ASSESSING THE IMPACT OF INVESTMENT PORTFOLIO ON BANKS’ PERFORMANCES: A GHANAIAN PERSPECTIVE. A CASE STUDY OF LISTED COMMERCIAL BANKS

BY

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Dissertation submitted to the Department of Accounting and Finance, of the School of Business, Christian Service University College, in partial fulfillment of the requirements for the award of the Master of Science Degree in Accounting and Finance

JUNE 2018
DECLARATION

Candidate’s Declaration

I hereby declare that this dissertation is the result of my own original research and that no part of it has been presented for another degree in this university or elsewhere.

Candidate’s Signature ………………………… Date ……………………
Gideon Adu-Gyamfi
(Student)

Supervisor’s Declaration

I hereby declare that the preparation and presentation of the dissertation were supervised in accordance with the guidelines on supervision of dissertation laid down by the Christian Service University College.

Supervisor’s Signature ………………………… Date ……………………
Mr. Clement Oppong
(Supervisor)
ABSTRACT

The study sought to assess the impact of investment portfolio on the financial performance of listed banks. They are Ecobank, Stanbic bank, National Investment Bank (NIB), Societe Generale (SG Bank) and GCB Bank for the period 2008 to 2017, the period for ten years. The study was guided by three objectives; including, to examine the relationship between asset investment and the financial performance of listed banks in Ghana; to examine the influence of loan portfolio on financial performance; to identify the extent to which investment assets affects banks’ performances. This study adopted descriptive research design and the population was 9 listed banks only 5 are selected as a simple size. Descriptive statistics was used to analyse the data and establish the relationship existing in dependent and independent variable. The study applied descriptive statistics, correlation and regression analyses and test of multicolinearity to analyze the data collected. SPSS was used to conduct the analysis. The findings of the study therefore established that investment portfolio has significant effect on the financial performance of the listed banks. The study recommends that listed banks in Ghana should develop effective and efficient strategies and policies to improve the quality of their loans in order to improve their profitability. It further recommends that, efficient cost management must be adopted by the listed banks to improve performance.
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DEDICATION

To my loving parents, Mr. and Mrs. Adu - Gyamfi, through whose sweat and hard knocks I learned to read and write. Again to all the entire family for their wonderful support and encouragement. Furthermore, to all my teachers, counselors and all who have ever taught me anything right from the beginning. Finally, to all those whose prayer have made what I am.
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CHAPTER ONE

GENERAL INTRODUCTION

1.1 Background of the Study

According to Archer and Ghasemzadeh (2015), making an investment on shares, debenture, and bonds are both profitable and exciting, but it involves a high amount of risk and it requires analytical skills. If an investor wants to make a profit out of above said securities, one must have considerable financial acumen as well as capable of facing risk. It has become a common, phenomena for people to think of making an investment on various portfolios such as Shares, Debenture, Bonds and others. However, it is also undeniable that they are unable to manage them prudently. Portfolio refers to combination securities such as shares, debentures…etc. Portfolio Management refers to diversification of investment with a view to minimizing the risk and maximizing the returns. It serves as platform for the investors to diversify their portfolio among various investment avenues. The art and science of making decisions about investment mix and policy, matching investments to objectives, asset allocation for individuals and institutions, and balancing risk against performance. Portfolio management is all about strengths, weaknesses, opportunities and threats in the choice of debt vs. equity, domestic vs. international, growth vs. safety, and many other tradeoffs encountered in the attempt to maximize return at a given appetite for risk. Portfolio Management is meant for making the best hierarchical adjust by having an organized group of key procedures and choices. The portfolio management standards are the establishment whereupon fruitful portfolio management is assembled; they give a favorable authoritative environment in which there is powerful standards operation of portfolio definition and conveyance.
According to Sanders and Walter (1994), universal banking generally refers to the combination of commercial banking as well as investment banking. It is a supermarket for both wholesaler and retailer financial services since it offer a wide range of financial services Anonymous, (2010), considers it as the conduct of a range of financial services comprising deposit taking and lending, trading of financial instruments and foreign exchange and other derivatives underwriting of new debt and equity issues, brokerage, investment management and insurance.

Moreover, investment could be explained as the sacrifice of current consumption in order to enjoy a higher level of future consumption. It could be viewed from two fundamentally laid purviews. These consist of the real investment purview and financial investment purview according to Reilly and Brown (2012). Also, from the view point of Myles (2003), real investment is the purchase or acquisition of physical capital such as land and machineries employed in production process, while financial investment is the purchase of paper security such as stocks and bonds. As explained by Reilly and Brown (2012). Financial investment is the current commitment of fund for a period of time in order to derive future payments that will compensate the investor for the time the fund was committed, the expected rate of inflation, and the uncertainty of the future payments.

Furthermore, a portfolio refers to a collection of investment tools such as stocks, shares, mutual funds, bonds, cash and similar others depending on the investor’s income, budget and convenient time frame. As opined by Buyya (2007), portfolio management is the art of selecting the right investment policy for the individuals in terms of minimum risk and maximum return. Portfolio investment is a financial type of investments in bonds, stocks, and securities with focus on other than gaining lasting management control of the issuing entity. Portfolio investment requires
analysis of risk-reward trade off, because to get higher returns on investment, an investor must be prepared to take on a higher level of risk. Therefore for optimality of portfolio investment there is need for objective management.

Again, Roberts and Gardiner (1998), also asserts that project portfolio management could also be a tool for strategy implementation. Dye and Penny packer (2002), complement this argument by stating that it does so through the alignment of projects with organizational strategy, values and culture, as well as with a focus on long term positive financial results. Bonham (2004), states that project portfolio management is periodic and ultimately includes projects that are aligned with the organization’s objectives without exceeding available resources or overlooking constraints.

Nevertheless, according to Farrel (1993), portfolio management consist of three major activities which are assets allocation, shift in weighting across major assets classes and security selection within assets classes. Asset allocation can best be characterized as the blending together of major classes to obtain higher long-return at the lowest risk. Managers can make opportunistic shift in assets class weighting in order to improve returns prospects over the long term objectives.

From the view point of Falana (1991), portfolio management is a strategic structure covering portfolio objectives and diversification outlines. According to Balogun (2006), Portfolio objectives comprehensively centers on maximization of wealth and minimization of loss. Investment diversification requires that asset be analyzed from internal, external and policy purviews. He pointed out that analysis of the investment from the internal purview entails dynamic analysis of the firm of interest in order to verify its possibilities of generating future cash flow that can guarantee the expected or optimal investment return.
Again, Campbell (2002), in conformity also affirms Portfolio management as the act of managing an individual’s investments in the form of bonds, shares, cash, mutual funds and others so that he earns the maximum profits within the stipulated time frame. Portfolio management refers to managing money of an individual under the expert guidance of portfolio managers. The report also shows different ways of analysis of securities, different theories of portfolio management for effective and efficient portfolio construction. It also gives a brief analysis of how to evaluate a portfolio. Holding a portfolio is part of an investment and risk limiting strategy called diversification. Also by owning several assets, certain types of risk particularly specific risk can be reduced. Selection involves deciding what assets to purchase, how many to purchase, when to purchase them, and what assets to divest.

Portfolio management can be seen as providing governance structures adopted to minimize the overall costs in converting ‘‘input’’ to ‘‘output’’ through projects. When viewing projects as transactions, these costs are known as transaction costs, which are the sum of all costs for governing projects. Several researchers, such as Muller and Turner (2005), as well as Blomquist and Muller (2006), have proposed that transaction cost economics (TCE) theory provide one theoretical framework for explaining the project and portfolio phenomenon.

1.2 Statement of the Problem
In the Ghanaian economy, universal banks have enlarged and opened many branches over the previous few years. This has resulted in an extremely and tremendous problem of increase in deposit liabilities which in turn has brought about a rise in volumes of investment portfolios. According to Campbell (2002), Portfolio management is a highly deficient area globally and locally. Again the assets in the
portfolio could include stocks, bonds, options, warrants, gold certificates, real estate, futures contracts, production facilities, or any other item that is expected to retain its value. Ideally, everybody should have a long term and short term financial plan guiding their financial decision but this is seldom so for most of the customers who patronize banks in Ghana. Hence, universal banks face the challenges of holding a portfolio as part of an investment and risk-limiting strategy called diversification.

Moreover, the investments environment within which the portfolio funds operate are faced with a number of challenges salient among them are the issues of risk. Risk basically is the variability of the portfolio return as a result of unforeseen circumstances. Some of the universal bank investors are more risk averse than others. However, some universal banks are coerced to develop particular techniques to optimize their portfolio holdings.

Furthermore, there are vast theoretical and research gaps in the area of portfolio management particularly concerning the assessment of the impact of investment portfolio of banks in Ghana in terms of thorough research in Ghana. As stated by Elonen and Artto (2003) and supported by Blomquist and Muller (2006). This suggests a need to investigate and improve practices of portfolio investment management.

1.3 Objective of the Study

The objectives of the study included

1. To examine the relationship between asset investment and the financial performance of listed banks in Ghana.

2. To examine the influence of loan portfolio on financial performance.
3. To identify the extent to which investment assets affects banks’ performances.

1.4 Research Questions

Since the review of the portfolio management process is so important, it is a primary supervisory activity. Assessing portfolio management involves evaluating the steps management takes to identify and control risk throughout the investment process. The assessment focuses on what management does to identify issues before they become problems. The study sought to find answers to the following questions:

1. What is the relationship between asset investment and the financial performance of listed banks in Ghana?

2. What is the influence of loan portfolio on financial performance?

3. What is the extent to which investment assets affects banks’ performances?

1.5 Significance of the Study

The findings of the research are expected to be a source of valuable information to individuals, firms, other researchers in the academia and the nation at large. Also, it is envisaged that the result of this study would help to create awareness of the portfolio management in investment decision of rural banks and other commercial banks in Ghana. As a nation it would enable policy makers to adopt strategies which will help to achieve the objectives of the commercial banks in terms of strategic portfolio management. Furthermore, it would serve as a relevant resource for additional research to be carried out in the same or similar area. Finally, it would also serve as a reference material for students, teachers and other individuals to aid them in research work.
1.6 Delimitation of the Study

The research work was limited to five (5) selected listed banks which are Stanbic Bank, GCB bank, National Investment Bank (NIB), Societe Generale (SG Bank) and Ecobank. The study was designed to analyze the annual financial reports of Stanbic Bank, GCB bank, National Investment Bank (NIB), Societe Generale (SG Bank) and Ecobank for the period 2008 to 2017. The preference of banks was as a result of availability and easy access to their annual financial reports.

1.7 Organisation of the Study

This study has been organized under five chapters. Chapter one covers the introduction, which is centered on the background of the study, the statement of the problem, objectives of the study, research questions, significance of the study, delimitation of the study and organisation of the study and methodology employed. Chapter two has the literature review on Investment portfolio. Chapter three describes the methodology used for the study. It looks at the method of data collection, organizational profile of Universal banks in Ghana. Chapter four contains the data presentation and analysis of results, while chapter five summarizes the various findings, conclusions and recommendations.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

According to Blumberg et al. (2008), a literature review serves many purposes in that it shows the reader the structure of the problem and the theories which have been applied so far to the problem and trying to gain new perspective on the problem. The literature review for this study overview includes various definitions, previous studies, vital articles, theories, and models on investment portfolio.

2.2 Theoretical Review

2.2.1 Modern Portfolio Theory

Modern portfolio theory, relying on the work of Markowitz (1952) and the principals of the Capital Asset Pricing Model (CAPM), suggests that investors can improve the performance of their portfolios by allocating their investments into different classes of financial securities and industrial sectors that are not expected to react similarly if new information emerges. Solnik (1974) extends this theory to an international context and suggests that diversifying globally, as opposed to a strictly domestic portfolio, will lead to optimization of the risk-return tradeoff. Therefore, investors should allocate their money into assets exhibiting low return correlation. A paper written by Riadh Aloui, Mohamed Safouane Ben Aissa, and Duc Khung (2011) at the Paris School of Management, France, examined the extreme correlations between the BRIC economies and the US, especially over 2007-2009. Empirical evidence
indicated that although BRIC markets had many features in common, they did not behave similarly in regard to their financial linkages to the US. In his paper, Markowitz (1952), formally presented his view that although investors want to maximize returns on securities they also want to minimize uncertainty, or risk. These are conflicting objectives which must be balanced against each other when the investor makes his or her decision. Markowitz asserts that investors should base their portfolio decisions only on expected returns. This implies the measure of potential rewards in any portfolio, and standard deviation, as well as the measure of risk. Again from the point of Sharpe, Alexander, & Bailey, (1999), the investor should estimate the expected returns and standard deviation of each portfolio and then choose the best one on the grounds of the relative magnitudes of these two parameters.

As previously mentioned by Markowitz (1952), he once more rejected the expected returns rule on the grounds that it neither acknowledged nor accounted for the need for diversification, which is contrary to his expected return-variance of return rule. In addition, he concluded that the expected return-variance of return rule, not only revealed the benefits of diversification but that it pointed towards the right type of diversification for the right reason. Mandelbrot, (2004) affirmed that it is not enough to diversify by simply increasing the number of securities held. If, for example, most of the firms in the portfolio are within the same industry they are more likely to do poorly at the same time than firms in separate industries. In the same way it is not enough to make variance small to invest in large number of securities. It should be avoided to invest in securities with high covariance among themselves and it is obvious that firms in different industries have lower covariance than firms within the same industry.
Balancing risk and returns is a cornerstone of modern portfolio theory. Markowitz’s (1952) seminal work derived measures for calculating expected returns and expected risk of a portfolio. He presented variance as a meaningful measure of risk, and created a method of calculating the overall portfolio risk – taking into account the imperfect correlation of price movements between assets. Variance is a statistical measure of how widely disbursed a set of probability outcomes are around its mean value. When combining multiple assets that are less than perfectly correlated, the combined variance of the portfolio reduces. Markowitz works into calculating these measures at a portfolio level allows today’s investors to quantify the relationship between risk and return rather than relying on the investors best guess. Markowitz makes a number of important assumptions. From Reilly & Brown, (2009), each asset has a set of probable outcomes which can be thought of as a probability distribution. Investors aim to maximize their single period utility of wealth. Investors are risk averse that is, they have diminishing marginal utility of wealth. Investors can estimate risk based on the variability of returns. Investors only base their investment decisions on the first and second moments of the distribution that is expected return and variance. For any given level of risk (or variance), the investor prefers a higher expected return. Similarly, for any given expected return, the investor prefers a lower level of risk.

2.2.2 Financial Intermediation Theory

According to Allen, (1998), intermediaries provide services this is clear because intermediaries issue “secondary” financial assets to buy “primary” financial assets. If an intermediary provided no services, investors who buy the secondary securities issued by the intermediary might as well purchase the primary securities directly and save the intermediary costs. To explain the sorts of services that intermediaries offer, it is useful to categorize them in terms of a simplified balance sheet. Asset services
are those provided to the issuers of the assets held by an intermediary, for example to bank borrowers. An intermediary that provides asset services is distinguished by its atypical asset portfolio. Relative to an intermediary that provides no asset services, it will concentrate its portfolio in assets that it has a comparative advantage in holding. The existence of financial intermediaries needs to be justified in economic terms because in the financial world, the financing of firms (and governments) by households occurs via financial markets in a frictionless manner - there are no transactions costs - which leaves no role for financial intermediaries. There are no transactions costs and there exists a full set of contingent markets in which all can participate. Credit markets also being perfect, individuals do not face credit rationing. Allocation of resources is Pareto optimal and there is no role for intermediaries to add value. In addition, (employing Modigliani-Miller), financial structure is irrelevant as in a world such as that described; households can construct portfolios which offset the actions of an intermediary and intermediation cannot add any value (Fama, 1980). As noted by Allen and Santomero (1998) the traditional theory of financial intermediation is focused on the real-world market features of transactions costs and asymmetric information.

2.2.3 Expected Utility Theory (EUT)

It makes sense that the explanations in human and social psychology would help in advancing our understanding of stock market behavior. The latest research has made great strides in explaining the persistence of anomalies by adopting a psychological perspective. In psychology literature reveals that individuals have limited information processing capabilities, exhibit systematic bias in processing information, are prone to making mistakes, and often tend to rely on the opinion of others. Rabin and Thaler
(2001) discusses the explanation of risk aversion in the EUT is not plausible by providing examples of how the theory can be wrong and misleading. They call for a better model of describing choice under uncertainty. It is now agreed that the failure of EUT is based on the fact that the psychological principles governing decisions were not fully recognized and as a consequence it was not successful.

2.2.4 Theory of Active Portfolio Management

Also called active investing refers to a portfolio management strategy where the manager makes specific investments with the goal of outperforming an investment benchmark index. Investors or mutual funds that do not aspire to create a return in excess of a benchmark index will often invest in an index fund that replicates as closely as possible the investment weighting and returns of that index; this is called passive management (Fama, 1992). Active management is the opposite of passive management, because in passive management the manager does not seek to outperform the benchmark index. Ideally, the active manager exploits market inefficiencies by purchasing securities (stocks etc.) that are undervalued or by short selling securities that are overvalued. Either of these methods may be used alone or in combination. Depending on the goals of the specific investment portfolio, hedge fund or mutual fund, active management may also serve to create less volatility (or risk) than the benchmark index.

The reduction of risk may be instead of, or in addition to, the goal of creating an investment return greater than the benchmark. Active portfolio managers may use a variety of factors and strategies to construct their portfolio(s). These include quantitative measures such as price/earnings ratio P/E ratios and PEG ratios, sector investments that attempt to anticipate long-term macroeconomic trends (such as a focus on energy or housing stocks), and purchasing stocks of companies that are
temporarily out-of-favor or selling at a discount to their intrinsic value. Some actively managed funds also pursue strategies such as merger arbitrage, short positions, option writing, and asset allocation.

Construction of a portfolio based upon the investor's objectives, constrains, preferences for risk and return and liability (Merton, 1973). Evaluation of the portfolio is done by continuous overview of the market conditions, company's performance and investor's circumstances, (Campbell, 2002). Portfolio management process according to Merton (1973) entails a six stage process, that is: Determine optimal investment mix followed by creating a customized investment policy statement, and then Selecting an investments, after which Monitoring of progress is necessary. These processes are explained as follows: Merton (1973) explains and Identifies goals and objectives as the stage under which several questions like: When will an investor need the money from his/her investments? How much does the investor have in terms of saving? Among other questions that may be of relevance. This is necessary as it will assist in properly identification and determination of optimal investment mix (Merton, 1973) argues that it involves asset allocations which eventually create an optimal mix. This step represents one of the most important decisions in a portfolio construction, as asset allocation has been found to be the major determinant of long-term portfolio performance (Campbell, 2002). The third stage which is creating a customized investment policy statement, which is necessary after the optimal investment mix, is determined.

This help to formalize the goals and objectives in order to utilize them as a benchmark to monitor progress and future updates (Campbell, 2002). After all the above is done, selection of investment is done so as to customize portfolio with a view of matching
the optimal investment mix. For this to succeed there is need for monitoring the progress so that the mix of asset classes stays in line with investor's unique needs, the portfolio will be monitored and rebalanced back to the optimal investment mix (Fama, 1992). Risk and return is a key element in evaluating a portfolio. Risk refers to the probability that the return and therefore the value of an asset or security may have alternative outcomes (William, 1964). Return-yield or return differs from the nature of instruments, maturity period and the creditor or debtor nature of the instrument and a host of other factors. The efficiency of the profitability position or operating activities can be identified by studying the following factors. Gross profit margin ratio: Dividend policy is determined in the general body meeting of the company, for equity shares at the end of the year. The dividend payout ratio is determined as per the dividend paid. Dividend policies are divided into two types (Tobin, 1958):-Stable dividend policy, unstable dividend policy. Capital structure of a company that necessitates portfolio management.

Portfolios or combinations of securities are thought of as helping to spread risk over many securities may specify only broadly or nebulously. Auto stocks are, for examples, recognized as risk interrelated with fire stocks, utility stocks display defensive price movement relative to the market and cyclical stocks like steel, and so on. This is not to say that traditional portfolio analysis is unsuccessful. It is to say that much of it might be more objectively specified in explicit terms. They are: Determining the objectives of the portfolio and Selection of securities to be included in the portfolio. Normally this is carried out in four to six steps (Fischer, 1972). Before formulating the objectives, the constraints of the investor should be analyzed within the given frame work of constraints, objectives are formulated.
Then based on the objectives securities are selected. After that risk and return of the securities should be studied. The investor has to assess the major risk categories that he or she is trying to minimize. Compromise of risk and non-risk factors has to be carried out. Finally relative portfolio weights are assigned to securities like bonds, stocks and debentures and the diversification is carried out.

2.3 Empirical Review

Field of portfolio management and evaluation has widely been studied by scholars, some of the empirical studies to this regard are highlighted in subsequent paragraphs. Jeroz (2007) in his study of investment companies recommended that portfolios should be reviewed and adjusted from time to time with the market conditions. He pointed out that evaluation of portfolio is to be done in terms of targets set for risk and return. The changes in portfolio are to be effected to meet the changing conditions. According to his studies Portfolio Construction refers to the allocation of surplus funds in hand among a variety of financial assets open for investment. He mostly concerned himself with the principles governing such allocation. The modern view of investment is oriented towards the assembly of proper combinations held together will give beneficial result if they are grouped in a manner to secure higher return after taking into consideration the risk element. The modern theory is the view that by diversification, risk can be reduced. The investor can make diversification either by having a large number of shares of companies in different regions, in different industries or those producing different types of product lines. There are many different ways to measure financial performance, but all measures should be taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales. Furthermore, the analyst
or investor may wish to look deeper into financial statements and seek out margin
growth rates or any declining debt.

Morgan (2008) believed that investors can enhance the performance of their pure-
stock portfolios by incorporating different options strategies. Among them, the most
popular strategies are covered-call writing and protective-put buying. In theory, there
is no clear evidence on whether a specific option strategy is superior. According to
Morgan the efficient market theory, an increase in returns should be accompanied by
an increase in risk. Adding options to stock portfolios may also create problems of
performance measurement homogeneity. Hedging is a financial transaction in which
one asset is held to offset the risk of holding another asset. Typically, a hedge is used
to offset price risk due to changes of financial market conditions. In this way, the
development of financial derivative instruments (options, futures, forward and swap)
make hedgers simple to use it to reduce risk. However, many portfolio managers use
these derivative instruments to speculate instead of hedging and, in turn, increase risk.

Miriti (2008) on his study of Precision of Investor Information and Financial
Disclosure investigated a situation in which the precision of an inside investor's
private signal increases with the size of his shareholding. Intuitively, an insider with a
more informative signal regarding the prospects of a project may be expected to
involve himself in larger information motivated transactions and enjoy greater profits.
We suggest that such an advantage, nevertheless, may be alleviated or even
eliminated when the financial statements accompanied by disclosure of either his
shareholdings or the distribution of block shareholdings reveal the extent to which the
insider is informed. The market may optimize its reaction when the order flows
accordingly.
Omondi (2009) on his study of Liquidity risk and portfolio management in centum investments investigated the impact of a liquidity shock induced by investor's behavior on portfolio management during financial crises in a system lacking deposit insurance. It is found that investors reacted to the liquidity shock sensitively through an increase in their cash holdings not by liquidating bank loans but by selling securities in the financial market. Moreover, institutions exposed to local financial contagion adjusted the liquidity of their portfolio mainly by actively selling and buying their securities in the financial market. Finally, there is no evidence to conclude that the existence of the lender of last resort mitigated the liquidity constraints in investor's portfolio adjustments.

Muthamia (2010) on his study of challenges faced by centum investments argued that when economic conditions become more challenging, organizations have fewer resources to deploy on new business or change projects and programmes, reducing the number of such initiatives they can undertake. However, at such times, the projects and programmes they do invest in are often more critical, since they may be essential to deliver efficiency savings, sustain revenue or improve aspects of performance on which the survival of the organization can depend. The current turbulent economic conditions appear to have caused increasing adoption of project portfolio management by organizations. Project portfolio management can be defined as: managing a diverse range of projects and programmes to achieve the maximum organizational value within resource and funding constraints, where 'value' does not imply only financial value and includes delivering benefits which are relevant to the organization’s chosen strategic move with time.
Tanui (2010) argued that Lending is the principal business activity for most investors is portfolio risk management which is typically the largest asset and the predominate source of revenue. As such, it is one of the greatest sources of risk to an investor's safety and soundness. Whether due to lax credit standards, poor portfolio risk management, or weakness in the economy, loan portfolio problems have historically been the major cause of failure or success.

Effective management of portfolio and the credit function is fundamental to an investor's safety and soundness. Portfolio management is the process by which risks that are inherent in the credit process are managed and controlled. Because review of the portfolio management process is so important, it is a primary supervisory activity. Assessing portfolio management involves evaluating the steps investor’s management takes to identify and control risk throughout the process. The assessment focuses on what management does to identify issues before they become problems. This paper, written for the benefit of both examiners and investors discusses the elements of an effective portfolio management process. It emphasizes that the identification and management of risk among groups may be at least as important as the risk inherent in individual.

Wafula (2010) in his study of centum investments investigated whether momentum trading strategies are profitable as determinants of financial performance relative to the Kenyan stock market, and examines the sources of such profitability. Momentum portfolios are significantly profitable in the intermediate term in Kenya, but the profits become insignificant after risk adjustment by the Chordia and Shivakumar (2001) model. The stock-specific return strategy and factor-related return strategy are analyzed to examine which portion of the total return causes stocks to enter extreme
portfolios. The Chordia and Shivakumar factor-related return strategy obtains profits with a magnitude that is close to that which is attained by the total return momentum strategy. Additional evidence further supports the view that the Chordia and Shivakumar model captures momentum profits.

Effective portfolio management begins with oversight of the risk in individual investors. Prudent risk selection is vital to maintaining favorable investment quality. Therefore, the historical emphasis on controlling the quality of individual investment approvals and managing the performance continues to be essential. But better technology and information systems have opened the door to better management methods. A portfolio manager can now obtain early indications of increasing risk by taking a more comprehensive view of the portfolio.

2.4 Financial Performance

According Hooley, Greenley, Cadogan, and Fahy, (2005) performance outcomes result from success or the market position achieved. Organizational performance refers to how well an organization achieves its market-oriented goals as well as its financial goals. Organizational performance means attainment of ultimate objectives of the organization as set out in the strategic plan. Performance can be determined in various ways. While there is a range of specific models, major determinants of firm level profitability include the characteristic of the industry in which the firm competes, the firm's position relative to its competitors and the quality or quantity of the firm's resources.

Weiner and Mahoney, (1981) indicated that numerous measures of corporate performance could be used as dependent variables. However, more important than a
specific measure chosen is the use of multiple measures, because different criteria of performance are likely to be differentially affected by the various independent variables. Moreover, Lieberson and O’Connor, (1972) opined that financial Performance Ratios is used to measure the financial performance of a business. A financial ratio is an important tool for businesses and managers to measure the progress for achieving the targeted goals. Some of the important financial ratios which a firm would like to analyze include: liquidity ratio, profitability ratios and financial leverage ratios among others.

2.4.1 Financial Assets

According to Laurie (2013), financial assets are intangible asset whose value is a derivative of contractual claim, such as stocks, bonds and deposits of a bank. Financial assets, mostly include financial claims which originate from contractual dealings ventured into when funds are provided to an institutional unit by another. Such contract initiates creditor relationship with debtor and asset owners acquire unconditional claims on economic resources of other institutional units. Laurie further notes that financial assets are easily liquidized compared to other tangible assets including real estate, commodities, and are tradable on financial markets.

Laurie (2013) concludes by saying that financial asset increases a company's worth. This is in line with Cernas (2011) who affirm that increase in company’s financial assets, results to increase in its net worth. Cernas (2011) adds that a company with multiple assets also gets to depreciate the value of those assets, which is used as a deduction during tax reporting. Blume and Friend (1975), while discussing on private investor portfolio diversification, point out that there a large pool of private investors who still have not diversified portfolios of financial assets that are risky even with the outlooks from the theory of capital asset pricing. Same views are advanced by
Douglas (2014) who argues that lack of diversification in firms is as a result of; diversity in anticipations of investors’ vis-à-vis risks and revenues and; investors’ incapacity to properly sum up individual assets risks as well as the entire portfolio risks.

Foster (1975) reports that financial assets which are more speculative have the capability of resulting to increasing returns in the short-run, and with similarly higher unpredictability as to the value they possess in the long-run. On the other hand, Marcia, Otgontsetseg and Hassan (2014) argue that abrupt and unforeseen decline in prices of financial asset can result to the financial calamity. While focusing on unclaimed financial assets, Asha (2014) asserts that unclaimed financial assets positively correlate with financial performance of commercial banks.

### 2.4.2 Loans

Perez (2015) acknowledges that loans ranks as the key and the most valuable types of asset that is held by banks because it’s from them that banks receive income. Same views are raised by Bismark and Chengyi (2015) who argue that the largest assets the source of income and asset for bank is loan portfolio. According to Morsman (2003), loan portfolio also constitutes the major asset and the predominant basis of income. Globally, banks grant loans to customers as a way of enhancing financial performance (Bonin & Huang, 2001). Perez (2015) notes that banks were classified based on the asset size they have, the key trend that might be exhibited is larger proportions loans. Other interesting trends is that loans are not very much valued by for larger banks, reason being such large banks diversify their asset portfolio to a large extent. A review of the work of Nduwayo (2015) on effect of loan on the financial performance
of Rwandan commercial banks in Kigali shows that well managed loans are main source of positive financial performance.

According to Dang (2011), loan portfolio quality defines how profitable a banks can be. Dang notes that loan portfolio has a positive relationship with bank profitability when the loan portfolio is of high quality. However, Dang (2011) warn that the main risk that a banks can encounter are the losses that arise from non-performing loans. Koch and MacDonald (2000) add that in the past, problems associated with loan portfolio have caused many banks to post loans and even fail. Hence they argue that managing loan portfolio effectively and the credit endeavors of a bank are key to its soundness and safety. Due to this, many banks have focused their attention to managing loans so as to ensure that there are low levels of nonperforming loans since high levels of non-performing loan have an effect on the banks profitability. When a banks recording low level of non-performing loans comparative to the total loans, this is an implication of good health of loans portfolio of bank. It I recommended that the ratio should be as low as possible as it’s an implication of better performance of bank (Sangmi & Nazir, 2010). Amba and Almukharreq (2013) contend that the requirements for delinquent loans decrease loan portfolio total of banks and consequently reduce the interest attained on such assets. These views are supported by Trujillo-Ponce (2013).

2.4.3 Cash and Cash Equivalent

According to Harford and Haushalter (2000), cash and cash equivalents are presented on company’s balance sheet and shows the worthy of company's assets that are already in cash or can be straight way changed into cash. Cash and cash equivalents' constitutes asset of a business, presented on the financial statement revealing the
business financial situation and comprises of currency a firm holds (in hand and in bank accounts) and cash equivalents. As pointed out by Harold (2014), cash and cash equivalents comprise of coins, currency, petty cash, checking and savings accounts, money market accounts, checks that have not yet been banked despite being received and investments that are highly liquid and short-term, having maturity period not exceeding three months from the buying time. Harold (2014) further argues that cash and cash equivalents are leading in terms of the ability to be liquidized in comparison with all other assets. Therefore, cash equivalents assets are readily changeable into cash and are different compared to other investments, they have maturity of within three months whereas, their existence is short-term of about twelve month or a lesser period, different from long-term investments which matures with a period exceeding twelve months (Catherina, Tørng-Her, Haimin & Da-Quan, 2013).

Opler, Lee, Rene and Rohan (2001) assert that the values of cash and cash equivalents held by company is vital and needs to be in large volumes and incorporated in operating strategy of a company. They argue that companies that have large cash and cash equivalents bases excel in hard and turbulent periods when expenses of the companies are highs and sales relatively low.

Dittmar and Mahrt-Smith (2007) point out that high cash reserves are, too, an implication that a firm is geared towards important gaining due to the savings made. They also argue that, firms that have higher cash on hand are highly targeted for takeover since excess cash they possess can be using in helping customers to fund their procurements. They conclude that having very high reserves of cash can also signify poor management strategy of putting such cash into income generating investments.
Harford (1999) shows that those companies that have high levels of large cash reserves use more of it in making acquisitions. Further, Harford, Mansi and Maxwell (2005) advance the argument by arguing those firms that are managed in poor ways waste their cash as they procure items.

Wayne and Megan (2003) argue that the pressure of disciplining managers and administers is inversely proportional to the size of cash holdings and high cash reserves have a tendency of seductive managers to spend available cash in different investments even when they are not profitable. Wayne and Megan (2003) further notes that management of firms that have a lot of cash have an advantage of funding expenditures into capital without draining their reserves. The advantage is that reliance on internal funding is less costly as compared to external financing.

2.4.4 Other Investments

Baird (2013) argues that other investments can contribute towards increased risk and or return traits of an investment collection. Baird (2013) further notes that investors that are employing substitutes may be aiming at realizing a certain degree of absolute income. González (2004), while investigating on how equity investments affect banks' profitability, established that there was banks' equity investments improved the overall income and interest rate edge of banks.

Fremond and Capaul (2002) note that the investment criteria has been altered considerably and corporate investors appreciate the security trait and the importance of having an investment assets pool and spreading them by pooling together investment with varying levels of risk can be reduce by a trade-off with return.
According to Oyatoye and Arileserre (2012), investing in different investments improves a company’s chances of earning a good return although not guaranteed because of the uncertainty facing the investments. Construction of an efficient investment portfolio enables the firm to diversify its risks thereby improving the earning ability of the portfolio (Oyatoye & Arileserre, 2012). They further argues that it is very important for any sector to endure and progress so as to mitigate potential underwriting losses and achieve increased profits. Mukati (2012) argue that the choice by a business of a firm spread its assets is carried out if the advantages that may arise from diversification outdo the costs, and such enables a business or a firm to remain focused in case of negative deviation.

2.5 The Relationship between Portfolio Holding and Financial Performance

Portfolio choice is an example of sequential decision making under uncertainty. Investors must consider their attitudes towards risk and reward in face of an unknown future, in order to make complex financial choices. The purpose of investing in a portfolio is to cushion oneself from the changes in returns among the selected investment options. Ideally, a portfolio manager should increase the systematic risk of the portfolio in anticipation of a market upturn and decrease the beta prior to a market downturn. Investing in different investments improves a company’s chances of earn a good return although not guaranteed because of the uncertainty facing the investments. Construction of an efficient investment portfolio enables the firm to diversify its risks thereby improving the earning ability of the portfolio (Oyatoye & Arileserre, 2012). Oyatoye & Arileserre (2012) states that as it is crucial for insurance industry to survive and develop, the insurance investment enables insurance companies to offset their possible underwriting losses and make a considerable profit. Mukati (2012) states that the risk faced by an insurance fund manager differs from what the typical fund manager faces
because of the fact that the risk in insurance investment management must factor in the liability side of its balance sheet that includes benefit amounts for shareholders.

2.6 Attributes of Good Lending

2.6.1 Safety
The lender needs to ensure that funds lent are safe and that the lender’s own financial position is sound. Safety when applied to an advance, is an understanding that the borrower has the legal capacity to borrow, and to provide security should this be required.

2.6.2 Liquidity
Liquidity is the ability of the borrower to meet repayments as they fall due. In the case of a personal loan this would be from monthly salary, and for a business from cash generated from business operations.

2.6.3 Profitability
Profitability is measured in terms of the income generated by the advance in terms of interest and fees and its proper reflection of the risk involved.

2.7 Loan Portfolio Quality and Bank Performance
Loans generate huge interest for banks which contribute immensely to the financial performance of banks. However, when loans go bad they have some adverse effects on the financial health of banks. This is because in line with banking regulations, banks make adequate provisions and charges for bad debts which impact negatively
on their performance. Bank of Ghana regulations on loan provisioning indicate that loans in the non-performing categories that is loans that are at least ninety days overdue in default of repayment will attract minimum provisions of 25%, 50% and 100% for substandard, doubtful and loss, respectively (Bank of Ghana Act, 2004, Act 673).

According to Bloem and Gorter, (2001), though issues relating to non-performing loans may affect all sectors, the most serious impact is on financial institutions such as commercial banks and mortgage financing institutions which tend to have large loan portfolios. Besides, the large bad loans portfolios will affect the ability of banks to provide credit. Huge non-performing loans could result in loss of confidence on the part of depositors and foreign investors who may start a run on banks, leading to liquidity problems.

The provisions for bad loans reduce total loan portfolio of banks and as such affects interest earnings on such assets. Study of the financial statement of banks indicates that bad loans have a direct effect on profitability of banks. This is because charge for bad debts is treated as expenses on the profit and loss account and as such impact negatively on the profit position of banks. For example Barclays Bank Ghana Limited declared a loss in its 2008 financial statement partly due to the huge charge for bad debts which increased from GH¢5,540,000.00 in 2007 to GH¢46,890,000.00 in 2008 (Price Water-House Coopers, 2009). The annual report of ADB for 2007 showed that the bank had embarked on a five-year bad loan provisioning which affected its profitability during the period. The report indicated that the net profit for 2007 decreased by 13.81% which was attributed mainly to the non-performing loan provisions.
Some foreign literature indicates that bad loans can fuel banking crisis and subsequently result in the collapse of banks with huge non-performing loans. Demirguc-Kunt and Huizinga (1999), cited in Berger and De Young (1997), indicate that failing banks have huge proportions of bad loans prior to failure and that asset quality is a statistically significant predictor of insolvency.

As was indicated earlier in this research, Caprio and Klingebiel (1996), cited in Fofack (2005), also reported that during the banking crisis in Indonesia, non-performing loans represented about 75% of total loan assets which led to the collapse of over sixty banks in 1997. This means that banks holding huge bad loans in their books can run into bankruptcy if such institutions are unable to recover their bad debts.

A possible effect of bad loans is on shareholders earnings. Dividends payments are based on banks performance in terms of net profit. Thus since bad loans have an adverse effect on profitability of banks, it can affect the amount of dividend to be paid to share holders. The Banking Act of Ghana spells out that a bank shall not declare or pay dividend on its shares unless it has, among other things, made the required provisions for nonperforming loans and other erosions in assets value [Section 30 (1) of Banking Act, 2004, Act 673].

The foregoing discussions show the effects of bad loans on banks performance in Ghana and other parts of the world. This study intends to delve into the effect of loan portfolio quality on the performance of banks in Ghana.

2.8 Conceptual Framework
A conceptual framework is a structure which the researcher believes can best explain the natural progression of the phenomenon to be studied (Camp, 2001). The study conceptualized a framework consisting of both independent and dependent variables. The independent variables included bank financial assets; investment portfolio; Cash and Cash Equivalent and other investment. The dependent variable was Financial Performance of banks. The study conceptualized that the independent variables influenced the dependent variable where the independent variables could either lead to a good or poor performance.

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Dependent Variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Financial Assets</td>
<td>Financial Performance</td>
</tr>
<tr>
<td>Investment Portfolio</td>
<td>• Return on assets</td>
</tr>
</tbody>
</table>

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter deliberated on the methodology of the study. It gives the specific procedures that were followed in undertaking the study. The research design, population, sampling design, data collection methods and data analysis are described in this chapter.
3.2 Research Design

The research design which was employed for this study was the descriptive research design. The major purpose of descriptive research design is to describe the state of affairs as it is at present. According to Mugenda and Mugenda (1999), a descriptive research is a process of collecting data in order to answer questions concerning the status of the subjects under study. The primary use of descriptive statistics is to describe information or data using numbers to create number of pictures of the information. The characteristics of groups of numbers representing information or data are called descriptive statistics (Kay, 1997). According to Mugenda and Mugenda (1999), this type of research attempts to describe such things as possible behavior, attitudes, values and characteristics. These descriptions of a descriptive research matched with the purpose of this study, as its intention of this study is to assess the impact of investment portfolio on banks’ performances in Ghana. The advantage or the purpose of using descriptive research design in this study is to ensure the in depth description of the state of affairs.

3.3 Population

Target population in statistics is the specific population about which information is desired. According to Ngechu (2004), a population is a well defined or set of people, services, elements, and events, group of things or households that are being investigated. This is the population, a researcher or investigator aims at generalizing study finding to (Mugenda & Mugenda, 2003). It is the entire spectrum of a process or system researcher is interested in.
(Johnston & Vander Stoep, (2009). The population studied here was nine (9) listed banks in Ghana.

3.5 Sample and Sampling Procedure
Kumar (2000) defines a sample as a chosen subset of elements from the population. For determining sample size, Frankel and Wallen (2000), drawing conclusions about a population after studying a sample is never totally satisfactory argues the researcher can never be sure that their sample is perfectly representative of the population. Some differences are randomly selected and are of sufficient size, these differences are likely to be relatively insignificant and incidental.

The total sample size for the study was five (5) which are Stanbic Bank, GCB bank, National Investment Bank (NIB), Societe Generale (SG Bank) and Ecobank. Burns and Grove (2003) refer to sampling as a process of selecting a group of people, events or behaviour with which to conduct a study. Polit et al (2001) confirm that in sampling a portion that represents the whole population is selected. Sampling is closely related to generalisability of the findings.

3.5 Data Collection
The study adopted the secondary collection method data. According to Kothari (2004), secondary data is the one which is already gathered and available and which has already been collected by someone else. The secondary data on the banks financial performance and investment portfolio management was gathered from selected banks’ annual reports. The study was limited to a time scope of 10 years of
the years 2008 to the year 2017. The time scope was considered adequate for inferring
on investment portfolio management effect on the bank performance of the listed
banks.

3.6 Data Analysis

In this study, the quantitative data was collected on investment portfolio management
on the listed banks. It was then analyzed through descriptive means and inferential
statistics. Again the Statistical Package for Social Sciences (SPSS) was the tool that
aided in the analysis. The research findings were presented using tables and figures.

3.6.1 Analytical Model

Analytical model is the study technique that determines the link existing between the
research variables. The following regression model was used to establish the
relationship among the study variables.

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon \]

Whereby;

\( Y \) = Banks’ performance measured by Return on Asset

\( X_1 \) = Financial Assets measured as natural log of banks financial Assets

\( X_2 \) = Investment Portfolio measured as natural log of Net Investment Portfolio

\( X_3 \) = Cash and Cash Equivalent measured as natural log of Cash & Cash equivalents.

\( X_4 \) = Other Investments measured as natural log of other investments

\( \beta_0 \) = regression constant

\( \beta_1, \beta_2, \beta_3 \) and \( \beta_4 \) = coefficients associated with predictor variables

\( \varepsilon \) = Residual (error) term
3.6.2 Test of Significance

The significance of this study was tested at 5% level of significance and 95% confidence level.

Moreover, in case the significance value from the analysis was less than 5%, then it could be concluded there was significance and vice versa.

CHAPTER FOUR

PRESENTATION OF DATA, ANALYSIS AND DISCUSSION OF FINDING

4.1 Introduction
In the previous chapter, the research methodology and source of data for the study was examined into detail. In this section, the collected data is analysed with the view examination of the relationship between the study variables. The results were discussed and compared with existing literature on the subject.

4.2 Descriptive Statistics

The descriptive statistics of the dependent and independent variables used in the study are presented in the table 4.1 below. The study identified the dependent variables as return on asset which was used as the proxy profitability or performance of the bank while the main independent variables includes loan, banks financial assets, investment portfolio, cash and cash equivalent and natural logarithm of total assets. From table 4.1 below, the key descriptive measures include mean, standard deviation and both the minimum and maximum value for the study understudies. The descriptive statistics indicates that on average, the value of the return on assets of the study is 30.638. The implication is that investors for the selected commercial banks had receives on over 30.638. The loan portfolio also had a minimum value of 0.180 and a maximum value of 14.73, natural logarithm total asset also had a had a minimum value of 3.6 and a maximum value of 17.673 and lastly cash and cash equivalent had a minimum value of 11.238 and a maximum value of 15.377.

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Standard</th>
</tr>
</thead>
</table>

Table 4.1 Descriptive statistics
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th>deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on Asset</td>
<td>45</td>
<td>42.326</td>
<td>79,300</td>
<td>30.638</td>
</tr>
<tr>
<td>Loan portfolio</td>
<td>45</td>
<td>0.180</td>
<td>0.75</td>
<td>14.73</td>
</tr>
<tr>
<td>Natural Logarithm</td>
<td>45</td>
<td>3.600</td>
<td>17.673</td>
<td>0.449</td>
</tr>
<tr>
<td>total Asset</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>cash and cash</td>
<td>45</td>
<td>11.238</td>
<td>15.377</td>
<td>13.874</td>
</tr>
<tr>
<td>equivalent</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Field study (2018).

### 4.3 Test of Multicolinearity

According to Pallant (2009), the assumption of multicolinearity was tested to ensure that there is no strong relationship between the predictor variables in the study. Therefore, tolerance and variance inflation factors were used with Pearson’s correlation test to examine the existence of strong relationship. The tolerance test shows how much of the variability of the specified independent variable is not explained by the other independent variables in the model. From the table 4.2, it can be observed that all the tolerance values were greater than 0.10, indicating that there is no problem of multicolinearity in the regression model. Also the VIF test was performed to detect the presence of multicolinearity among the independent variables. According to Pallant (2011), the rule of thumb states that VIF values above 10 suggest some high levels of multicolinearity. The results illustrated that none of the values were above 10, suggesting that there is no problem of multicolinearity in the regression model. Also the Pearsons correlation matrix as represented in Table 4.2.
indicated that there is no problem of multicolinearity among the various independent variables.

The table 4.2 is presented below:

### Table 4.2 Test of Multicolinearity between the variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Variance Inflation Factor</th>
<th>Tolerance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on Asset</td>
<td>1.53</td>
<td>0.635</td>
</tr>
<tr>
<td>Loan portfolio</td>
<td>1.32</td>
<td>0.771</td>
</tr>
<tr>
<td>Total Asset</td>
<td>1.54</td>
<td>0.697</td>
</tr>
<tr>
<td>Natural Logarithm total Asset</td>
<td>1.59</td>
<td>0.621</td>
</tr>
<tr>
<td>Cash and cash equivalent</td>
<td>1.82</td>
<td>0.787</td>
</tr>
</tbody>
</table>

*Source: Author’s Construction, (2018)*

**4.4 Correlation Analysis**

This section presented the correlation matrix for all the variables incorporated into the model. The coefficient of correlation provides an index of the direction and the magnitude of the relationship between two set of scores without implying causality. The sign of the coefficient is an indication of the direction of the relationship. The absolute value of the coefficient indicates the magnitude. The Pearson Correlation analysis result in Table 4.4 also affirmed the previous result that there is no multicolinearity among the independent variables. According to Drury (2008), for multicolinearity to exist, the correlation coefficient (r) between the independent
variables should be 0.70 or above (r ≥ 70). In this result, it can be observed that none of the coefficients is above 0.70, indicating the absence of multicolinearity.

Moreover, the result of the correlation result also showed that return on asset has a positive influence relationship with all the variables thus (Loan portfolio =.430*, total asset = .304*, Natural logarithm total asset = .262, cash and cash equivalent =0.28 and financial performance .254*).

Table 4.3 Descriptive Statistics and Correlation Matrix

<table>
<thead>
<tr>
<th>Variables</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Return on Asset</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Loan portfolio</td>
<td>.430*</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Total asset</td>
<td>.304*</td>
<td>200</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Natural Logarithm total Asset</td>
<td>.262</td>
<td>-342**</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Cash and cash equivalent</td>
<td>.028</td>
<td>-0.98</td>
<td>.177</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>6. Financial performance</td>
<td>.254*</td>
<td>.023</td>
<td>152</td>
<td>.106</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: Authors (2018)

Note **. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

4.5 Regression Analysis

To estimate the relationship between the variables in the study regression analysis was performed. Regression analysis was used to examine the relationship between asset investment and the financial performance of listed banks, the influence of loan portfolio on financial performance and Cash and cash equivalent and financial performance.

4.5.1 The effect of loan portfolio on performance banks (ROA)
The variable loan portfolio was added to the regression model to examine the credit risk as well as the asset quality. The value of the loan loss provision measures the bank’s credit quality. The loan loss provisions are reported on a bank’s income statement. A higher Loan Portfolio Profitability (LPP) means that higher profit for firms and hence increased in financial performance. The results are presented in the table 4.4 below.

Table 4.4 The result of the regression study between the effect of loan portfolio quality on performance

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>T-stat</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>7.293</td>
<td>6.53</td>
<td>0.000</td>
</tr>
<tr>
<td>loan portfolio*ROA</td>
<td>0.125</td>
<td>0.454</td>
<td>0.547</td>
</tr>
<tr>
<td>loan portfolio</td>
<td>1.567</td>
<td>4.512</td>
<td>0.003</td>
</tr>
</tbody>
</table>

Source: Field study (2018). {R=927, R Square .878. Adjusted R- Square 856}

From the table 4.5 below, it is illustrated that the R-square is 878, this implies that 87.8% of loan portfolio can be used to explain the return on asset earned by the investors. The R-square gives the coefficient of the determination between the variable. The higher the value of the R-square, the greater the determination of the variable. In this case loan portfolio is a higher fit for return on asset. Also the significant of the model was tested. The p value of 0.003 < than 0.005, hence the model is significant. Therefore, it indicates that loan portfolio has an influence on the financial performance on banks. Arun and Turner (2009), did to study to the project portfolio selection and also came out with a similar regression model where loan portfolio has a positive relationship on return on asset of commercial banks.
4.5.2 The relationship between investment asset and the financial performance of listed banks.

This section demonstrates the influence of investment asset on the financial performance of banks.

Table 4.5 The result of the regression analysis between investment asset and financial performance of bank

<table>
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<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>T-stat</th>
<th>P-value</th>
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<tr>
<td>Investment asset</td>
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Source: Field study (2018).  \( R=852, \) \( R \text{ Square } .753. \) Adjusted \( R \text{- Square } 749 \)

Again, table 4.6 demonstrates the relationship between investment asset and financial performance. An \( R \text{ Square } .749 \) implies that 74.9% total variation in investment assets can be used to examine the financial performance of the selected bank during the period understudy. With the significant of the model, a \( p \) value of 0.000 shows that investment asset has an influence on the financial performance of the selected banks. The implication is that the higher the number of investment assets owned and controlled by investors, the greater the profit margin increases. According to Barth and Levine (2001), investment asset enables banks earn addition income to enhance their financial position.
4.5.3 The relationship between Cash and cash equivalent and financial performance

Furthermore, cash and its equivalents differ from other current assets like marketable securities and accounts receivable, based on their nature. However, certain marketable securities may classify as a cash equivalent, depending on the accounting policy of a firm. This section examines the relationship between cash and cash equivalent and financial performance.

Table 4.6 The result of the regression analysis between cash and cash equivalent and financial performance

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According to the above regression data and statistical test data, the relationship between cash and cash equivalent and financial performance is statistically significant. This is because the p value of 0.000 < 0.05. With the predictive power of the model as measured by R-square which is .471. This implied that 47.1% total variance in cash and cash equivalent can be used to explain the financial performance of the selected banks during the year understudy. According to Chike and Inyiama (2014), most banks and other companies may elect to classify some types of their
marketable securities as cash equivalents. This depends on the liquidity of the investment. This enables them to increase their financial performance.
CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of findings, conclusions and recommendations based on the results. The summary presents a snapshot of the research findings. The inference based on the empirical study is captured in the conclusion while recommendations are proposed based on the findings.

5.2 Summary of Findings

The findings indicated that the minimum value for all variables which included Return on Asset, Loan portfolio, Natural Logarithm Total Asset and cash as well as cash equivalent recorded an increase. The findings also revealed that that none of the values were above 10. This suggested that there is no problem of multicolinearity in the regression model. The result of the correlation also revealed that return on asset has a positive influence relationship with all the variables which were Loan portfolio total asset, Natural logarithm total asset, cash and cash equivalent, and financial performance. The results from the analysis indicated that loan portfolio quality has a significant effect on the financial performance of the selected universal banks. Thus an increase in loan portfolio leads to an increase in the financial performance on the selected banks. Furthermore, the study established that, cash and cash equivalent had an influence on the financial performance of the banks. Again, investment assets also had an influence on the financial performance of the selected banks.
5.3 Conclusion

The purpose of the study was to examine the influence of investment portfolio on the financial performance of bank. Based on the findings, it was concluded that loan portfolio quality, cash and cash equivalent and investment asset had influence on the financial performance of the selected listed bank for study. This implies that commercial banks can enhance their performance by improving their cash equivalent which includes banker’s acceptant, commercial paper, bonds, treasury bills other liquid investments. In addition, the significant of loan portfolio on financial performance implies that bank can give more loans their customers in other to increases their financial performance and also get more customers.

5.4 Recommendation

The study vividly made the following recommendation.

Banks should focus their work to promote the confidence in portfolio diversification and develop marketing policies that encourages its uses. Investment sometimes realize enhancements in risk and returns related to lower restrictions on banking activities together with return, however not necessarily restricted to other investment which includes real estate investment and the need for diversification.

Moreover, since most investors expect to earn an exact rate of comeback by investing within the bank or company and any surprises that will cause the completed come back to show a discrepancy from the expected come back causes the investors to regulate the stock worth, thus to be able to earn the expected returns and the need for diversification.
In addition, the study recommends that commercial banks should improve their loan portfolio into other to enhance their financial performance. It is recommended that, banks in Ghana should develop effective and efficient strategies and policies to improve the quality of their loans in order to improve their profitability. Moreover, commercial banks can covert more of their operation cost incurred to profit through effective strategies and polices. This is also another form of diversification. Efficient management of bank operations can alleviate the high operational cost that erodes bank profits. Bank occupancy cost and salaries are major components of operational cost. Bank must be encouraged to employ more technologies to automate their service delivery. The use of ATMs and electronic based bank services would reduce the number of branches that would be required. These technologies would enable banks to explore new markets without maintaining a physical presence. It would reduce the number of staff costs, occupancy cost, paper cost and queuing times in the banking halls. Bank branches should only be built at strategic locations. Banks must take collaborative and radical steps in building capacity of IT employees to reduce over reliance on foreign consultants who demand outrageous fees for software license and maintenance contracts. Managerial cost and other expenses should be at optimal level and consistent with profit maximisation objectives of shareholders.
REFERENCES


Foster (1975)


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