

THE RURAL BANK PROFITABILITY NEXUS: EVIDENCE FROM GHANA

Ebenezer Fiifi Emire Atta Mills¹ and Nelson Amowine²

^{1,2} School of Business Administration, Jiangsu University, Zhenjiang, Jiangsu, China 212013.

ABSTRACT

The study examined the determinants of RCB's financial profitability. The study used mainly secondary data extracted from the annual financial statement of the selected banks. The study used a panel data with two hundred and fifty observations within the period 2002 to 2011 for sixty rural banks in Ghana. The empirical results reveal some interesting evidence on the determinants of RCB's profitability. The findings suggest that the size of the RCB's assets and increased non-interest income, are the internal factors that affect rural bank profitability, whiles GDP and the growth of money supply are external factors that affect rural bank profitability. Though, loan loss provisions, total overhead expenses and inflation negatively affected rural bank performance. It is recommended that it is necessary for bank management to take all the required decisions as to the proportion of their assets they will want to hold to enhance the financial positions of the bank. In addition, government must ensure economic growth stability that could transform into rural bank profitability.

Keywords: Ghana, Rural Bank, Financial Statement, Profitability.

1. INTRODUCTION

The Banking system has a great influence on the lives of millions and has to be stimulated by a bigger social purpose and has to sub-serve national priorities and objectives such as rapid growth of agriculture, small industries and exports, rising of employment levels, encouragement of new entrepreneurs and development of backward areas. For this purpose it is necessary for the government to take direct responsibility for the extension and diversification of banking services in the rural community. Since their inception, rural banks have taken deep roots and have become a sort of inseparable part of the rural credit structure in Ghanaian banking system. Ghana's economy can best be described as agrarian, with the agricultural sector contributing over 40 per cent of Gross Domestic Product (GDP) and employing almost 60 per cent of the nation's labour force. Peasant farmers who reside in the rural areas of Ghana produce about 90 per cent of the agricultural outputs. Also a majority of Micro and Small-Scale Enterprises (MSEs) are located in the rural economy. Consequently, over the years, a major concern of policy makers in Ghana has been the transformation of rural economies through effective and efficient rural financial intermediation.

In spite of the dominance of the rural sector in national economic development, financial intermediation in the rural areas of Ghana has been generally low. Before independence in 1957 banking facilities were virtually non-existent in the country. The few banks, which operated in Ghana a few decades after independence, were cited in the towns and cities. The need for rural banking system became necessary because the bigger commercial banks were not able to accommodate the financial intermediation problems of the rural folks as they did not show any interest in dealing with these small-scale operators who are basically peasant farmers, petty traders, bakers, artisans etc. In the past, attempts to persuade commercial banks to spread their rural network and provide credit to the agricultural sector failed to achieve the desired impact. The banks were rather interested in the finance of international trade, urban commerce and industry. There was therefore a gap in the provision of institutional finance to the rural agricultural sector.

The rural banking concept was therefore introduced in 1976 by Bank of Ghana to fill the vacuum in the rural areas. The objective was mainly to create formal financial institutions in the rural areas to mobilize savings in those areas to help finance rural economic activities and promote growth. Other formal and informal institutions like Financial Non-Governmental Organizations, Savings and Loans Companies; Credit Unions and "Susu" schemes came to the fore by making rural credit available to rural dwellers. Despite the invaluable financial services rendered in the rural areas, the rural banking concept is still gaining popularity with a number of rural communities applying to Bank of Ghana to establish rural banks. Therefore, there is the need to look at the bank's performance with reference to the operational efficiency in determining the financial health position.

A survey conducted by Price Waterhouse Coopers on the banking industry in 2010, showed that the industry profit before tax has declined from 30.4% in 2007 to 19.7% in 2009. The study noted that the total income of the industry

more than doubled (from GH¢793 million in 2007 to GH¢1.5 billion in 2009) over the period. However the rapid deterioration of the industry's loan portfolio adversely impacted profit margins. Revelations from the survey showed that impairment charges for non-performing loans increased over the three year period, from GH¢ 60 million in 2007 to GH¢266 million in 2009. Notable banks like United Bank of Africa (UBA), Barclays Bank Ghana Ltd (BBGL), Stanbic, Unique Trust, First Atlantic Merchant Bank and Banque Sahélo-Saharienne pour L'Investissement et le Commerce (BSIC Ghana Limited), were unable to recover cost from their operations and are thus categorized as the loss making group. In the light of the above, it is very crucial that critical attention is given to the performance of rural banks so that attention of stakeholders will be turned towards those variables. There is no doubt that there are some rural banks that are not performing as expected.

This study contributes to literature on financial performance in several forms. First of all, it provides additional evidence on the impact of operational efficiency on banks financial performance to stimulate further academic studies on rural and community banks since it remains a greatly unexplored area in the country's academic discourse. Again, the focus on rural banks makes the paper more unique since little seems to have been done on the area of banks in Ghana.

2. LITERATURE REVIEW

2.1 Bank Performance

Rural Commercial Bank's (RCBs) though operate with a rural focus are primarily scheduled commercial banks with a commercial orientation. Beginning with the seminal contribution of Haslem (1968), the literature probing into factors influencing performance of banks recognizes two broad sets of factors, i.e., internal factors and factors external to the bank. The internal determinants originate from the balance sheets and/or profit and loss accounts of the bank concerned and are often termed as micro or bank-specific determinants of profitability. The external determinants are systemic forces that reflect the economic environment which conditions the operation and performance of financial institutions. A number of explanatory variables have been suggested in the literature for both the internal and external determinants. The typical internal determinants employed are variables, such as, size and capital [Akhavein et al. (1997), Demirguc-Kunt and Maksimovic (1998) Short (1979) Haslem (1968), Short (1979), Bourke (1989), Molyneux and Thornton (1992) Bikker and Hu (2002) and Goddard et al. (2004)].

There have been various studies that have looked at performance of various institutions. The known measures of performance over the years have been either based on return on assets or return on equity. However, in the measuring these performance, many researchers have argued for the Return on Assets (ROA) as against Return on Equity (ROE). According to Hassan & Bashir (2003), ROA shows the profit earned per dollar of assets and most importantly, it reflects the management's ability to utilize the banks financial and real investment resources to generate profits. For any bank, ROA depends on the bank's policy decisions as well as on uncontrollable factors relating to the economy and government regulations. Rivard and Thomas (1997) suggest that bank profitability is best measured by ROA in that ROA is not distorted by high equity multipliers and ROA represents a better measure of the ability of a firm to generate returns on its portfolio of assets. ROE on the other hand, reflects how effectively a bank management is in utilizing its shareholders funds. Since ROA tend to be lower for financial intermediaries, most banks heavily utilized financial leverage to increase their ROE to competitive levels (Hassan and Bashir, 2003).

Harker and Zenios (1998) define the performance of financial institutions as an economic performance which is measured in both short and long-term by a number of financial indicators such as price-to-earnings ratios, the firm's stock beta and alpha, and Tobin's q-ratios. In identifying superior performance measures, Heffernan and Fu (2008) suggest that economic value added and net interest margin do better than the more conventional measures of profitability, such as Return on Average Equity (ROAE) and Return on Average Assets (ROAA). Their study also found that some macroeconomic variables and financial ratios are significant, and have the expected signs. The study further concludes that the type of bank is influential but not its size. Percentage of foreign ownership and bank listings do not have significant influence.

Wong, Fong, Wong, and Choi (2007), found bank consolidation, cost efficiency, and the ability of a bank to assume risk to be among the determinants of bank profitability, whereas market structure, as measured by market concentration, and bank's market share are not significant determinants of bank performance. Okazaki (2006) has a slightly different opinion as his findings show that policy promoted consolidation has a positive impact on deposits, though it affects profitability. St. Clair (2004), using Census X12, concluded that proper management of lending activities, credit quality and expense control enhance profitability. The study also found that interest rates may place significant downward pressure on capital and liquidity, and that provisioning erodes profits.

To examine the relationship between inventory performance and financial performance in manufacturing companies, Capkun, Hameri and Weiss (2009), analyzed both total inventory (INV) and its discrete components (raw material (RMI), work-in-process (WIP), and finished goods (FGI)). Statistical analysis applied to the financial information of US-based manufacturing firms over the 26-year period from 1980 to 2005 with a sample containing 52,254

observations concluded that a strong correlation between inventory performance and financial performance across a broad array of manufacturing industries. Performance of total as well as all three discrete components of inventory were positively associated with financial performance but with a varying strength of the correlation differing between inventory types.

2.2 Bank Profitability

Profitability can be defined as the ability of the business, in this case the bank, to collect more revenue than what it pays out. The ratio of capital structure and return on equity is also important to banks, since banks have low levels of equity compared to assets and therefore are sensitive to changes in financial leverage. Higher capital translates to lower risk and higher profitability.

Focusing on internal and external banking characteristics in predicting profitability, Hassanand Bashir (2003) concluded that high capital and loan-to-asset ratios lead to higher profitability when the macroeconomic environment, financial market structure, and taxation remain unchanged. The study further shows that implicit and explicit taxes affect bank performance measures negatively while favorable macroeconomic conditions impact performance measures positively. The results indicated a strong positive correlation between profitability and overhead. Prior studies such as Berger (1995) and Dermerguc-Kunt and Huizingua (1999), found a positive relationship between capitalization and performance.

Liquidity risk, arising from the possible inability of banks to accommodate decreases in liabilities or to fund increases on the assets side of the financial position, is considered an important determinant of bank profitability. The loans market, especially credit to households and firms, is risky and has a greater expected return than other bank assets, such as government securities. Thus, one would expect a positive relationship between liquidity and profitability (Bourke, 1989). It could be the case, however, that the fewer the amount of funds tied up in liquid investments the higher we might expect profitability to be (Eichengreen and Gibson, 2001). Again, as part of liquidity, Cooper et al, (2003) maintained that changes in credit risk of a bank may reflect changes in the health of a bank's loan portfolio which may affect the performance of bank. The view of Cooper et al, (2003) was further echoed by, other studies, when they conclude that variations in bank profitability are largely attributable to variations in credit risk, since increased exposure to credit risk is normally associated with decreased firm profitability. This triggers discussions concerning not the volume but the quality of loans made. This is because high risk loans increases the accumulation of unpaid loans and decreases profitability (Sufian and Chong, 2008; Miller and Noulas, 1997; Duca and McLaughlin, 1990).

2.3 Rural Bank Performance and Profitability

The literature on Rural Commercial Bank's recognizes a host of reasons responsible for their poor financial health. According to the Narasimham Committee, RCBs have low earning capacity. They have not been able to earn much profit in view of their policy of restricting their operations to target groups. The recovery position of RCB's is not satisfactory. There are a large number of defaulters. Their cost of operation has been high on account of the increase in the salary scales of the employees in line with the salary structure of the employees of commercial banks. In most cases, these banks followed the same methods of operation and procedures as followed by commercial banks. Therefore, these procedures have not found favor with the rural masses.

Considering 22 different parameters that impact on the functioning of Regional Rural Banks in India for the year 2000, Malhotra (2002) sort to find out whether the issue location matters in the determination of bank performance, He posits that geographical location of rural banks is not the limiting factor for their performance. He further finds that it is the specific nourishment which each rural bank receives from its sponsor bank, is cardinal to its performance.

Miller and Noulas (1997) found out that asset and liability management and the quality of assets affect performance. They concluded that larger banks experience poor performance due to the declining quality of their loan portfolio. In relation to rural banks, Robison and Barry (1977) in their study identified that rural banks often experience liquidity problems, which mainly arise from seasonal flows of loans and deposits. Robison and Barry suggest that banks with low risk portfolios are less efficient than those with high-risk portfolios.

3. METHODOLOGY

3.1 Introduction

Research methodology is very important since the content, face and concurrent validity and reliability of every scientific research needs to be achieved. The scientific nature of the study aided the collection of relevant data. As stated by Mason et al. (1999), a sample refers to a set of people or objects chosen from a larger population in order to represent that population. In lieu of the above, the sample size for the case study consists of sixty (60) rural banks in Ghana that existed between the years 2002 to 2011.

A multiple regression model was used to test the relationship between the profitability of rural banks (financial performances) which is represented by a dependent variable and a set of independent variables. Following various

studies and from literature, (Naceur and Goaid, 2008; Kosmidou, 2008), and Abbasoglu et al, 2007), the study intends to use Return on Assets (ROA) as the dependent variable. The ROA measures how profitable and efficient the RCB is making use of its total assets while at the same time controlling for liquidity, operational expenses, and bank size. From the literature, the set of independent variables were classified into two categories: internal determinants and external determinants.

Internal determinants: These are the bank-specific variables that were included in the regression, and they are bank size (log of total assets), loans loss provisions, divided by total loans), non-interest income, total overhead expenses and cash in hand.

External determinants: Gross Domestic Product, Money Supply Growth, Annual Inflation rate.

3.2 Panel Regression Model

To be able to access the statistical relationship between bank profitability, measured by ROA and the independent variables, we estimated a panel data regression model as stated below:

$$ROA_{it} = \alpha_0 + \beta_1 SIZE_{it} + \beta_2 LLPTL_{it} + \beta_3 NIITA_{it} + \beta_4 TOETA_{it} + \beta_5 GDP_{it} + \beta_6 MSG_{it} + \beta_7 INFL_{it} + \Omega_{it} \quad (1)$$

Where:

ROA= Net income/total assets, as a measure of Profitability

SIZE = natural logarithm of total assets. As a proxy for bank size,

LLPTL= loans loss provisions divided by total loans

NIITA= non-interest income divided by total assets

TOETA = total overhead expenses divided by total assets,

LNGDP = natural log of GDP

MSG = Money Supply Growth

INFL = Annual Inflation Rate

$$\Omega_{it} = U_i + \varepsilon_{it} + \lambda \quad (2)$$

Where: U_i is the set of an unobserved Rural Bank i effects (fixed effects) and

ε_{it} is a time varying idiosyncratic shock with the standard assumption.

λ is the model error.

The subscripts i and t refer to the year and cross section (RCB); respectively

3.3 Justification of Independent Variables

Bank Size: The log of total assets variable is included in the regression as a proxy of size to capture the possible cost advantages associated with size (economies of scale). In the literature, mixed relationships are found between size and profitability. In essence, Bank Size may have a positive effect on bank profitability if there are significant economies of scale. On the other hand, if increased diversification leads to higher risks, the variable may exhibit negative effects (Sufian and Chong, 2008).

Loan loss provisions (LLPTL): The ratio of loan loss provisions to total loans is incorporated as an independent variable in the regression analysis as a proxy of credit risk. Many studies have concluded on the negative relationship between credit risk and bank profitability. Miller and Noulas (1997) suggest that as the exposure of the financial institutions to high risk loans increases, the accumulation of unpaid loans would increase and profitability would decrease.

Thakor (1987) also suggests that the level of loan loss provisions is an indication of a bank's asset quality and signals changes in the future performance. We therefore expect the coefficient of LLPTL to be negative because bad loans are expected to reduce profitability.

Non Interest Income (NIITA): The ratio of non-interest income over total assets is entered in the regression analysis as a proxy for non-traditional activities. Non-interest income consists of commission, service charges, and fees, guarantee fees, net profit from sale of investment securities, and foreign exchange profit. The ratio is also included in the regression model as a proxy measure of bank diversification into non-traditional activities. The variable is expected to exhibit positive relationship with bank profitability (Sufian and Chong, 2008).

Total Overhead Expenses (NIETA): The ratio of overhead expenses to total assets is used to provide information on the variations of bank operating costs. The variable represents the total amount of wages and salaries as well as the costs of running branch office facilities. The relationship between the NIETA variable and profitability levels may be negative, as banks that are more productive and efficient aim to minimize their operating costs. Furthermore, the usage of new electronic technology, like ATMs and other automated means of delivering services may have caused wage expenses to fall as capital is substituted for labour (Sufian and Chong, 2008).

In looking at the external variables, bank's profitability is sensitive to macroeconomic conditions despite the trend in the industry towards greater geographic diversification and a larger use of financial engineering techniques to manage

risk associated with business cycle forecasting. Generally, higher economic growth encourages banks to lend more and permits them to charge higher margins while improving the quality of their assets. In line with bank profitability and macroeconomic relationship, Dermiguc-Kunt and Huizinga (2001) and Bikker and Hu (2002) identify possible cyclical movements in bank profitability, i.e., the extent to which bank profits are correlated with the business cycle. Their findings suggest that such a correlation exists, although the variables used were not direct measures of the business cycle (Sufian. and Chong, 2008).

It is based on the above arguments that these variables are considered; GDP (natural log of GDP), MSG (money supply growth), and INFL (annual inflation rate). It is expected that these variable that are known to affect to affect banks will also affect the profitability of rural banks in Ghana.

4. DATA ANALYSIS AND DISCUSSION

4.1 Introduction

This section deals with the analysis and discussion of the results of the study. The analysis is based on the models as specified above. This section presents the descriptive statistics on the variables used in the analysis of bank performance as presented in the study.

4.2 Mode of data analysis

The data was collected from the financial statements of the RCB's sourced from the ARB Apex Bank, the umbrella body for RCB's in Ghana.

4.3 Descriptive Statistics of Variables

Table1: Descriptive Statistics Independent Variables

Variables	Mean	Median	SD	Skewness
SIZE	3.112465	1.157386	8.127127	9.104357
GDP Growth	3.829024	4	6.234268	2.905478
Loan Loss Provision (LLPTL)	2.182205	2.302585	0.8244192	-0.9302416
Non Interest Income(NIITA)	4.003297	5.209732	3.621957	-3.401693
Inflation (INFL)	11.60386	7	21.36033	4.308939
Total Overhead Expenses (TOETA)	4.001935	4.142623	1.806221	-0.3416939
Money Supply Growth (MSG)	3.936038	3.951244	0.508497	0.0236788

Details of information on the mean of variables, the median of variables, the standard deviation of variables as well as skewness as reported by the data over period 2002 to 2011 is presented in table 1. It can be observed that dispersion of variables over the sample period is quite high.

The mean of the variables ranges from 2.182205 per cent, as recorded by loan loss provision, to 11.603 per cent, as also recorded by inflation. It is also worth noting that apart from the mean of Inflation which also lies around 11.603 percent, all the other explanatory variables have their means ranging from 2.182 per cent to 4.00 percent. Again, the standard deviation of the variables over this period was not all that high especially for money supply (0.508 per cent) and loan loss provision (0.824 per cent). Casual observation tends to show that for most of the cases, a higher mean is also associated with a higher standard deviation, so also is a low mean and standard deviation.

The skewness statistics is a measure of asymmetry of the distribution of the series around its mean. The skewness of a symmetric distribution, such as the normal distribution, is zero. The coefficients of skewness indicate that most of the series have positively skewed returns implying that most of the series have long lean right tails

4.4 Regression Results

The panel-corrected standard errors regression results on financial performance of rural banks, in Table 2. The results of this study show a significantly positive effect of most of the variables on bank performance as measured by return on assets. The result is statistically significant and in line with most studies on the determinants of bank profitability

Table 2: Panel Data Results

Variables	Coefficients	Panel-corrected Std. Error	Z	$P > z $
DEPENDENT VARIABLE: RETURN ON ASSETS (ROA)				
Constant	-118.625	46.0637	-2.58	0.01
SIZE	34.04065	12.1709	2.8	0.005
LLPL	-20.097	7.51176	2.68	0.037
NIITA	24.576	4.6277	3.03	0.002
TOETA	-6.582	4.0761	-1.61	0.062
GDP	0.278	0.356	0.780	0.043
MSG	0.272	0.017	15.920	0.000
INFL	-0.173	0.075	-2.310	0.021
R-squared	0.75			
Wald chi2(4)	14.06			
Prob>chi2	0.0071			
Number of observation	250			
Number of Rural Banks	60			

The coefficient of size (log of assets) is positive but insignificant, suggesting size is not important in explaining performance, with this finding contrasting sharply with most studies of Western banks, where size has a positive influence on performance, which is often attributed to benefits achieved through scale economies. But it is consistent with the results of Shih et al. (2007) and Lin and Zhang (2008). This result also agrees with Sufien et al., (2008) that log of total assets is a variable that measures bank size and is generally used to capture potential economies or diseconomies of scale in the banking sector.

The coefficient of the ratio of Loan Loss Provision to Total Loans (LLPTL) variable in the regression model which is an indicator of credit risk, which measures how much a bank is provisioning in year t relative to its total loans, have a negative effect on profitability as expected. In addition this variable is significant in explaining the variability in the return on assets of rural banks at 5%, a result which is in line with results of Miller and Noulas (1997), but is in disagreement with Thakor (1987) who were both cited by Sufian F. and Chong (2008), who suggested that the level of loan loss provision is an indication of a bank's asset quality and signals changes in the future performance.

The ratio of Non-Interest Income to Total Assets (NIITA), a measure of diversification and business mix has a positive on profitability, which was in agreement with the a priori expectations. In addition this variable was statistically significant in explaining the variability in ROA of rural banks at 1%. Thus NIITA is vital driver in the performance of rural banks in Ghana. This indicator which is a proxy for the bank's non-traditional activities is a relevant driver for performance of commercial banks in Ghana.

The ratio of Total Overhead Expense to Total Assets (TOETA), which provides information on the efficiency of the management regarding expenses relative to the assets in year t, did not only have a negative impact on profitability and thus conformed to the a priori restrictions, but was also a significant driver of rural banks in Ghana's profitability. The level of significance was at 10%. This shows that minimizing rural in Ghana operating costs would indeed improve on the their performance, which conforms to Bourke, (1989) cited by Sufien et al. (2008), who asserts that there is a negative relationship between the operating expenses ratio and profitability.

The impact of gross domestic products (GDP) on profitability was positive and conforms to the a priori restrictions, and is a significant driver in the performance of rural banks in Ghana.

This finding conform with earlier findings by Sufien et al. (2008), which agrees on the positive association between economic growth and the performance of the financial sector. However, other research findings such by valentine Flamini et al. (2009) says otherwise as the positive relationship between the growth of the economy and the performance of financial firms. All things being equal, the growth of the economy should have a bearing on not only firms in the financial sector but also firms in the non-financial institutions such as banks. Thus a unit growth in GDP will lead to 27.8% increase in the performance and that matter, profitability of rural banks.

The growth of money supply (MSG) as measured by currency in circulation has a positive impact on profitability as expected and has been a significant driver in the performance of rural banks in Ghana. Increasing the amount of money in circulation would imply rural banks in Ghana having access to these funds and having the opportunity to create money and wealth. This relationship was significant at 1%, thus a 1% increase in the money supply will lead to 27.2% increase in the profitability of rural banks.

The results reveals that annual rate of inflation has a negative impact on profitability, and very significant driver in the performance of rural banks in Ghana. The Annual Inflation Rate (INFL) in Ghana is the prime data used in the determination of the central bank's lending rates to the commercial banks in Ghana. Thus the higher the rate of

inflation, the higher the prime rate at which the central bank borrows to the commercial banks. When this happens the rural banks will also have to lend at a higher rate. Considering these the customer base of the rural banks, they will not be able to lend to these people at a higher rate which may then affect profitability.

5. CONCLUSION

The study examined the determinants of rural bank profitability of some selected RCB's in Ghana during the period 2002 to 2011. The panel-standard corrected errors method is used to for serial correlation in some way prior to final estimation and relying on robust standard errors, Beck and Katz (1995). During the period under study, RCB's exhibited a higher level of increment in total assets, deposits, investments and liquidity.

The trend analysis shows that the return on assets which is a measure of profitability was not stable during the period under the study. The trend was high in 2006 and 2010 but fluctuated within the period. The findings suggest that the size of a rural bank is very significant in explaining its profitability.

It can also be concluded that non-interest income, growth of money supply, and annual gross domestic product are significant key drivers of profitability of rural community banks in Ghana. These variables were found to impact positively on rural banks' profitability. Indeed focusing and reengineering their institutions alongside these indicators could enhance their profitability as well as the performance of these commercial banks in Ghana.

However, other variables like the annual rate of inflation, loan loss provisions and total overhead expenses were found to impact negatively on rural bank profitability. It is therefore imperative that efforts are made to address the hindrances that will be presented by these variables.

The importance of this study may be viewed from its contribution to fill an important gap in literature. That is, findings of this study can add to the existing body of the literature, and can serve as a starting point on which future studies can be done. On the practical dimension, this study may help bank decision makers to focus on the major banking activities that may increase financial performance positions comparing with other banks. Such information should help the management of RCB's in creating appropriate financial strategies for attaining the required planned financial performance.

This study also contributes to our understanding of the relationships between the profitability of RCB's and certain indicators of as identified by literature. The empirical findings suggest that size contribute positively to the financial performance of the profit making RCB's. GDP and non-interest income had a positive impact, while inflation, loan loss provisions and total overhead expenses also turned out to be consequential for the performance of the RCB's studied.

6. RECOMMENDATION

The study provides bank managers with understanding of activities that would enhance their banks financial profitability. The results of this study imply that it might be necessary for bank management to take all the required decisions as to the proportion of their assets they will want to hold to enhance the financial positions of the bank.

Governments should know performance of the economy and other macroeconomic variables that are not within the control of rural banks affects their profitability. It is therefore incumbent on Government to promote good policies that will ensure a growing economy which will translate into bank profits

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AUTHORS



Ebenezer Fiiifi Emire Atta Mills is a Master of Business Administration, Finance student at Jiangsu University. He is graduating in June 2013 and also doubles as a Graduate Assistant at the aforementioned University. He holds a Bachelors degree in Actuarial Science after graduating from the Kwame Nkrumah University of Science and Technology in 2010. He has published various papers in international journals.



Nelson Amowine is a Master of Business Administration, Finance student at Jiangsu University. He will graduate in June 2014 and also holds a Bachelors degree in Agricultural Technology obtained from the University for Development Studies in 2009.