractive to buyers.

Overview of Ghanaian Banking Industry

The banking sector in Ghana, since the turn of the 21st century has been the busiest of the financial services sector of the economy, recording consistent growth in both assets and profitability. These successes came at the back of the enactment of the Bank of Ghana Act 2002, Act 612 and the Banking Act 2004, Act 673 couple with the liberalization of the banking sector, which saw the issuance of universal banking business licenses and the relaxation of entry requirements into the banking business. These developments brought a lot of Nigerian banks into the industry with improved technology, unparalleled customer service and product innovation; forcing the existing banks to equally improved their systems and processes. However, some pundits do not share this view and posit that the growth in the banking industry is just in tandem with the growth of the Ghanaian economy, which is now a lower middle-income economy.

The financial services sector seems to be undergoing some rapid transformation worldwide. These changes have arisen due to economic deregulation, government policies, globalization and information communication technology. Consequently, the transformation has led to an intense competition within the financial service industry across the globe, forcing financial institutions to continuously offer an array of financial products in order to survive and remain competitive. The banking industry in Ghana was originally categorized under commercial, merchant and development banks. Whilst merchant banks were limited to corporate clients, the development and commercial banks served customers across the entire spectrum of the nation. It was against this backdrop that there was the need to create a level playing field for all banks operating in Ghana, hence the idea of universal banking business licensing was adopted. The aim is to allow banks that meet the capital requirements, the liberty to engage in any permissible banking business without restrictions, thereby eliminating the compartmentalization.

The banking industry has seen some appreciable improvements in performance over the past few years as a result of reforms initiated by governments over the years. Some of the reforms that were implemented which help propelled the Ghanaian banking sector included; the Foreign Exchange Bureau legislation, the Non-Performing Assets Recovery Trust (NPART), the Financial Sector Adjustment Programme (FINSAP II and I), the promulgation of the new Banking Law in 1989, PNDC Law 225, and so on. With the passage of new Banking Law and the other reforms introduced, the Bank of Ghana was sufficiently strengthened to perform its regulatory function. These reforms equally strengthened the banks in terms of their capital base and improved the quality of their assets. The new minimum capital requirements introduced by the PNDC Law 225 was to enable the banks to be adequately resource to undertake high volume transactions and make sustained profits to be able to survive and grow organically. Non-Performing Assets Recovery Trust Act of 1990 was to cushion the Ghanaian banks against NPLs by offering them the opportunity to off load their NPLs to the Trust and focus on their core obligation of financial intermediation. According to Antwi-Asare and Addison (2000), the removal of the NPLs from the books of the banks helped improved their profitability and overall performance.

Following the promulgation of the new Banking Law in 1989, the number of banks doing business in Ghana increased to about 12 banks. Since then the number of banks has grown exponentially and stood at 29 banks as at the close of 2015. It is envisaged that the number of banks operating in Ghana will hit 35 or more by the close of 2017. Owing to this development, many industry watchers have expressed a lot of scepticism about its ramifications on the Ghanaian economy. Although, the economy still has a very large unbanked population, hence a great potential for the growth of the banking

industry; the size of the economy is still considered quite small to accommodate 35 or even more universal banks. When this happens, banks are likely to adopt unorthodox practices to grow their customer deposits and increase their profitability, which can erode assurance in the banking sector. The adoption of the International Financial Reporting Standards (IFRS) by the Bank of Ghana as a way of reducing systemic risk, the establishment of a Collateral Registry and the Credit Reference Bureaus that seek to encourage transparency and ease credit accessibility and the recapitalization of the banks, all of which were fashioned to address the risk and stabilize the banking system (Bawumia, Owusu-Danso& McIntyre, 2008).

Recapitalization

Over the years, the BoG has issued some directives to all banks operating in the country to increase their minimum capital requirements to enable them handle big-ticket transactions and for a stronger financial system to support the real sector of the economy. In 2003, for instance, BoG issued a directive requiring all banks to increase stated capital to GH¢7million (equivalent of ¢70billion) by the end of 2006. This was to enable the banks hold the universal banking business licence that allowed them to undertake commercial, merchant, and development banking without the need to acquire separate licences. Again, on 14th February 2008, a press release from the BoG set the minimum capital requirements for obtaining class 1 banking licence (universal banking) at GH¢60million. This was to take effect at the end of 2009 by which time locally owned banks would have a minimum of GH¢25million as stated capital. However, the local banks were supposed to meet this GH¢60million minimum capital requirement by December 2012 (PwC, 2008).

Further to the above, new banks, both local and foreign, are now require to have GH¢120million to obtain a universal banking business license in Ghana according to the Central Bank. Existing banks do not have to meet this new minimum capital requirement nevertheless they can consistently assess their risk levels and augment their capital appropriately. The GH¢120million minimum capital requirement has since been increased by BoG to GH¢400million for all banks, existing or new, effective December 31, 2018.The banking sector in Ghana has gone through a series of reforms and restructuring over the last fifteen (15) years. Some of these reforms were occasioned by some happenings in the global economy. For instance, the 2008-09 global financial crisis, which was necessitated by the subprime mortgage crisis and the credit crunch in the USA and the Euro zone debt crises led to a significant dropped in foreign remittances and foreign direct investments (FDIs) into the country.

This adversely affected the flow of liquidity to the banks and even to the Ghanaian economy at large, which resulted to a drastic reduction of lending to the private sector and mounting non-performing loans (NPLs). The Central Bank responded by issuing a press release on 14th February 2008 directing all universal banks to increase their minimum capital requirements to GH¢60million by December 2012. It was an attempt on the part of the regulator to cushion banks doing business in Ghana against liquidity risk and also to revamp confidence in the banking sector, which was seriously daunted by the growing NPLs and the ever-widening negative liquidity gap or mismatch in the industry.

Prior to the second recapitalization directive, the Central Bank in August 2006 abolished the secondary reserve requirement. This announcement came as a big liquidity boost for the banks. The immediate impact was increased in lending to the private sector. The other noticeable changes that affected the operations of banks in Ghana within the last ten years included; the re-denomination of the cedi in July 2007 and the introduction of International Financial Reporting Standards (IFRSs) in the same year. The introduction of the e-zwich payment system, which is aimed at reducing the number of cash transactions in the economy and improving accessibility to banking and retail services. The establishment of Credit Reference Bureaus to help track customers with multiple loans and advances across banks operating in Ghana. These bureaus amongst other objectives, aim at reducing the prevalence of non-performing loans (NPLs) in the Ghanaian banking industry.

The Concept of Liquidity

Liquidity is the bank's ability to maintain adequate funds to take care of its maturing obligations (Ibe, 2013). Any asset that is capable of being converted to cash easily without incurring any extra cost is a liquid asset. Therefore, if the conversion cannot be done at fair value or is done at a cost, then the asset is said to illiquid. Gomez (2008) postulates that liquidity is the capacity of a bank to convert its

assets into cash on demand. Gomez further asserted that, cash is the most liquid of all assets the only problem is that it loses value with the passage of time because of time value of money.

Olagunju, Adeyanju and Olabode (2011) stated that, liquidity is the assets in cash or which can quickly be converted into cash without any loss in value that would be available to settle short-term liabilities and/or maturing obligations. It is a general held belief that cash is most liquid of all assets, therefore, liquidity is understood and calculated from the cash ability of all other assets (Bhattacharya, 2008). The survival of any business organisation, banks inclusive, depends largely on its ability to generate adequate liquidity to support its day-to-day operations (Rob, 2010). Many a company collapsed not because they are not profitable, but they fail to raise enough liquidity in order to sustain their operations. Customers make withdrawal requests by issuing cheques and the bank has statutory obligation to honour the cheques and there is no question of postponing payment. Therefore, the bank has to maintain enough funds to take care of customers' withdrawal needs and cannot lock up funds in permanent securities (Gomez, 2008).

In the midst of liquidity challenge banks still have the obligation to make a profit for shareholders and to sustain their operations. According to Gomez (2008), a bank is supposed to direct its resources to profitable investments to make profit for its shareholders. Making more profit will require locking up funds for long term, which will have adverse consequence on the bank's liquidity position. So, banks should strike a balance between profitability and liquidity by investing a portion of its funds in liquid assets and a portion in long-term assets. Cash, which is the most liquid asset, does not earn interest. Therefore, as banks will want to honour the withdrawal requests of customers without fail, keeping large amounts of cash will alienate the profit maximization objective of the bank.

Elements of Liquidity

Liquidity as already explained is the capacity to converted assets into cash on demand to settle maturing obligations. In other words, liquidity is the availability of cash and other current assets to cover accounts payable, short-term debts and other liabilities maturing within the accounting year. Liquidity management is effectively working capital management, which requires daily maintenance of liquidity to ensure that the company operates smoothly and be able to meet its obligations. A company is considered liquid if the current assets can adequately cover the current liabilities. Therefore, liquidity is a relative measure that looks at how the firm's cash and the other assets, which are readily convertible to cash without any loss, will be able to pay off the current liabilities or maturing obligations. The components of liquidity are mostly; Cash and cash equivalents, interest receivable, loans and advances (loan repayments) and so on.

These components can vary significantly amongst banks depending on the type of ownership or attitude to risk. The foreign owned banks will invest mostly in government securities. The United Bank for Africa (UBA)'s liquid funds to total assets shows a significant increase in 2013. The bank applied a significant portion of its funds to purchase government securities in 2013 (PWC, 2014). The Bank of Baroda was equally cited in the PWC 2014 banking survey report for large investments in government securities against lending to the private sector. The loans and advances come next to government securities in the order of liquidity; they are the most profitable of the bank's assets (Shekhar & Shekhar, 2005). Nevertheless, a high credit risk associated with loans and advances has made it unattractive for banks. Generally, the assets in the statement of financial position of banks are shown in descending order of liquidity. Cash and balances with the Central Bank is always at the top and the property, Plant and Equipment (PPE), which is considered as the most illiquid of all the banks' assets is shown at the bottom.

Bank Financial Performance

The Return on Asset (ROA) and Return on Equity (ROE) have been used extensively as measures of bank performance. ROA shows how effectively a bank is managing it assets, to generate income. It is the income earned on each unit of an asset usually expressed as a percentage. The challenge with ROA is that it excludes from the total assets off-balance sheet items thereby understating the value of assets. This situation can ultimately create a positive bias where ROA is overstated in the evaluation of bank performance. Nevertheless, (Golin, 2001; Rose & Hudgins, 2008) have argued that ROA is one of the most important measures of profitability in recent banking literature. Studies (Haron, 2004; Hassan & Bashir, 2003; Naceur, 2003) have all adopted ROA as a measure of

profitability. Return on Equity (ROE) is considered as an alternative measure of profitability and it is computed by dividing net income by equity. It measures the income earned on each unit of shareholders' funds. The shortfall of this measure is that banks with high financial leverage tend to generate a higher ratio. Yet, banks with high financial leverage tend to have higher financial risk and therefore higher possibility of bankruptcy.

RESEARCH METHODOLOGY

The research design demonstrates how the observed facts are collected, measured and analyzed. The study employed quantitative research design. In the words of Cooper and Schindler (2001), quantitative research relates to numbers and measuring of observed facts; it involves reliance on observable hard facts for which data is collected, analyzed and describe in terms of numbers. The data collected was in a panel form which is longitudinal data set, since it captures the same financial and economic changes of different organizations over multiple time periods. The combination of time series and cross-sectional observations, forming panel data gives more informative data, more degrees of freedom and more efficiency. Trend analysis was

The sample size was limited to eighteen banks mainly because of the non-availability of data and the fact that some of the banks were not in existence during the period under consideration (2006-2015). The eighteen banks were; Standard Chartered Bank, SG-SSB, Eco bank, FBN Bank, Stanbic Bank, UBA, Zenith Bank, Bank of Africa, Agricultural Development Bank, Universal Merchant Bank, CAL Bank, First Atlantic Bank, UT Bank, Prudential Bank, uni Bank Ghana, Fidelity Bank, Guaranty Trust Bank and Access Bank. Data was mainly collected from secondary sources which include; the annual financial reports of banks and Banking Supervision Department (BSD) reports submitted to the Bank of Ghana between the period of 2006 and 2015. The study employed trend analysis e

RESULTS AND DISCUSSION

Descriptive Statistics

Table 1 presents the summary of descriptive statistics of the performance and liquidity variables employed in the study. These statistics were generated to give an overall description of the data used. The key descriptive measures were the mean, medium, standard deviation, the minimum and maximum values of the variables over the period under consideration. It is observable that current ratio and acid test ratio have the largest standard deviations which mean that they have significant variances compared to the other variables over the period. This is confirmed by the wide range between their minimum and maximum values. However, return on assets as a dependent variable has the least standard deviation which suggests that it is the most stable and consistent research variable compared to the other variables over the period.

The average industry performance and profitability as measured by ROE stands at 14.59% with -98% and 51% as minimum and maximum values whilst the average industry efficiency or asset utilization as measured by ROA also stands at 2.75% with -10.53% and 8.92% as minimum and maximum values respectively. A standard deviation of 2.99%, which is the least amongst all the variables, is an indication of less variability in pre-tax profits vis-à-vis the total assets of the banks operating in Ghana. This is very significant because the ROE and ROA show the earnings prowess of banks in Ghana. Thus, for every cedi of net owned funds (NOF), banks operating in Ghana generate an average return of GHS0.15, whilst the average return on a cedi of assets employed is GHS0.03. The average current ratio (CR) and the acid test ratio (ATR) which measure short-term solvency of banks operating in Ghana stood at 4.8:1 and 1.5:1 respectively.

According to CMA, Australia, (2013) the ideal ratio is 2:1 or better which means banks operating in Ghana are performing relatively well when it comes to mobilizing short-term funds to honour their maturing obligations. However, an average loan deposit ratio (LDR) of about 67% shows that banks have committed an appreciable amount of their customer deposits into risk-assets (loans and advances). The minimum and maximum values of 9% and 174% respectively for LDR depict the varying attitude of banks towards committing customer deposits in risk-assets. This is evident, in high short-term solvency ratios such as CR, ATR and so on; meaning banks are far more interested in short-term, then long-term. This assertion is supported by the significantly high liquid funds total deposits ratio of about 75% which means, on average, up to 75% of customer deposits are either held as cash or invested in short-term investments such as government securities. Liquid funds total interest-bearing liabilities ratio of 1.2:1 is another manifestation of a well-

resourced banking industry with adequate liquid funds to settle its maturing obligations. The industry's average return on capital (equity) is about 15%, yet, the average 91 day Treasury bill rate is about 18% which suggests that either the cost of funds for the banks is probably high or the banks are operating with significantly high net overhead costs. The high cost of funds could have been occasioned by the banks' deposit mix, thus having more 'term deposits' which is relatively expensive, in their mix as compare to 'demand deposits' will naturally lead the higher cost of funds. Therefore, dwindling the net interest margin and subsequently the pre-tax profit. This amongst other things might have been responsible for the unimpressive showing of both ROE and the ROA as seen from the descriptive statistics. These ratios have collectively shown that there is no liquidity risk in the Ghanaian banking industry.

Table1. *Descriptive Statistics of Variables*

Variables	Observations	Mean	Median	Std. Dev.	Minimum	Maximum
ROE	180	0.145972	0.164288	0.195654	-0.982837	0.51381
ROA	180	0.027508	0.028045	0.029865	-0.105313	0.089217
CR	180	4.87184	3.144594	5.149784	0.328672	32.13421
ATR	180	1.544268	1.212424	1.823605	0.28195	21.98302
LTD	180	0.753295	0.708112	0.295641	0.292972	2.161055
LIB	180	1.206985	1.072594	0.668593	0.282228	4.124094
LDR	180	0.6703	0.634283	0.253441	0.090929	1.741183

Source: *Annual Reports (2006- 015)*

Trend Analysis of Banks Liquidity between the Periods 2006-2015

As shown graphically in Figure 1, the year 2011 recorded the highest liquidity for banks in Ghana. Nevertheless, banks recorded one of their lowest performance in terms of ROE in the same year, apart from 2006, 2009 and 2015. Again, in 2014 the banks recorded the least average liquidity position. Yet, their highest ROE and ROA performances were also recorded in that same year. A cursory look at 2015 performance graphs in Figures 2 and 3 showed an obvious declined in bank performance in terms of equity and assets utilization but the average liquidity graph in Figure 1depicted an increment in liquidity position for 2015 as compare to the previous year. This seemingly inverse relationship between the two opposing graphs should not be misconstrued as an inverse relationship between bank performance and liquidity because it could simply mean that, the banks were more efficient and prudent in managing relatively less liquidity to generate higher returns.

Bank profitability is determined by so many factors including but not limited the following; efficient management, technology, favourable government policies and central bank directives and so on. The trend clearly showed that the banks were liquid throughout the study period except that they were less liquid at certain periods, particularly, in 2013 and 2014 which recorded average liquidity of 1.54 and 1.41 respectively. It is worth noting that the average liquidity figures were all above 1, meaning the banks had sufficient funds to settle their maturing obligations. Simply, the banks did not face any liquidity risk during the period under consideration.

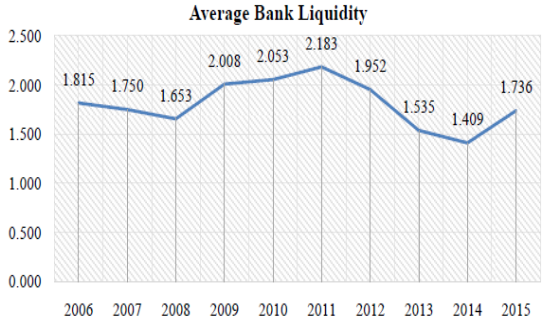

Figure1. *Average Bank Liquidity*

Trend Analysis of Banks Performance between 2006 And 2015

From the graphical presentation in Figures2 and 3; banks performance during the study period was quite erratic, thus moving up and down haphazardly. The year 2006 recorded the lowest performance for banks in Ghana, representing 6.74% and 0.83% for ROE and ROA respectively whilst 2014 was highest point, registering a return on equity of 24.23% and a return on assets of 4.57%.Interestingly, ROE dropped significantly in 2015 to 9.9% from 24.23% in the preceding year. This was mainly due to recapitalization by four banks, namely; First Atlantic Bank, SG-SSB, uni Bank Ghana and Universal Merchant Bank. The dropped in ROA was not that significant to suggest the reduction was occasioned by low profitability in 2015. However, a steady performance of the

banks came between 2011 and 2014 when they recorded consistent growth in both equity and asset utilization. Apart from 2006, 2009, 2011 and 2015 which recorded dips, the rest of the years during the study period all trended upwards. The dipped in performance for these years was because of some significant losses recorded by Agricultural Development Bank, Bank of Africa, Universal Merchant Bank and the UT Bank.

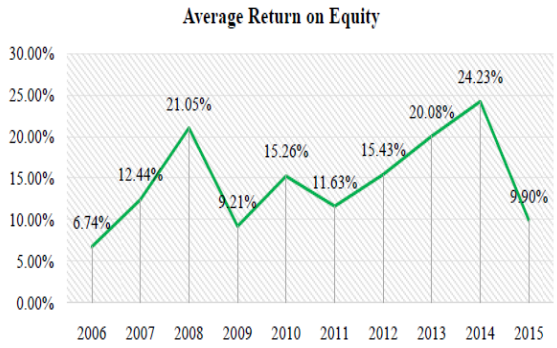

Figure2. *Average Return on Equity*

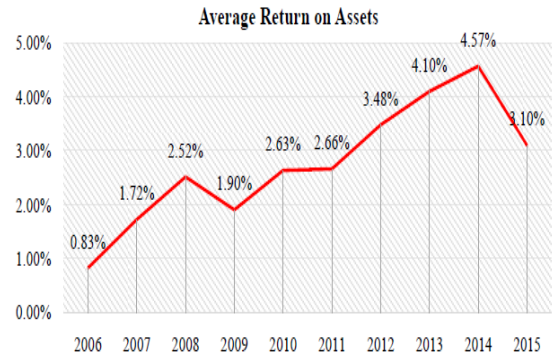

Figure3. *Average Return on Assets*

Conclusion and Recommendations

Banks, just like all other forms of businesses are faced with numerous risks such as interest rate risk, exchange rate risk, liquidity risk, operating risk, political risk, technological risk and default risk (credit risk). The trend analysis shows that liquidity of banks are to some extent link to the bank financial performance. This means the amount of liquidity held by a bank in Ghana will necessarily influence its financial performance. This is consistent with the overall conclusion of Malik, Awais and Khursheed (2016) that liquidity ratios effect profitability ratios. Liquidity risk may have diverse effects on a bank's earnings and capital base depending on how it is managed. Lack of liquidity or improper management of it can collapse an otherwise profitable business organisation. The findings further highlight importance of liquidity to banks in terms of profitability and survival.

Taking the various determinants of bank liquidity into consideration, and how liquidity impacts bank profitability, an efficient management of it would not only inure to the benefit of banks but also to individuals and business entities and thus the whole economy. It is further recommended that bank capitalization ought to be encouraged with the goal that bank performance can be improved. Banks should endeavour to retain earnings in other to boost capital as opposed to paying exorbitant bonuses. A well-capitalized banking industry will guarantee financial stability and make the sector more robust against external shocks. Efficient liquidity management should be adopted by bank managers to ensure that banks operate profitably and do not become insolvent. Since, it has been established empirically that high levels of liquidity will guarantee better financial performance.

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