CAUSES AND IMPACT OF NON-PERFORMING LOANS: THE CASE OF UT BANK

BY

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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 Name: Cosmos Asiedu Amoah

Signature: …………………………… Date: ……………………

Supervisor's Declaration

I hereby declare that the preparation and presentation of this dissertation were supervised in accordance with the guidelines on supervision of dissertation laid down by the University of Cape Coast.

Supervisor's Name: Mr. Charles Eghan

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ABSTRACT

Loans form a chunk of a bank's assets as a financial institution. This comes about as a result of granting loans to individuals, companies and other institutions in a way of making income. The loans granted by these banks constitute their loan portfolios and assets. However, a loan granted can go bad and this goes a long way to affect the financial health and profitability of the bank in the future through huge provisions for bad and doubtful debts in its books. This research was carried out to establish the causes and impacts of non-performing loans on the financial performance of banks, focusing on UT Bank. This study covered the past five year's performance of the loans of UT Bank.

The data used for this study were primary and secondary data. Questionnaires were the main tools used for the gathering of primary data and I also relied mainly on various forms of published and unpublished information including annual financial reports and other management reports of UT Bank. Some of the causes of these non-performing loans are borrower's orientation/culture, risk appetite of the bank, high loan interest rate, rapid loan portfolio growth, weak credit monitoring, poor risk assessment, compromised integrity of credit officers, size of the bank, high inflation, poor training of staff, lack of security/collateral, diversion of funds by borrowers, and unfavourable economic changes.

It is recommended that effective loan monitoring, staff training, adequate and liquid collaterals, customer orientation and training, use of credit reference bureau and effective monitoring of business cycle of industries are used to improve on the quality of their loans portfolio.

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DEDICATION

I dedicate this work to my lovely wife, children and the entire family

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CHAPTER ONE

INTRODUCTION

Background to the study

Universally, lending or granting loans is one of the core businesses of banks. This is evidenced by the large percentage of loans that constitutes the asset base of banks globally. Banks get a chunk of their incomes from these loans they grant to businesses and individuals in the formal and informal sector. These loans if not monitored effectively can have adverse effect on the financial viability and performance of the banks. According to a survey in 2010 on Ghana Banking industry, the industry's gross loan portfolio grew from GH¢5.7 billion in 2008 to GH¢6.3 billion in 2009. However the gains were eroded by impairment allowances for non-performing loans (Pricewaterhouse Coopers, 2010).

The increased default was attributed to the unfavourable macro-economic conditions like high inflation, high unemployment rate, low economic growth, high interest rate, etc. that prevailed for most of the year and perhaps not so good credit decisions made by banks in prior years (Pricewaterhouse Coopers, 2010). This shows that as much as the banks want to increase their bottom line from year to year by increasing their loan portfolio, if care is not taken the interest income earned from these loans will be washed away by the impairment loss incurred on the non-performing loans.

Lending is the principal business activity for most commercial banks. The loan portfolio is typically the largest asset and the predominant source of revenue. Therefore it is one of the greatest sources of risk to a bank’s safety and soundness (Comptroller, 1998).

The last few decades saw many banking failures in all over the world (Brownbridge & Harvey, 1998). Due to these phenomena many banks have been closed by regulatory authorities (Brownbridge, 1998). These banking failures negatively affect the economy in many ways. Firstly, they cause banking crisis by harming the banking sector. Secondly they reduce the credit flow in the country which ultimately affects the efficiency and productivity of the business units (Chijoriga, 1997; Brownbridge & Harvey, 1998). According to Brownbridge (1998) many empirical researches have shown that most of the time banking failures or banking crisis are caused by non-performing loans. Healthy loan portfolios are therefore vital for financial institutions in view of their impact on liquidity, lending capacity, earnings and profitability.

The banking industry's operating assets more than doubled between 2007 and 2010 with UT bank, Baroda, BSIC and ABG experiencing the most significant increase. Loans and advances continue to be the most significant component of the industry's earning asset (Pricewaterhouse Coopers, 2011). The above information indicates that, banks depend more on incomes from loans to survive. Due to the increasing rate of non-performing loans and its dire consequences on performance of banks, finding solutions to the problem has been the major challenge of the industry stakeholders. According to the Bank of Ghana, as at June, 2011, the loss category of loans and advances classification constituted 62.30% of the entire loan assets of all banks in the country. The figure as per the report was GH¢677,600,000 in June 2010, as compared to GH¢790,500,000 in June, 2011. A report on the performance of banks in 2006 indicated that among other factors, higher loan loss provision accounted for a decline in the profitability of banks in 2005 (Bank of Ghana, 2006).

Non-performing loans have gained tremendous attention in recent years due to their adverse effects on the banking and non-banking financial institutions and the economy of the country as a whole. The immediate consequences of non-performing loans are the erosion in the profitability of these institutions as a result of provisions for credit losses and specific write-offs for bad debts and the increasing reduction in the size of loanable funds. Large amounts of non-performing loans in the banking and non-banking financial systems have at many times not only threatened their existence but actually collapsed many of them.

Many researches on the causes of bank failure show that poor quality of loan portfolio is statistically a major predictor of insolvency (Dermigue-Kunt, 1989; Barr & Siems, 1994) with failing banks usually having high levels of non-performing loans prior to failure. Capario and Klingebiel (1996) indicated that non-performing loans represented 75% of total loan assets in Indonesia, which led to the collapse of over sixty banks in 1997. A glance at the annual reports and financial statements of banks in Ghana shows that bad loans are seriously affecting most banks hence necessitating a study into the problem.

Statement of the problem

Banks as financial institutions cannot be profitable without granting loans to their customers. The loans granted by these banks give them income in a form of processing and administrative fees and interest income which make these banks profitable but which at times comes at a great cost in the form of bad debt provision as a result of default in loan payments by customers.

Bad loans affect the profitability of banks by the provisions made for bad and doubtful debts. According to the financial statement of UT Bank for the year 2011, the bank recorded bad debt and impairment losses of GH¢14,244,000 in the year 2011 as compared to GH¢7,003,000 in the year 2010 as per the financial statement for the year 2011. This represented about 104% increment. Bad loans also affect the quality of assets portfolio of these banks, restrict their lending capacity, and can lead to their collapse and in the long term affect the performance of the economy at large.

Even though banks continue to increase their income and profitability by advancing loans to customers, there is a worrying trend in the increase of impairment charges (Pricewaterhouse Coopers, 2011). The industry's annual impairment charge as a proportion of the gross loans and advances has worsened from 1.5 % in 2007 to 4.7% in 2010. In view of the above, the study seeks to investigate the causes and effects of non-performing loans on financial performance of banks in Ghana focusing on lending funds, interest income, and profits. The study also seeks to identify among other objectives the extent of the impact of bad loans on UT bank's performance and identify the causes of bad loans of the bank in Ghana.

Objectives of the study

The main objective of the study is to investigate the causes of non-performing loans and their impact on the performance and profitability of UT Bank. Specific objectives the study wants to achieve are the following:

1. To determine the trend of non-performing loans of the bank during the past five years;
2. To find out the impact of bad debt provisions on interest income, profitability and liquidity;
3. To identify the causes for default in loan repayments in the UT bank.
4. To assess the measures instituted by management to mitigate the occurrence of bad loans.

Research questions

Based on the objectives of the study, the following research questions were asked;

1. What has been the trend of non-performing loans over the last five years?
2. What is the impact of bad debt provisions on interest income, profitability and liquidity?
3. What are the causes for default in loan repayments in the UT bank?
4. What has been management response in mitigate the occurrence of bad loans?

Significance of the study

Loan portfolio forms a large part of banks assets and increases their profitability and performance if healthy and quality portfolios are kept by these financial institutions. Unfortunately loans granted by banks come with side effects which in the short and long term have an adverse effect on their financial performance by way provisions for bad loans in their books because customers granted the loans have defaulted in the repayment as per the contract agreement. The study seeks to identify problems accounting for these bad loans and how to mitigate their occurrence.

The study would help management of UT Bank to adopt strategies to control the increasing effects of non-performing loans on the performance of the bank. The study would benefit the entire banking landscape to appreciate the threatening effects of non-performing loans and how all stakeholders within the industry would pool their resources together to curb it. The study would also help to improve the existing lending policies and procedures. It would moreover add to the existing body of literature on banking.

Scope of the study

This research specifically focused on UT bank because it is has been in existence for quite a time and also their operations cover every part of this country. UT bank gives credit assistance to every sub-sector of the economy and their slogan on loans "in less than 48 hours" says it all.

The study covered non-performing loans, causes of loan default by beneficiaries of such loans and the impact it has had on the financial and the general performance of UT Bank. The various classes of bad loans, the trend of bad loans for the past five years, the impact on the country's economy and the sector within the economy (with the highest loan default leading to non-performing loans) would also be discussed.

Limitations of the study

The major constraint with regard to this research was time. Because of the limited time which has to be taken to complete this work, a case study approach was used for this project. Due to this, not all banks in the metropolis were included. To be able to overcome this limitation, UT Bank was chosen for the purpose of this study.

Not all staff of the bank were interviewed during this study but a selected number of credit staff and management were engaged to obtain the primary data for the study. This also becomes a constraint since there could be some biases regarding the information gathered. This limitation was dealt with by adopting an objective questionnaires and interview guides for all respondents in order to reduce possible sampling error.

Getting access to data was a challenge because of fear of the breach of confidentiality on the part of employees working for such institutions. To counter this limitation and to reduce it to the barest minimum, the study relied a lot on published annual reports and financial statements of the bank, both in the print and electronic media. Also, an introductory letter was received from School of Business, University of Cape Coast to enable me to collect data from the relevant institution for the study. As an important measure to these constraints, time and resources were meticulously managed to attain the objectives of the study within the stipulated time frame for completion of the work.

Organization of the study

The study has been divided into five chapters. The first chapter deals with background of the study, statement of the problem of the study, research questions, objectives of the study, significance of the study, scope of the study and the limitations of the study. Chapter two deals with literature review on the previous works related to definitions, causes of non-performing loans, reducing non-performing loans, and challenges facing the banks in reducing the occurrence of bad loans, bad loan provisioning, loan-making procedures and monitoring of loans.

Chapter three covers areas like research methodology and organizational profile of UT Bank Ghana Limited while the fourth chapter deals with data presentation and analysis. The last chapter, chapter five, covers summary, conclusions and recommendations of the study.

CHAPTER TWO

REVIEW OF REALTED LITERATURE

Introduction

Banks have always played a significant role in the development of economies, whether developing or developed, by offering various services to the various sectors of these economies. One of such services is granting credit or loans to individuals and corporate entities. Not all loans granted by banks are paid back by the beneficiaries of those loans and it becomes non-performing which the banks have to make provisions for in their books against their profits. High non-performing loans pose a threat to the financial stability of every country's economy and may lead to bank failures. This chapter looks at the theoretical issues such as the functions, definition of performing and non-performing loans, factors leading to non-performing loans, loan classification and bad loans provisioning, effects of non-performing loan, credit assessment procedures and policies and challenges facing banks in Ghana in reducing non-performing loans. Some empirical studies were also reviewed and the chapter conclusion.

Functions of commercial banks

Banks provide several functions to their customers and the economy as a whole. One of the major roles of banks is to act as an intermediary between depositors and borrowers. They do this to earn interest income but aside the mobilization and lending, they also engage in other activities which also go a long way to boost their profitability and help the economy to grow. Banks pool the various resources within the economy to help invest in profitable and sustainable ventures within the various subsectors of the economy. Banks as financial institutions are established to make profit to maximize the shareholders wealth. A bank's role has expanded considerably and is no longer limited to the taking of deposits and providing credit. Banks also perform the following activities (Fourie, Falkena & Kok, 1998; Valdez, 2000):

1. Money creators: Commercial banks create money by way of deposit liabilities. In contrast to liabilities of other businesses, bank liabilities (cheques) are generally accepted as a means of payment.
2. Managers of the payment system: This refers to the payment of cheques through the Automatic Clearing Bureau (ABC). It also facilitates payments of credit and debit cards, internet and cell phone banking and automatic teller machines.
3. Creators of indirect financial securities: Commercial banks hold assets that are subject to specific risks, while issuing claims against them. These risks are largely eliminated through diversification of portfolio.
4. Information agents: Commercial banks developed sound databases of client information. The information on clients is not publicly available (asymmetric information), but it is only shared with other banks by way of a bank code or a full general bank report.
5. Financial 'spectrum fillers': The capital market cannot supply the full range of instruments required by borrowers. Commercial banks assist in this regard by supplying specific instruments to fill the gap.
6. Dealers in foreign currency: Due to the globalization of the world's economies this has become a very important function. Commercial

banks assist in the conversion of currencies, transfer of funds and negotiate foreign financing.

Banks perform all the above functions in a form of offering liquidity, payment, lending and international trade services.

Definition of a Loan

A loan is a debt evidenced by a note which specifies, among other things, the principal amount, interest rate, and date of repayment. It entails the reallocation of asset(s) for a period of time, between the lender and the borrower (MacDonald & Koch, 2006). Banks mobilize the available funds within the economy and ensure that these funds are channelled into productive activities for the growth of the economy and the bank's profitability. They are able to do this by granting loans to profitable borrowers who must be well assessed in terms of credit-worthiness and their capacity to pay back the borrowed amount. According to Guttentag (2007), a loan is a type of debt. Normally loans are granted for a time period and paid on instalment by the borrower with the principal amount and interest charged by the bank on the amount granted which is covered by a loan agreement.

Bank financing is a major source of debt financing and loans are the heart of the banking industry. Thus banks accept customer deposits and use those funds to give loans to other customers or invest in other assets that will yield a return higher than the amount the bank pays to the depositor (McCarthy, Schneider & Tibb, 2010). Loans are the dominant assets and represent 50-75 percent to total amount of assets at most banks, generate the largest share of operating income and represent the banks' greater risk exposure (MacDonald & Koch, 2006).

Bank loans can be categorized into secured and unsecured loans. A secured loan is a loan in which the borrower pledges some asset (e.g. a car or property) as collateral. A mortgage loan is a very common type of debt instrument, used by many individuals to purchase housing. In this arrangement, the money is used to purchase the property. The financial institution, however, is given security, a lien on the title to the house, until the mortgage is paid off in full. If the borrower defaults on the repayment of the loan, the bank would have the legal right to repossess the house and sell it, to recover sums owing to it. In some instances, a loan taken out to purchase a new or used car may be secured by the car, in much the same way as a mortgage is secured by housing.

The duration of the loan period is considerably shorter- often corresponding to the useful life of the car. There are two types of auto loans - direct and indirect. A direct auto loan is where a bank gives the loan directly to a consumer. An indirect auto loan is where a car dealership acts as an intermediary between the bank or financial institution and the consumer (Masood, 2009). Unsecured loans are monetary loans that are not secured against the borrower's assets. These may be available from financial institutions under many different guises or marketing packages like credit card debt, personal loans, bank overdrafts, credit facilities or lines of credit and corporate bonds (may be secured or unsecured). The interest rates applicable to these different forms may vary depending on the lender and the borrower. These may or may not be regulated by law.

Interest rates on unsecured loans are nearly always higher than for secured loans, because an unsecured lender's options for recourse against the borrower in the event of default are severely limited. An unsecured lender must sue the borrower, obtain a money judgment for breach of contract, and then pursue execution of the judgment against the borrower's unencumbered assets (that is, the ones not already pledged to secured lenders). In insolvency proceedings, secured lenders traditionally have priority over unsecured lenders when a court divides up the borrower's assets. Thus, a higher interest rate reflects the additional risk that in the event of insolvency, the debt may be uncollectible.

Performing Loans

A loan /credit facility may be considered as performing if payment of both the principal and interest charges is up to date as agreed between the lender and the borrower. Per the Bank of Ghana (BoG) classification, loans are considered current if the payment of principal and interest are up to date. It goes further to stipulate that an overdraft is classified as current or performing if there are regular activities (swing) in the account with no sign of hard core debt build-up (Bank of Ghana, 2008). From the above definition by Bank of Ghana, a loan can be termed as performing only when the borrower or the beneficiary of that loan is able to pay the loan according to loan schedule and agreement with the lender.

Performing loans can also be classified as the active loans/portfolio. Performing loans constitute the loans that generate interest income for the bank and keep the bank moving. Performing loans make liquidity more available for the banks to be able to extend credit to other customers, able to pay on demand when requested by depositors and able to keep the capital adequacy requirement by Bank of Ghana. Legally, a loan or credit facility refers to a contractual promise between two parties where one party, the creditor agrees to provide a sum of money to a debtor, who promises to return the said amount to the creditor either in one lump sum or in instalments over a specified period of time. The agreement may include provision of additional payments of rental charges on the funds advanced to the borrower for the time the funds are in the hands of the debtor (Masood, 2009).

Non-performing loans

Non-performing Loans (NPLs) have gained world's attention in the last three to four decades as these increasing non-performing loans are causing banking crises which are turning into banking failures (Barr & Siems, 1994).

According to Patersson and Wadman (2004), non-performing loans are defined as defaulted loans which banks are unable to profit from. They are loans which cannot be recovered within stipulated time that is governed by the laws of a country. According to the International Monetary Fund [IMF] (2009), a non- performing loan is any loan in which interest and principal payments are more than 90 days overdue; or more than 90 days' worth of interest has been refinanced.

A non-performing loan is one of the main reasons that cause insolvency of the financial institutions and ultimately hurt the whole economy (Hou, 2007). Non-performing loans are dangerous not only for the economy of a country but also for the whole world as we have seen the financial crisis created by these loans in East Asian countries, America and Sub-Saharan Africa, so therefore there is the need to identify the factors responsible for non-performing loan. Researchers believe that once we identify these factors then we can make policies to prevent any future occurrences of these loans (Adebola, Wan, Yusoff, & Dahalan, 2011).

Banks thrive on performing loans because they are the largest assets of every bank in the world. A close look at the UT Bank's financial statement for the year 2011 shows loans and advances are GH¢475,232,000 as compared to total assets of GH¢712,864,000 which represents about 66.67% of the total assets of the bank. According to the banking survey, 2012, the total operating assets of the banking industry for the year 2012 was GH¢16.400 billion but loans and advances alone constitute 41% of the total operating assets of the banking industry (Pricewaterhouse Cooper, 2012). This information indicates that banks depend largely on loans for their income and a failure on their part to effectively and efficiently manage these assets can easily collapse them.

It is also argued that the non-performing loans are some of the major causes of economic stagnation problems. Each non-performing loan in the financial sector is viewed as an obverse mirror image of an ailing unprofitable enterprise. From this point of view, the eradication of non-performing loans is a sine qua non to improve the economic status. If the non-performing loans are kept existing and continuously rolled over, the resources are locked up in unprofitable sectors; thus, hindering the economic growth and impairing economic efficiency. The most important problems that a country's banking system faces, is increasing rate of banking NPLs and consequently, reduction of liquidity, disruption of resources allocation and finally lessening of banks' profit.

Pathology of causes and factors that can raise NPLs amount and provision of practical solutions can reduce the damaging effect of NPLs on the body of banks (Sinkey, 2002). Non-performing loans can lead to efficiency problems for banking sector. It is found by a number of economists that failing banks tend to be located far from the most-efficient frontier (Barr & Siems, 1994; Berger & De young, 1997), because banks do not optimize their portfolio decisions by lending less than demanded. Generally, loans that are outstanding in both principal and interest for a long time contrary to the terms and conditions contained in the loan contract are considered as non-performing loans (Bank of Ghana, 2008). Berger and De young (1997) also describe these types of loans as "problem loans". In broad context, loans that are outstanding in both interest and principal for a period of time contrary to terms and conditions spelt out in the loan agreement are considered as non-performing loans.

Alton and Hazen (2001) described non-performing loans as loans that are ninety days or more past due or no longer accruing interest. Caprio and Klingebiel (1990) cited in Fofack (2005), consider non-performing loans as loans which for a relatively long period of time do not generate income. That is both the principal and interest on these loans remain unpaid for at least 90 days. It can be deduced from the above definitions that if borrowers do not stick to the terms and conditions of loans in terms of repayment of principal and interest and also the loan overruns it duration it can be termed as non-performing loan. Banks normally do not earn any interest income on such loans but rather make provisions for bad and doubtful debt on them against their profit. So in simple terms non-performing loans are injurious to the health of banks with UT Bank not being an exception.

Loans Classification and Provisioning

Banks are mandated to classify their loans according to their quality and ensure that appropriate provisions are accounted for in the preparation of their financial statements. Accounting for credit losses is, therefore, an area of significant interest for banking supervisors worldwide. Furthermore, banks need loan classification or grading systems in order to monitor and manage the credit risk in their loan portfolios. Due to this many countries have come out with a standard for classifying loans by the supervising regulatory bodies.

In Ghana, Bank of Ghana is the supervising body for coming out with such standards. In many countries, these classifications are used for regulatory reporting to facilitate regulators' assessments of the level of credit risk in banks' loan portfolios (World Bank, 2002). Loan classification refers to the process banks use to review their loan portfolios and assign loans to categories or grades based on the perceived risk and other relevant characteristics of the loans (World Bank, 2002).

This process is a continual one for banks to monitor the quality of their loan portfolios and also come up with appropriate measures to counter any deterioration in the quality of their portfolios. Banks can go further to use more sophisticated internal process of classification than the standardized systems that bank regulators require for reporting purposes and that are intended to facilitate monitoring and interbank comparisons. Loans need to be impaired because it is always obvious that those banks cannot recoup all principal and interest accrued on loans granted. Loan loss provisioning is thus a method that banks use to recognize a reduction in the realizable value of their loans (World Bank, 2002). Both loan classification and provisioning present a number of conceptual and practical challenges, with diverse systems used in different countries. Though similarities exist, there is a lack of internationally recognized definitions. In Ghana, a major factor considered in making loans is the ability of the borrower to repay the loan.

However, to mitigate the risk of default, banks ensure that loans are well secured. Though advances shall be granted on the basis of the borrower's ability to pay back the advance but not on the grounds of the pledge of sufficient assets to cover the advance in case of default. It is highly desirable for all advances made to customers and staff to be well secured. This means that in the event of default the bank shall fall on the collateral used in securing the facility to mitigate the effect of loss of principal and interest (Banking Act, 2004).

Loan portfolios of banks are divided into various classifications to determine the level of provisions to be made in line with banking regulations. Loans are classified into five categories including current, other loans especially mentioned (OLEM), substandard, doubtful and loss (Bank of Ghana, 2008). Bank of Ghana regulations indicate that certain amount of provisions are made on the aggregate outstanding balance of all current advances, and aggregate net unsecured balance of all other categories as shown in the table below.

Table 1: Categories of loans and their provisions

S/N	CATEGORY	PROVISIONS (%)	NO. OF DAYS DELIQUENCY
1	CURRENT	1	LESS THAN 30 DAYS
2	OLEM	10	30 DAYS – LESS THAN 90 DAYS
3	SUBSTANDARD	25	90 DAYS – LESS THAN 180 DAYS
4	DOUBTFUL	50	180 DAYS - LESS THAN 360 DAYS
5	LOSS	100	360 DAYS AND ABOVE

Source: Section 53 (1) of Banking Act 2004

It can be indicated from table 1 that banks are to assess the quality of their loans periodically based on this standard provided by Bank of Ghana. For current category, every loan disbursed within the first thirty days is classified as current and general provision of 1% need to be provided for against income accrued. Loans granted and have lasted for 90 days are classified as Olem and a provision of 10% needs to be provided for. Loans that have lasted for 90 days and up to 180 days are classified as substandard and will accrue a provision of 25% whilst loans within 180 days but up to 360 days are classified as doubtful and 50% of the loan amount is accounted as provision against income.

Lastly, a loan granted and has run for more than 360 days are classified as loss and 100% provision is provided for in the income statement. Per the financial statements of UT Bank for the year 2011, the bank incurred impaired and bad loans of GH¢14,244,000 against their interest income of GH¢99,901,000 which represents about 14.26% of their income as a result of loan provisioning. High loan provisioning due to high level of non-performing loans erodes bank's profitability.

Trends and impact of Non-performing Loans

Incremental jumps in non-performing loans rate is often referred to as the failure of credit policy. Banks depend hugely on interest income generated from loans granted making loans as major components of banks assets. Once loans granted by banks start not to perform or when borrowers of such loans start to default in terms of principal payment and interest accrued on it, it affects the financial performance of the institution in terms of interest income, overall profitability, net loan value, dividend payment, liquidity/cash flow for lending, banking failures and crisis, unemployment and adversely affect the economy. Therefore, banks must go the extra mile to appraise loans properly and ensure proper monitoring to avoid default on the part of borrowers.

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 categories respectively (Bank of Ghana Act, 2004). Banks do not earn interest income on non-performing loans but rather incur cost in a form of loan loss provisioning against profitability. Other literature indicates that bad loans can fuel banking crisis and subsequently result in the collapse of banks with huge non-performing loans. Demirgue-Kunt et al. (1989), 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.

According to Brown, Mallett and Taylor (1993), the losses non-performing loans cause, by reducing the capital resource of the bank, affect its ability to grow and develop its business. Despite the fact that banks hold security for the loans they grant they cannot be fully certain as to whether they are paid or not. It is when such risks materialize that loans turn to be non-performing. Huge amount of loan loss provisioning by banks sends wrong signals to depositors and investors who want to invest in the industry because these people demonstrated different attitude to the industry. That is why it is appropriate for Bank of Ghana to properly regulate these banks.

According to UT Bank Limited annual financial report for the year, 2011 impairment charges and bad debt for credit losses represented 14.26% against their interest income and their non-performing loan ratio to total loans represented 13.9%. The quality of UT Bank loan book deteriorated during the year from bad loans to total loans ratio of 12% in 2010 to 13.90% in 2011. UT Bank wrote off non-performing loans to the tune of GH¢14.2 million. The industry's annual impairment charge as a proportion of the gross loans and advances has worsened from 1.5% in 2007 to 4.7% in 2010 (Pricewterhouse Coopers). The bank experienced a steady percentage decline in non-performing loans from 2008 to 2011 though it palpable, it leaves much to be desired. Non-performing loans decreased from 12.39% in 2008 to 7.61% in 2009 and further to 2.22% in 2010 and consequently to 3.0% in 2011, though expected to fall in the subsequent year (UT Bank, 2011). 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.

The economic and financial costs of these impaired loans are significant. Potentially, these loans may negatively affect the level of private investment, increase deposit liabilities and constrain the scope of bank credit to the private sector through a reduction of banks' capital, falling saving rates as a result of runs on banks, accumulation of losses and correlative increased provisions to compensate for these losses. These loans also have potential for reducing private consumption, and in the absence of deposit guarantee mechanisms to protect small depositors, they can be a source of economic contraction, especially when coupled with declining gross capital formation in the context of a credit crunch caused by erosion of banks' equity and assets (Fofac, 2009).

In conclusion, non-performing loans affect the performance of banks and the economy in some ways like interest income, profitability, net loan value, dividend payment to shareholders, cash flow or liquidity position of banks, loss of confidence on the part of investors and depositors, slow down economic activities and growth.

Causes of Non-performing Loans and Loan Repayment Loses

As far as non-performing loans are concerned every country has different causes/ factors which are responsible for loan losses in the country. Related literature divide these factors into two parts. The first part of literature focuses on the variables which are called bank specific variables i.e. strategy choices, management excellence, income margins, risk profile of banks, etc. The second part of literature focuses on quantitative variables i.e. unemployment, interest rate, gross domestic product, inflation and many other social variables (Keeton & Morris, 1987; Louzis, Vouldis & Metaxas, 2010; Kalirai & Scheicher, 2002; Dash & Kabra, 2010; Bercoff, Giovanniz & Grimardx, 2002; Masood 2009). Sinkey and Greenwalt (1991) also indicated that there was a significant positive relationship between the loan-loss rate and internal factors such as high interest rates, excessive lending, and volatile funds. Keeton (1999) as well indicated a strong relationship between credit growth and impaired assets. Specifically, Keeton (1999) showed that rapid credit growth, was associated with lower credit standards.

Keeton and Morris (1987) conducted a research in America to identify the factors which are causing non-performing loans in the banking sector of this country by taking data from 1979-85. According to them, bad performances of agriculture and energy sectors along with poor economic settings/conditions are the main factors causing non-performing loans. Sinkey and Greenwalt (1991) conducted another research in the same country between the periods of 1984-87 to identify the causes of non-performing loans. According to them high level of interest rate, unnecessary lending and unpredictable funds are the factors which have positive relationship with the non-performing loans in the banking sector of America. Furthermore (according to the writers), poor economic conditions are also a cause of loan losses in the American banking sector.

Gambera (2000) also conducted a research in America having quarterly data from 1987-99 to highlight the effect of macro-economic variables on loan losses. His finding indicated that income and unemployment rates were macro-economic factors causing loan losses in America. A World Bank policy research working paper on non-performing loans in Sub-Saharan Africa revealed that bad loans were caused by adverse economic shocks coupled with high cost of capital and low interest margins (Fofack, 2005). George (2004) stated that large number of the literature indicates the linkage between the phases of the business cycle and banking stability. Macroeconomic stability and banking soundness are inexorably linked. Economic theory and other evidences strongly indicate that instability in the macro economy is associated with instability in banking and financial markets and vice versa.

The relation between the macroeconomic environment and loan quality has been investigated in the literature linking the phase of the business cycle with banking stability. In this line of research, the hypothesis is formulated that the expansion phase of the economy is characterized by a relatively low number of NPLs, as both consumers and firms take a sufficient stream of income and revenues to service their debts. However as the booming period continues, credit is extended to lower-quality debtors and subsequently, when the recession phase sets in, NPLs increase (Fisher, 1933; Minsky, 1986; Kiyotaki & Moore, 1997; Geanakoplos, 2009). So both macroeconomic and bank specific factors account for increasing level of non-performing loans. Salas and Saurina (2002) reveal that rapid credit expansion, bank size, capital ratio and market power explain variation in NPLs.

Meanwhile, Rajan and Dhal (2003) demonstrated that favourable macroeconomic conditions (measured by GDP growth) and financial factors such as maturity, cost and terms of credit, banks size, and credit orientation impact significantly on the NPLs of commercial banks in India. Bank specific factors such as poor management, risk profile of the bank, credit assessment and lending policy, interest rate, loan monitoring procedures, rapid loan portfolio growth, cost efficiency, ownership structure, poor risk assessment, experience and commitment of employees and macroeconomic factors such as interest rate, inflation, unemployment, low gross domestic products, government spending all giving accounts of NPLS. According to Salas and Saurina (2002) there is a significant negative contemporaneous effect of GDP growth on the NPL ratio and infer a quick transmission of macroeconomic developments to the ability of economic agents to service their loans.

Keeton and Morris (1987) indicated that commercial banks with greater risk appetite tended to record higher losses. According to Brownbridge (1998) many of the bad debts were attributable to moral hazard: the adverse incentives on bank owners to adopt imprudent lending strategies, in particular insider lending and lending at high interest rates to borrowers in the most risky segments of the credit markets. This also leads to leniency. Salas and Saurina (2002) attribute the leniency to disaster myopia, herd behaviour and agency problems that may entice bank managers to lend excessively during boom periods of economic expansion. Based on the above literature, it could be identified that some of the causes of non-performing are risk appetite of banks, high interest rate , high inflation, poor economic conditions, unemployment, ineffective loan appraisal, inadequate collateral, poor loan monitoring and so on.

It is worth indicating that the literature acquired from foreign sources identified some causes of non-performing loans but all may not necessarily apply to the banking environment in Ghana. It is based on this that, it has become important to identify the causes of the non-performing loans in the banking industry in Ghana focusing on the case of UT Bank Limited. This would actually form the basis of my recommendations in resolving the problem.

Credit Assessment Procedures and Policy

Banks as lending institutions are supposed to have rigorous laid down credit policy manual in appraising clients in order to grant them credit facility and reduce the risk of default by borrowers. There is an element of risk in any loan granted because the expected repayment may not occur. Lending involves a lender providing a loan in return for a promise of interest and principal repayment in future (Kay Associate, 2005). Credit risk is defined as potential losses arising from the inability of credit customers to pay what is owed in full and on time. Bank lending involves a bank, providing a loan in return for the promise of interest and principal repayment in the future (Kay Associates, 2005).

Credit assessment procedures and policy include every activity involved in lending including sales, customer selection and screening, the application and approval process, repayment monitoring, delinquency and portfolio management. As banks lend funds to customers, proper judgment and appraisal need to be done to ensure that future repayment of interest and principal are fulfilled by clients and this all achieved with the assistance of this company wide credit policy and manual. In lending money to customers there are certain information and requirement that the bank needs to retrieve from the borrower in order to reduce the risk of default.

Some of these information are the purposes for the loan, the amount of credit required, the amount and source of borrowers contribution, repayment terms of the borrower, security proposed by the borrower, location of the business or project, and technical and financial soundness of the credit proposal (ADB Desk Diary, 2008). For the purposes of this project we will adopt the following procedures in assessing credit facility: credit information, credit assessment/analysis, credit approval and loan monitoring.

Credit Information

Banks need to glean enough information about their customers before the credit process even starts. Customer details such as name, place of residence and work, date of birth etc. need to be obtained by the bank. Credit information can also be obtained from credit report from credit bureau. According to the Federal Reserve (2004) a credit report is the organized presentation of information about an individual's and/or company's credit record that a credit bureau communicates to those who request such information. It consist of the credit history of an individual and/or company, leases, non-credit-related bills, collection agency actions, monetary-related public records, and inquiries about the individual's credit history.

Aaccording to Ferreti (2007), credit information is usually integrated with data from other sources such as court judgments, electoral rolls and other private information provided by other organizations, which compile additional information referring to a consumer. This naturally is ideal source of input for credit analysis. This information will assist the lending bank to do better credit risk analysis before granting the credit. Kallberg and Udell (2003) highlighted that information sharing was useful both at the origination stage and after credit has been extended. Especially at the origination phase, information sharing reduces the problems of adverse selection. According to Khuzwayo (2008), greater information sharing of trade credit data, particularly in the informal sector, could greatly expand credit access for small and medium enterprises.

Credit Analysis

Credit assessment is the most important safeguard to ensure the underlying quality of the credit being granted and is considered an essential element of credit risk management (Cade, 1999). Credit analysis helps to assess the credit worthiness of the loan applicant and the probability of default. A credit analysis is used by the credit official to evaluate a borrower's character, capital, capacity, collateral and the cyclical aspect of the economy including what is generally referred to as the five C's (Dev, 2000). Below are more details on the five C's of credit analysis

i. Character

In granting credit to customers, the character of the customer should be considered before the facility is granted. The character refers to the integrity, reputation, honesty, trustworthiness and willingness of the customers in paying off the loan granted. A company's reputation, referring specifically to credit, is based on past performance. A borrower has built up a good reputation or credit record if past commitments were promptly met (observed behaviour) and repaid timely (Rose, 2002; Koch & McDonald, 2003). Character is considered the most important and yet the most difficult to assess (Koch & MacDonald, 2003). The quality of experience obtained by staff employed by the company will help to assess this aspect of credit assessment before granting loan.

ii. Capacity

Capacity refers to the business's ability to generate sufficient cash to repay the debt. An analysis of the applicant's business plan, management accounts and cash flow forecasts (demonstrating the need and ability to repay the commitments) will give a good indication of the capacity to repay (Sinkey, 2002; Koch & MacDonald, 2003). This looks at the borrower's ability to generate enough cash flow to pay off their loan obligation when it falls due. Factors such as the type of industry they operate in, seasonal cycle of the industry, the quality of their products, market share etc. need to be considered before granting the loan by the bank. Aside the factors mentioned above, the financial position of the borrower should be assessed by calculating financial ratios to get the better understanding of their financial capacity.

To get a good understanding of a company's capacity evaluating the type of business and the industry in which it operates is also vital. It plays a significant role since each industry is influenced by various internal and external factors. The factors that form the basis of this analysis include type of industry, market share, quality of products and life cycle, whether the business is labour or capital intensive, the current economic conditions, seasonal trends, the bargaining power of buyers and sellers, competition and legislative changes (Koch & MacDonald, 2003; Nathenson, 2004).

iii. Capital

Capital refers to the owner's level of investment in the business (Sinkey, 2002). Banks need to consider the capital strength of borrowers when they apply for loans. This looks at the amount of cash and other assets invested by the borrower in its business and this will help to assess the risk associated with the amount of loan requested by the borrower.

iv. Conditions

Conditions are external circumstances that could affect the borrower's ability to repay the amount borrowed. Lenders consider the overall economic and industry trends, regulatory, legal and liability issues before a decision is made (Sinkey, 2002). Once finance is approved, it is normally subject to terms and covenants and conditions, which are specifically related to the compliance of the approved facility (Leply, 2003).

v. Collateral

Collateral (also called security) is the assets that the borrower pledges to the bank to mitigate the bank's risk in event of default (Sinkey, 2002). It is something valuable which is pledged to the bank by the borrower to support the borrower's intention to repay the money advanced. Security is taken to mitigate the bank's risk in the event of default and is considered a secondary source of repayment (Koch & MacDonald, 2003). The collateral helps the bank to be able to secure the loan granted the borrower in case of default by the borrower. This helps to mitigate the risk associated with the loan granted. This also helps the bank to assess how liquid the collateral is and how quickly it can be converted to cash in case of default.

According to De Lucia and Peters (1998), security is required in the banking environment for the following three reasons: (1) to ensure the full commitment of the borrower to its operations, (2) to provide protection should the borrower deviate from the planned course of action outlined at the time credit is extended, and (3) to provide insurance should the borrower default.

Credit Approval

After credit analysis, the bank has to go through the quantitative and qualitative financial analysis gathered and provided by the borrower. The board assigned with credit approval needs to consider the risk highlighted in the credit analysis report and how transparent the credit analysis report is before approval. Extending credit is the careful balance of limiting risk and maximizing profitability while maintaining a competitive edge in a complex, global market place. Banks go through a thorough process in approving credit to hit the balance. Credit approval is the process of deciding whether or not to extend credit to a particular customer. It involves two steps: gathering relevant information and determining credit worthiness (Ross, Westerfield & Jordan, 1999).

Mitigating the occurrence of Non-performing loans

Loan Monitoring

Loans are granted based on quality credit risk appraisal and assessment of creditworthiness of borrowers. Gathering enough information about the borrowers past and present does not guarantee the payment of such loans, even though it serves as a guide for future loans. Banks can do a follow up on their loan by adopting the following follow up strategies; physical, financial and legal follow ups. According to Ross et al. (1999); Kay Associate (2005) for a loan to be properly monitored and followed up, the bank should ensure the following:

1. Ensuring compliance with terms and conditions,

2. Monitoring end use of approved funds,

3. Monitoring performance to check continued viability of operations,

4. Detecting deviations from terms of decision,

5. Making periodic assessment of the health of the loans and advances by noting some of the key indicators of performance that might include: profitability, activity level and management of the unit and ensure that the assets created are effectively utilized for productive purposes and are well maintained.

6. Ensuring recovery of the instalments of the principal and interest in case of term loan as per the scheduled repayment program, and

7. Identifying early warning signals, if any, and initiating remedial measures thereby averting from possible default.

Loan Monitoring and Control

According to Rouse (1989) this is an area which many lenders pay little attention to but, if it is properly carried out, the occurrence of bad debts can be reduced considerably. He identified internal records, visits and interviews, audited and management accounts as some of the things that help in the monitoring and control process. Monitoring can minimize the occurrence of bad loans through the following major purposes:

1. Ensure the utilization of the loan for the agreed purpose.

2. Identify early warning signals of any problem relating to the operations of the customer's business that are likely to affect the performance of the facility.

3. Ensure compliance with the credit terms and conditions.

4. Enable the lender discuss the prospects and problems of the borrower's business.

Bad loans can be restricted by ensuring that loans are made to only borrowers who are likely to be able to repay, and who are unlikely to become insolvent. Credit analysis of potential borrowers should be carried out in order to judge the credit risk with the borrower and to reach a lending decision. Loan repayments should be monitored and whenever a customer defaults, action should be taken. Thus banks should avoid loans to risky customers, monitor loan repayments and renegotiate loans when customers get into difficulties (Kay Associates, 2005).

Minimizing Non-performing Loans

Loan is a major asset, income source for banks, and risky area of the industry. Moreover, its contribution to the growth of any country is very clear. Bank credit is the primary source of debt financing available for most customers in the personal, business or corporate market. The underlying need for credit varies across these markets. Banks generally also want to increase the base of their income and use credit extension as an opportunity to cross sell other fee generating services when a customer applies for credit facilities (Koch & MacDonald, 2003). Due to this banks accumulate a lot of bad loans in the processing of generating more income in order to maximize enough profit to maximize shareholders' wealth. Irrespective of the above challenge, banks need to institute policies and be very vigilant in appraising credit facility.

According to Kay Associates (2005), bad loans can be restricted by ensuring that loans are made to only borrowers who are likely to be able to repay, and who are unlikely to become insolvent. Credit analysis of potential borrowers should be carried out in order to judge the credit risk with the borrower and to reach a lending decision. Loan repayments should be monitored and whenever a customer defaults action should be taken. Thus banks should avoid loans to risky customers, monitor loan repayments and renegotiate loans when customers get into difficulties. The project seeks to identify the causes of non-performing loans and its effect on the performance of UT Bank. How the economy of Ghana is affected if banks incur more non-performing loans and how banks can minimize the occurrence of non-performing loans in their books.

Conclusion of the literature review

This chapter reviewed related literature on causes and impact of non-performing loans. Before the literature on the causes and impact, the ones on the definitions of loans together with the functions of banks were all reviewed. From the literature review it has been clear that the core function of banks are to be intermediary between depositors and borrowers with the intent of earning profits. Non-performing loans were also defined as the loans which cannot be recovered within stipulated time that is governed by the laws of a country.

According to the literature the causes of non-performing loans emated from internal and external sources. The former include a lack of credit assessment/information, lack of loan monitoring lack of loan monitoring, poor risk management and lending policies. The later involves poor economic conditions. The impact of non-performing loans was also seen to be high losses, insolvency of banks and to some extent a total collapse of the banks. The study also shared some thoughts on the classification of loans.

CHAPTER THREE

METHODOLGY

Introduction

The chapter is in two sections. The first section discusses the methodology adopted and used for the study. This covers these areas; research design, population and sampling, source of data, data collection, pre-test, limitations of data collection and data analysis. The second section covers areas like ethical issues, organizational profile, history, activities and products of UT Bank.

Organizational Profile of UT Bank

1. Brief History

UT Bank Ghana Ltd (formerly UT Financial Services Ltd) commenced business as a Finance house in 1997 under the name Unique Trust Financial Services Ltd. It has evolved from a lending institution to a Universal Bank through the acquisition of the former UT Bank in June 2010 and got listed on the Ghana Stock exchange under the name UT Bank (UT bank, 2009). From humble beginnings as a privately owned company in Ghana, UT Financial Services Ltd became a publicly owned company in 2008 with shares listed and actively traded on the Ghana Stock Exchange. Unique Trust Financial Services, the name at inception of the company, was changed to UT Financial Services in 2008 just before listing on the Ghana Stock Exchange (UT bank, 2009).

With an annual turnover of GH¢74 million, over 600 staff and 26 branches nationwide, UT Bank is one of the fastest growing indigenous banks in Ghana. The Bank has positioned itself as a lending bank that seeks to redefine banking in Ghana through fast, efficient and respectful delivery of service. The company has for the past decade committed itself to serving the needs of Ghanaian traders and businesses not normally catered for by the traditional banks (UT bank, 2009).

2. **Ownership and Focus**

The bank is owned by private and institutional investors with UT Holdings limited of Ghana holding 40.40%, DEG Germany holding 13.50%, Africa Capitalization fund 10.10%, IFC 10.10%, Investec Public Fund 4.70%, Kura Capital 3.70%, Duet 2.40% and Others holding 14.90% (UT bank, 2009).

3. **Vision**

"Redefining Banking"

4. **Mission**

"The preferred bank for businesses and individuals providing quality and outstanding products with speed and efficiency to delight customers and build shareholder value." The initial focus of UT was centered on servicing the "unbanked" informal sector, but over the years, UT's services have extended to cover the formal sector. What sets UT apart in the financial services market is its solid business structure, flexibility and timely delivery of financing to clients whilst maintaining the promise of providing business loans in less than 48 hours (UT bank, 2009).

5. **Core Values**

Stepping up to the plate, Why not, Respect, Integrity, Professionalism, UBUNTU

6. **Scope of Activities**

The bank has 26 branches spread across seven regions in Ghana and this gives the branches the platform to provide lending and general banking services to the general public. Its main head office is located at 25B Manner Towers, Airport city, Accra. Among the products are current accounts, savings accounts, foreign accounts, investment accounts, various loan products, consumer financing, corporate banking, ATM services and money transfer services. UT Bank is a subsidiary to UT Holdings, its holding company and has other subsidiaries like UT Logistics, UT properties, UT Collection, UT Private Security, UT Life Insurance, UT Financial Services Nigeria Ltd and UT Financial Services South Africa Ltd all which help to provide enough synergies among them (UT bank, 2010).

7. **Achievements of UT Bank**

1. In October 2012, UT Bank won the Most Respected Company award organized by Business and Financial Times and Pricewaterhouse Cooper, having first obtained this position in the previous edition in 2010. The CEO for three consecutive times won the most Respected CEO in Ghana.
2. UT Bank was voted Bank of the Year 2011, Best Bank in Financial Performance and IT/Electronic Banking in addition to other awards of the Ghana Banking Awards 2011.

3. In April 2010, UT Bank, then UT Financial Services, won the Most Respected Company award organized by Business and Financial Times, having placed 2nd in the maiden edition in 2008.
4. For two years running UT Financial Services was recognized as the fifth best company in the Ghana Club 100 having won the Best Non-Bank Financial Institution (2008, 2005, 2004 and 2003) by the Ghana Investment Promotion Center (GIPC) in its Club 100 rankings which represent the top 100 companies in Ghana.
5. In 2006 the company was recognized as the Best Financial Institution and 2nd Best Overall Company in Ghana.
6. Mr Prince Kofi Amoabeng, the Chief Executive Officer (CEO) of UT Financial Services won Marketing Man of the Year (2006) Award by the Chartered Institute of Marketing (CIMG).
7. During the celebration of Ghana's 50th anniversary in 2007, UT Financial Services won a Gold Award for its contribution to the Social and Economic Development of Ghana.

8. Corporate Social Responsibility

The company being a social being engages in social responsibility to give back to the society and its cherished stakeholders. Below are some of the activities undertaken by the bank for the past years; Injecting GH¢30,000.00 into Amidaus Professional Football Club as sponsorship, Donating GH¢44,000.00 to various charities within Accra and outside Accra, Training 80 participants in business management in collaboration with Enablis Ghana

Limited, Blood Donation to support National blood bank and Annual Pledge Pink to support breast cancer (UT bank, 2010).

Research Design

Cooper and Schindler (2003) define research design as the process of focusing on the researcher's perspective for the purpose of a particular study. According to Kotzar, Seuring, Muller and Reiner (2005), research design is defined as the plan and structure of investigation and the way in which studies are put together. Leedy and Ormrod (2005) define a research methodology as a means to extract the meaning of data. In conducting a research of such nature there are so many approaches to be adopted. In conducting research, there are many strategies that can be used. The research strategy could be an experiment, survey, case study, grounded theory and archival research (Saunders, Lewis & Thornill, 2007). It can also be quantitative, qualitative or mixed approach. It is based on this that the researcher decided to adopt the exploratory approach to this study.

Exploratory research is conducted when there are few or no earlier studies, which can be referred to. In exploratory research the focus is on gaining insight into the subject and to become familiar with the subject area for more rigorous investigation later (Cooper & Schindler, 2003). Exploratory research can be conducted by using multiple methods to achieve triangulation (Saunders, Lewis & Thornhill, 2000; Gray 2004). Exploratory approach helps to delve deep into the problem of non-performing loans in the performance of banks especially UT bank and what account for the occurrence of bad loans.

Exploratory study approach would be used to establish how bad loans impact on bank performance and to demonstrate the loan making procedures and policies and consider other factors that accounts for non-performing loans. Saunders et al., (2007) indicated that exploratory studies establish the causal relationship between variables. Thus, with this approach the study would be able to establish the relationship between making provisions for bad loans and the impact on profitability of UT Bank. Using an exploratory design would necessitate personal contact, so the questionnaires would be crafted. Moreover the justification for this method is that, this research design is able to generate answers to the questions such as why, what and how, which would help in answering the research questions (Saunders et al., 2000).

Population and Sampling

According to Diamantopoulos (2004), a population is a group of items that a sample will be drawn from. A sample, on the other hand, refers to a set of subjects selected from an identified population with the intent of generalizing the findings to the entire population. A sample is drawn as a result of constraints that make it difficult to cover the entire research population (Leedy & Ormord, 2005). UT Bank has 26 branches across the country covering seven regions of Ghana excluding the Upper east, Upper west and the Northern region serving customers with the various loan products and other banking services.

Aside these branches, the bank has other departments like audit, risk and compliance, loan recovery unit that augment the processing and recovery of loans. Moreover, due to the fact that bank lending processing is done by few staff, not all bank employees and officials would be included. The sample frame was confined to those involved in credit analysis and appraisal; credit monitoring, risk management and credit sanctioning team members of UT Bank. A credit officer from each of the twenty-six branches was purposively drawn from the entire population of the credit officers of the bank. The sampling includes the head office branch and other branches across the country. The people selected have considerable experience and expertise in loan administration and processing.

To minimize biases, the selection of participants was done to ensure that it cut across the various branches and other departments within the bank. All twenty-six branches were covered, representing 100% of the branches. For the purposes of proper data collection, credit officers with at least one year experience were interviewed at the branch level and other senior managers like branch managers and other departments like audit, risk and compliance and recovery were interviewed and questionnaires were also given for them to answer to ensure that proper information are collected for the purpose of this study. This also went a long way to achieve the purpose of this study.

Source of Data

The main sources of data used for the study were the primary and secondary data. Questionnaires were the main tools used for the gathering of primary data. In collecting the primary data a lot of considerations were given to the knowledge of the respondent in loan administration, their characteristics, challenges affecting the operations of the bank and the impact of bad loans on its operation. With regards to secondary source of data, various forms of published and unpublished information including annual financial reports and other management reports of UT Bank were relied upon.

Data Collection

Research techniques are particularly, step-by-step procedures which you can follow in order to gather data, and analyse them for the information they contain (Jankowicz, 2000). Data were collected from primary and secondary data sources.

Primary data

In the process of collecting the primary data for the study, structured questionnaires were developed to solicit unbiased opinions of respondents. Again, for proper clarification of issues with regard to the factors that accounted for bad loans in the performance of the bank, poor credit appraising process, poor loan monitoring, credit risk assessment and handling non-performing loan portfolios and among other factors, the use of questionnaires were deemed appropriate.

Because of where the researcher reside, it was barely impossible to be there in person at all the branches of the bank in the country therefore arrangements were made to email the questionnaires to some respondents to respond to, and return the answered questionnaires back. In all a total of 26 questionnaires were sent across the 26 branches nationwide involving; credit officers, managers, risk officers, and loan recovery officers. Respondents were made aware of the various issues to be answered before the questionnaires were sent them so as to prepare and provide genuine information. A copy of the questionnaire used for the data collection is attached as appendix 1.

Secondary Data

In addition, the study used documentary review. Specifically, the financial statements of the bank was surveyed along with the bank's annual and central bank's reports. After the general information were given by the credit or loan officers special emphases were given to data sources that provided the total assets, total loans and advances, deposits and respective non-performing loan ratio and all the relevant sources that had bearing to the study. The purpose was to review whether there is a relationship between bank size (measured in total asset, deposit and loans and advances) and NPL ratio.

It also helped in obtaining information like loan portfolio of the institution, provision and charge for credit loss (provision for bad and doubtful debt) and profitability during the five-year period. Besides, bank data were reviewed to see if bank ownership type (private/state owned) has got a bearing on loan default expressed in NPL ratio. Most of these data were obtained from the annual financial reports and other management reports collected from UT Bank. The documentary review is believed to augment findings in the questionnaire survey. It was beneficial in terms of the affordability and the ease in obtaining such information.

Pre-test

In order to ensure that the data collection instruments constructed for this study achieves its stated objective, a pre-testing activity of the data collection was carried out at two branches of the Barclays Bank Ghana Limited to test the adequacy of the questionnaire in soliciting for the needed information. That is to say eight questionnaires were used in this pre-testing exercise at the stated branches in the Sekondi-Takoradi metropolis. The main issues focused on were the construction of the English language. After the testing, ambiguities with regard to question construction and format were corrected to ensure that proper data is gathered for this study. To check for the validity and reliability of the questions, the researcher made other colleagues to go through. The study had a Cronbach alpha of 0.751. According to Hogan, Benjamin and Brezinksi, (2000) Cronbach's alpha is one of the most commonly used reliability coefficients test.

Challenges of Data Collection

The data collection was generally successful with just a few challenges. Some of these challenges were time constraints on the part of the researcher and the respondents. These challenges were overcome by re-scheduling the time to be convenient to both parties.

Data Analysis

In the analysis of the data, particular attention was paid to their accuracy, reliability, completeness, suitability and adequacy before the data were used. Data that were gathered as primary data were analysed with the use of statistical tools like SPSS and others by way of narration. Simple spread sheet like excel was also used to help in the data analysis. Tables and statistical diagrams like bar charts, pie charts and line graphs also assisted in the data presentation. Presentation of the data using these statistical tools made the analysis very easy. The statistical tools used conveyed the meaning of the figures captured and therefore made the analysis straight forward.

Ethical Issues

Ethical issues were highly considered with regard to this data collection because every organization has certain ethical issues the employees working there should adhere to. Issues like confidentiality were considered and the company and the employees were assured that the information obtained for this study would be treated confidentially and it would be used for the purposes of this study only. Moreover no names were required. Again an introductory letter was obtained from University of Cape Coast to explain the purpose of the study and how information obtained would be treated confidentially. Due consideration was also given to obtain consent from each participant about his/her participation in the study. It was strictly conducted on voluntary basis. We tried to respect participants' right and privacy. The findings of the research were presented without any deviation from the outcome of the research. In addition, I gave full acknowledgements to all the reference materials used in the study.

CHAPTER FOUR

RESULTS AND DISSCUSSION

Introduction

This chapter covers data analysis, presentation and discussion of the data used for this research. It demonstrates the findings of the study which seek to answer the research questions respecting to the study objectives. The objectives of this study are to determine the causes of non-performing loans and its impact on the performance of banks using UT Bank as the case study. The major issues covered in this chapter are the trend of non-performing loans over the last five years, causes of non-performing loans, impact of non-performing loans specifically on interest income, profitability and liquidity.

This research also covers other areas like what accounts for default in loan repayment, which industry accounts for highest bad loans, key areas of the bank affected by the occurrence of non-performing loans, what management is doing to curb its occurrence and recommendations to address the surging rise of non-performing loans. A total of twenty-six (26) questionnaires were used to collate data from staff of the bank for the research and all twenty-six (26) questionnaires were retrieved.

Socioeconomic Characteristics of Respondents

1. Gender Distribution of Respondents

Ten (10) of the respondents were female and sixteen (16) of them were males. The females constituted 38.5 percent and the males also constituted 61.5 percent of the entire population. This is demonstrated by the diagram figure 1 below.

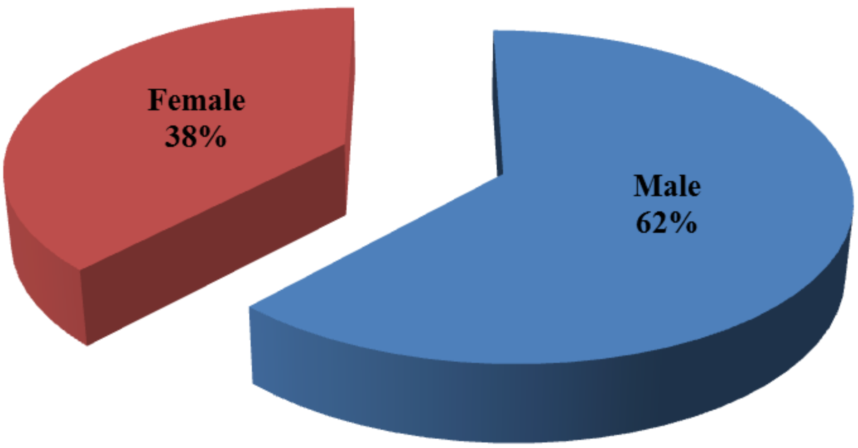

Figure 1: Gender Distributions of Respondents

Source: Field Data, 2013

2. **Age Distribution of the Respondents**

Table 2: Age Distribution of the Respondents

Distribution Response	Frequency	Percentage %
25 years and below	6	23.1
26 – 35 years	11	42.3
36 – 45 years	5	19.2
45 years and above	4	15.4
Total	26	100%

Source: Field Data, 2013

From table 2, six (6) of the respondents representing 23.1% were twenty-five (25) years old and below and 42.3 % of the respondents were of the ages between 26 - 35 years. Also five (5) respondents representing 19.2%

of the population were between ages 36 - 45 years whilst four (4) of them representing 15.4% were 45 years and above.

3. Educational Qualification of Respondents

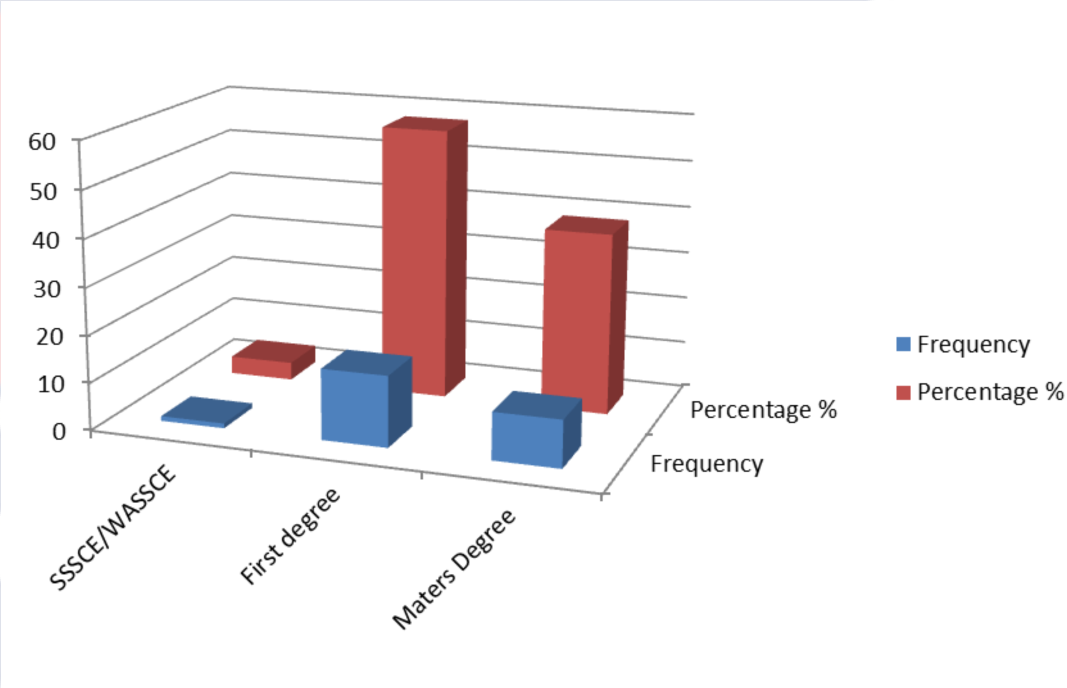

Figure 2: Educational Qualifications of Respondents

Source: Field Data, (2013)

According to figure 2 above, one (1) of the respondents representing 3.8% was SSSCE/WASSCE holder, and fifteen (15) of them representing 57.7% were first degree holders whilst ten (10) of them representing 38.50% were Master's degree holders. With these various educational backgrounds, it puts the staff in a better position to manage the affairs of the company successfully.

4. **Length of Service of Respondents at the Bank**

Table 3 below shows that only one person had less than year length of service with the bank representing 3.8% of the sample. Six (6) of the respondents had 1 - 5 years working experience with the bank representing 23.1%, ten (10) of the workers also had 6 - 10 years' experience with the bank representing 38.5%. Also, those with 11 - 15 years length of service with the bank were six (6) representing 23.1% of the sampled population. For those above 15 years of length of service with the bank, the sampled population was three (3) representing 11.5% of the sample. According to Machiraju (2001) length of stay and experience in a particular work makes the employee adaptive to the intricacies of the work and helps in a long way to boost the productivity of the worker and the business to a larger extent.

Table 3: Length of Service of Respondents at the Bank

Length of Service	Frequency	Percentage %
Less than year	1	3.8
1 – 5 years	6	23.1
6 – 10 years	10	38.5
11 – 15 years	6	23.1
Above 15 years	3	11.5
Total	26	100

Source: Field Data (2013)

5. **Number of Years of Experience in Bank Credit Processes**

Respondents were asked to indicate the number of years of experience they have in bank credit processes. Ten (10) respondents representing 38.50% had 1-5 years of experience, twelve (12) representing 46.20% had 6-10 years of experience, three (3) respondents representing 11.50% enjoyed 11-15 years of experience and one (1) respondent representing 3.80% had above 15 years of experience. Experience in banking and credit management makes one well versed with the risks and risk of the work (Machiraju, 2001). This moreover makes the worker efficient and productive as a way of avoiding certain risks.

Factors Accounting for Loan Default

In sourcing for data for this research, questionnaires were administered to know from respondents some of the factors accounting for the occurrence of loan repayment default and also to know whether these determinants were obvious. According to Table 4, different reasons were given by respondent regarding the specific causes of non-performing loans in the bank. Some of the reasons given by respondents as factors accountable for these non-performing loans are rapid loan portfolio growth by the bank, business failure, poor credit appraisal, wilful default, poor monitoring/follow up, high interest rate, lenient credit terms, size of the bank, diversion of funds, poor weather, poor risk assessment and wrong timing of credit delivery. This confirms the conclusions of Hou (2007) that non-performing loans is one of the main reasons that cause insolvency of the financial institutions and ultimately hurt the whole economy.

Table 4: Specific factors leading to NPLs in UT Bank

Responses	Frequency	Percent
Compromised integrity of bank staff	1	3.8
Eagerness to achieve targets for bonus	1	3.8
Inadequate risk assessment	2	7.7
High interest rate	5	19.2
Desire to increase loan portfolio size	4	15.4
Poor loan monitoring	6	23.1
Diversion of funds	1	3.8
Inexperience	1	3.8
Compromised integrity and eagerness to achieve targets	1	3.8
Inadequate risk assessment and desire to increase loan portfolio	1	3.8
Inadequate risk assessment and poor loan monitoring	2	7.6
Total	25	96.2
No response	1	3.8
Total	26	100.0

Source: Field Data (2013)

Again, respondent were asked to rank the above mentioned factors according to their degree of agreement and disagreement as factors accounting for non-performing loans. Out of the entire respondents, twenty-two (22) of them agree that determinants of non-performing loans are obvious which represent 84.6%. To affirm the assertion made by the respondents on the causes and factors of non-performing loans and the literature reviewed on non-performing loans we administered some questionnaire to respondents of the UT bank to solicit their responses.

1. **Weak Credit Monitoring**

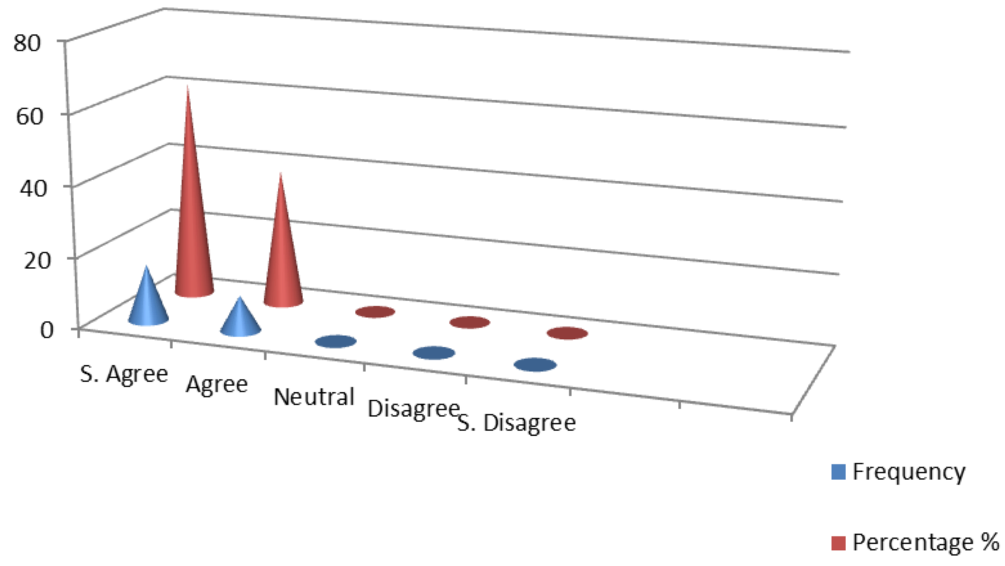

Figure 3: Weak Credit Monitoring

Source: Field Data (2013)

Sixteen (16) respondents out of the total of twenty-six (26) respondents sampled, strongly agreed to the fact that weak credit monitoring accounts for the occurrence of non-performing loans which represents 61.50% whilst ten (10) respondents agreed to the fact that weak monitoring contribute to the occurrence of high non-performing loans. This represents 38.50%. The respondents were also requested to indicate which of the following makes it possible for weak loan monitoring and among the twenty-six (26) staff who answered the questionnaires, three (3) cited staffing problems, two (2) indicated poor road network, another three (3) cited lack of logistics and eighteen (18) of them indicated all of the above representing 69.20% of the sampled population. The result of the study affirms that weak credit monitoring by the bank's personnel accounts for the occurrence of non-performing loans and this also is in agreement with the literature reviewed.

2. **Type of Collateral**

Table 5: Type of Collateral

Responses	Frequency	Percentage %
Strongly Agree	4	15.40
Agree	21	80.80
Neutral	0	0.00
Disagree	1	3.80
Strongly Disagree	0	0.00
Total	26	100

Source: Field Data (2013)

On Table 5, 25 respondents representing the majority consented that the type of collateral used by clients to secure loans also determines loan default rate by clients and this represents about 96.20% of the of the total respondents. According to the respondents, when the collateral used in securing the loan is far lower or does not belong to the clients directly or is not easily convertible into cash, customers really do not bother about losing their property hence they might wilfully default on loan repayment. Respondents were also asked about the kind of collateral they normally pick as security for the loans. Twelve (12) out of the twenty-six (26) indicated landed property, representing 46.2%, and eight (8) respondents representing 30.70% indicated motor vehicles. Again four (4) respondents cited cash (fixed deposit, savings accounts) and two (2) respondents indicated guarantees.

3. Borrowers Orientation/Culture

According to figure 4, two (2) respondents representing 7.7% strongly agreed that borrowers' orientation accounts for the high occurrence of non-performing loans and twenty-three (23) respondents representing 88.5% also agreed to it. However, 3.8 % of the respondents were indifferent or neutral on this issue and none of the respondents either disagreed or strongly disagreed. This indicates that borrowers' background and understanding of loan terms is crucial in loan repayment and it confirms the study by Ross et al. (1999) that relevant information on borrowers or borrowers orientation on loans are worthwhile.

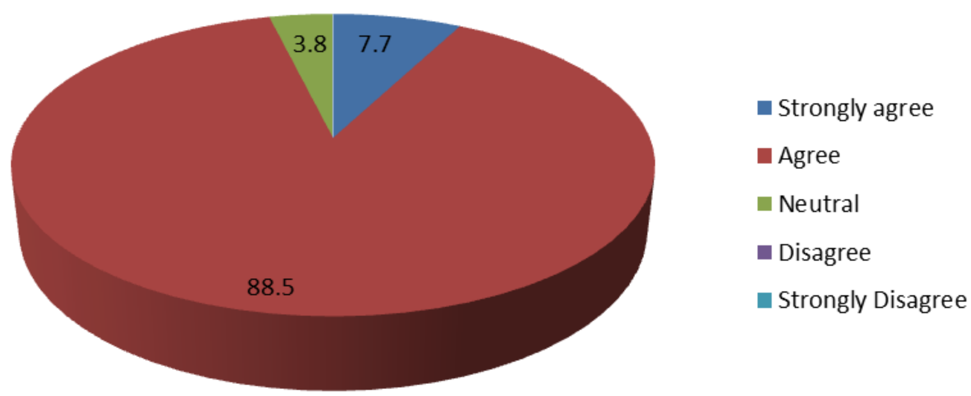

Figure 4: Borrowers' Orientation/Culture

Source: Field Data (2013)

4. **Risk Appetite of the Bank**

Respondents' responses showed that seventeen (17) respondents representing 65.40% strongly agreed that risk appetite of the bank accounted for high occurrence of bad loans whiles another nine (9) respondents representing 34.60% of them agreed that risk appetite of the bank for granting credit accounted for the occurrence of bad loans. This shows that, if a bank has high risk appetite in their loan assessment and appraisal this will result in the occurrence of higher non-performing loans. This is depicted by figure 5 below.

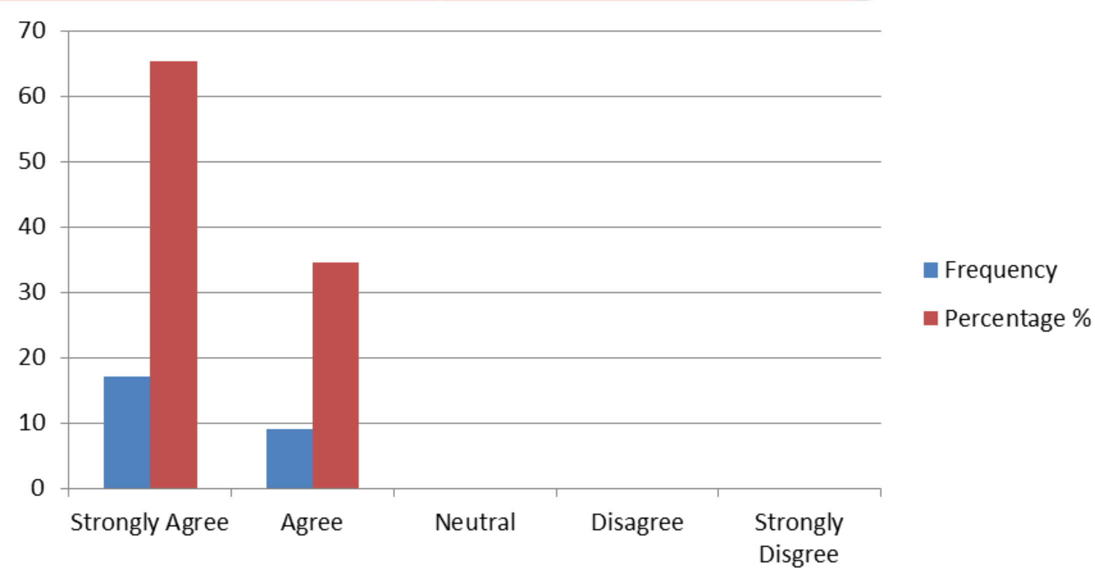

Figure 5: Risk Appetite of the Bank

Source: Field Data (2013)

5. **Loan Interest Rate**

Nine (9) respondents in figure 6, it was seen that strongly agreed that high interest rate was responsible for loan payment default and this representing 34.60% of the respondents. Seventeen (17) of the respondents representing 65.40% also agreed that high interest rate accounted for the occurrence of bad loans. This means that high interest rate on loans granted by the bank to customers make the cost of servicing the loan very expensive thereby resulting in loan repayment defaults. Based on the outcome above, respondents were once again asked on the method used by the bank to price their loans. Again twenty-six (26) respondents stated that base rate + risk premium was used in pricing their loans.

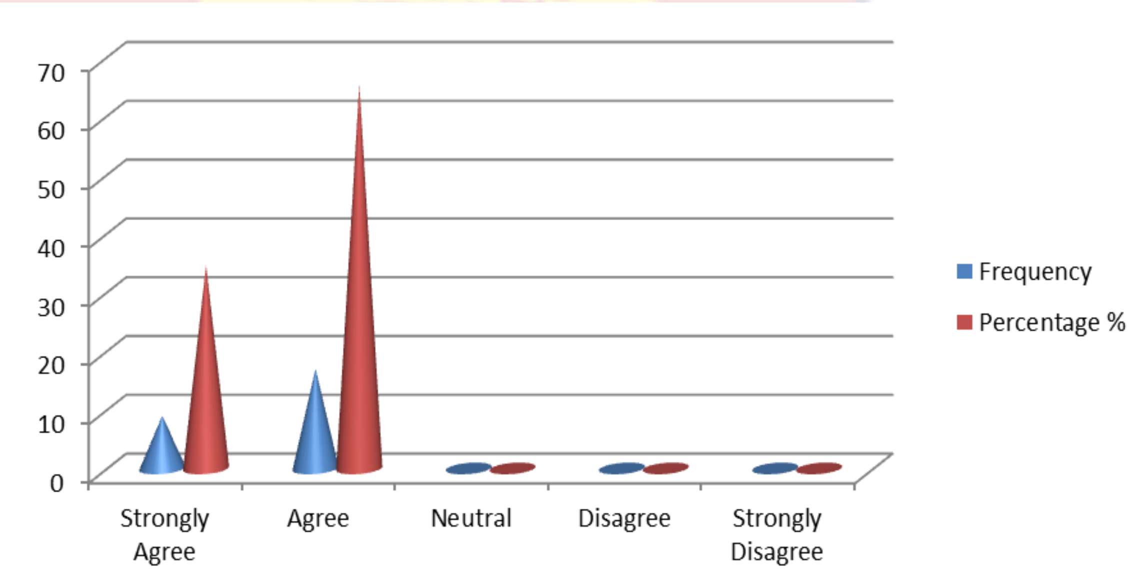

Figure 6: Loan Interest Rate

Source: Field Data (2013)

6. Rapid Loan Portfolio Growth

According to figure 7, sixteen (16) respondents strongly agreed that as a result of intent by the bank to grow their loan portfolio size rapidly to achieve annual budgets and also to earn their annual bonuses, they ended up increasing the rate of non-performing loans because of the eagerness to grow the portfolio of the bank. This represented 61.50% of the respondents view. Also ten (10) of the respondents representing 38.50% agreed to that fact but none of the respondents disagreed or was even neutral to this assertion.

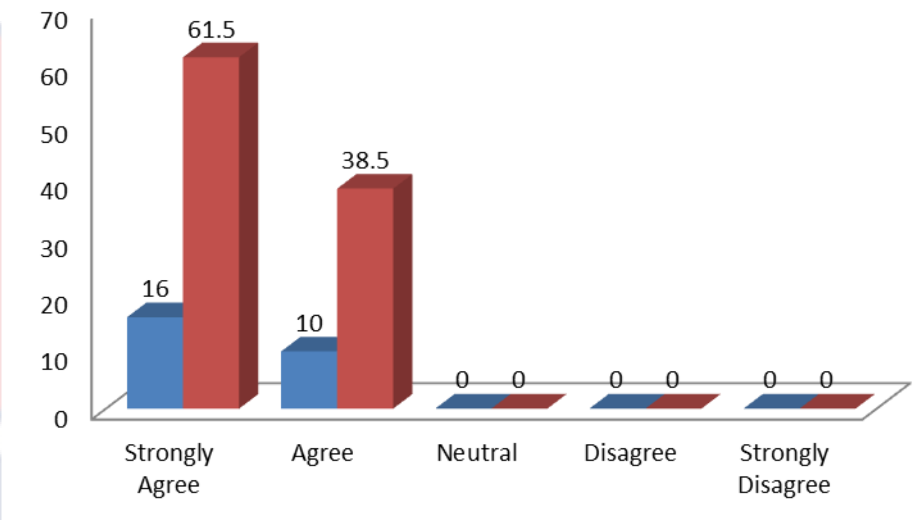

Figure 7: Rapid Loan Portfolio Growth

Source: Field Data (2013)

7. Compromised Integrity of Credit Officers

According table 6 below, sixteen (16) of the respondents representing 61.50% strongly agreed to the fact that compromised integrity of credit officers' accounted for high occurrence of bad loans, eight (8) of them representing 30.80% also agreed to the fact that compromised integrity of credit officers resulted in bad loans. When integrity of staff is comprised by accepting gifts and also entering into private business ventures with clients it affect their integrity and risk assessment in their credit appraisal for loans applied by the customer.

Table 6: Compromised Integrity of Credit Officers

Degree of Agreement/Disagreement	Frequency	Percentage %
Strongly Agree	16	61.50
Agree	8	30.80
Neutral	1	3.80
Disagree	1	3.80
Strongly Disagree	0	0.00
Total	26	100

Source: Field Data (2013)

8. Size of the Bank

From table 7, two (2) of respondents representing 7.70% strongly agreed to the fact that the size of the bank accounted for high occurrence of bad loans. Twenty-two (22) of them representing 84.60 also agreed to the fact that the size of the bank accounts for the occurrence of bad loans. This was because large banks have the expertise to appraise and assess clients properly and also have the logistics to monitor the loans granted to avoid it going bad.

Table 7: Size of the Bank

Responses	Frequency	Percentage %
Strongly Agree	2	7.7
Agree	22	84.6
Neutral	1	3.8
Disagree	1	3.8
Total	26	100

Source: Field Data (2013)

9. Poor Risk Assessment

According to figure 8, twenty-one (21) respondents representing 80.80% strongly agreed that poor risk assessment accounting for bad loans whilst four (4) of the respondents representing 15.40% also agreed that poor risk assessment led to the occurrences of non-performing loans. When risk associated with a particular business or industry is not assessed well before a loan is granted it will lead to a bad loan. When respondents were quizzed on training, twenty-four (24) out of the twenty-six (26) respondents representing 92.30% indicated that they have had regular training.

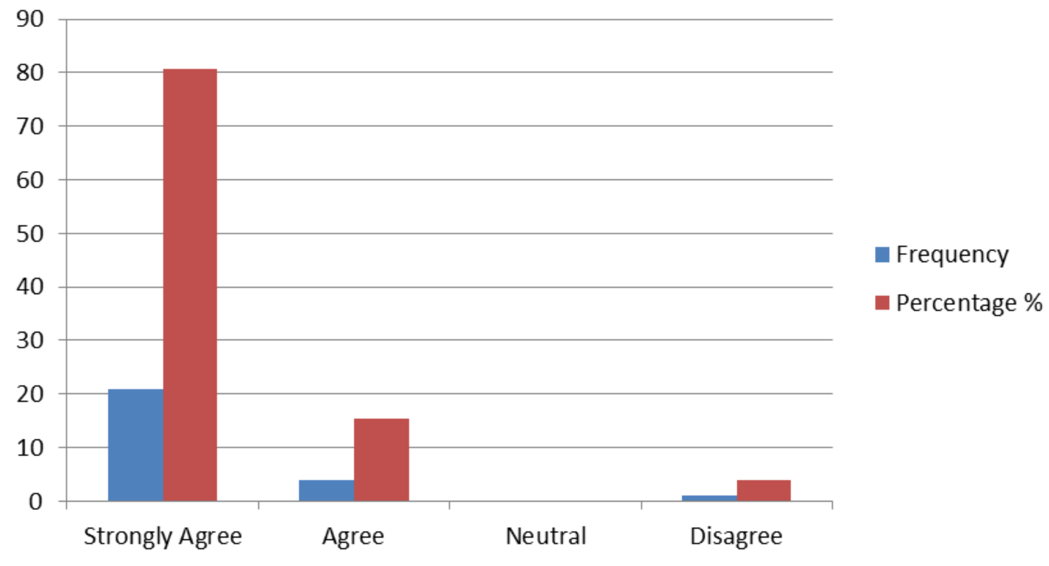

Figure 8: Poor risk assessment

Source: Field Data (2013)

10. Poor Credit Assessment

Result on figure 9, indicates that twenty-two (22) respondents representing 84.62% of the respondents strongly agreed that poor credit assessment in granting loans leads to bad loans. Four (4) respondents representing 15.38% agreed that poor credit assessment accounted for the occurrences of bad loans. When respondents were quizzed on training, twenty-four (24) out of the twenty-six (26) respondents representing 92.30% indicated that they are trained regularly.

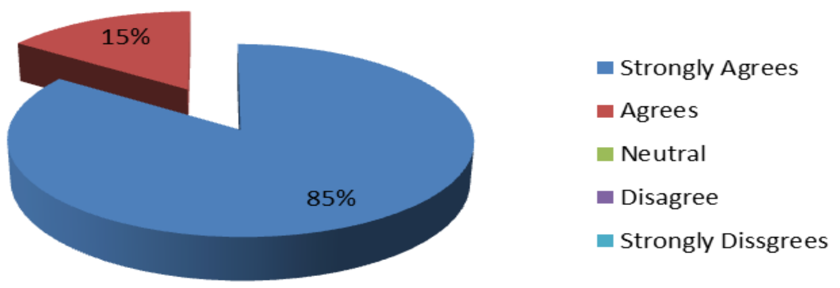

Figure 9: Poor credit assessment

Source: Field Data (2013)

The Trend of Non-performing Loans (2008 – 2012)

Financial statements of UT bank for years 2008 – 2012 were picked for analysis to establish the pattern of the non-performing loans. These were put in tabular and pictorial form to help in easy analysis. Table 8 was used for the analysis.

Table 8: Non-performing Loans

Year	Impairment Loss GH¢000	Loan Amount GH¢000	Impairment loss to loans ratio
2008	12,161	98,116	12.39
2009	9,246	138,281	7.61
2010	7,003	315,297	2.22
2011	14,244	475,232	3.00
2012	13,153	679,648	1.94

Source: Annual financial statement, 2008-2102

According to Patersson and Wadman (2004), non- performing loans are defined as defaulted loans which banks are unable to profit from. They are loans which cannot be recovered within stipulated time that is governed by the laws of a country. Impairment ratio is the total amount of bad loan losses expressed as a percentage of total loan portfolio. According to table 6, UT bank lost huge sums of money and profit in these five year period (2008-2012), recording it highest impairment loss in the year 2011 and 2012 in absolute value terms, this means, these entire amounts were written-off as expenses against their profit in the financial statement which should have come in as cash and profit. Its consequences were that, this eroded bank's liquidity and profit away.

The impairment loss to loan ratio was 12.39%, 7.61%, 2.22%, 3% and 1.94% respectively for the year 2008, 2009, 2010, 2011 and 2012. Even though the trend of impairment to loan ratio has been declining since the year 2008, it went up in the year 2011. According to Micro banking Bulletin reported by the Pricewaterhouse Coopers (2010), the proportion of loan portfolio in default for more than one year for global peers group is 1.5% whilst that of Ghana was 3.5%. From the table 6, it could be seen that for the year 2008 and 2009, the bank had a lot of loans in default because it recorded the highest bad loan ratio in those years. Even though 2010, 2011 and 2012, the impairment loss to loan ratio reduced it was still above the global peers rate of 1.5%.

In 2008, the bank recorded its worst impairment to loan ratio of 12.39%. This was as a result of non-payment of contractors by Government (because it was an electioneering year), bad weather for agricultural products, low spending by government and economic slowdown because of the world economic crises in the year 2008. In 2009, the company was able to reduce its impairment to loan ratio from 12.39% in 2008 to 7.61%, which was massive reduction of 4.78%. This was achieved because the Bank was able to do more new quality loans and also recovered some of the bad loans incurred in the previous year by tightening their loan monitoring and recovery processes and repossessing some of the defaulted client's collaterals for sale to recoup those bad loans. Though in 2009, the bank's portfolio increased from GH¢98,116,000 to GH¢138,281,000 they also worked hard to reduce their loan impairment from GH¢12,161,000 in 2009 to GH¢9,246,000 in 2009 in absolute value terms.

In 2010, the Bank was able to reduce its impairment loss in value and ratio terms from GH¢9,246,000 to GH¢7,003,000 and 7.61% to 2.22% respectively. The Bank benefitted from the merger with its sister company UT Financial Services Ltd in 2010. This helped in growing their loan portfolio size because of the increase in customer base as a result of the liquidity or deposit size. The company also invested in logistics and engaged its staff in a lot of training which had a positive effect on their impairment loss. They were able to double their loan portfolio from GH¢138,281,000 in 2009 to GH¢315,297,000 but improved their impairment loss ratio from 7.61% in 2009 to 2.22% which was 51.1% far below the industry average of 4.7% for the year 2010 (Pricewaterhouse Coppers, 2010) because of better credit appraisals and intensive and effective monitoring.

According to Pricewaterhouse Coppers (2012), the industry average for impairment loss in Ghana since 2011 to 2012 has been 2.3%. Even though, impairment loss ratio was 3% in the year 2011 for UT Bank, they managed to reduce it to 1.94% in the year 2012 but increased their loan portfolio by 43% from 2011. In conclusion, the bank has been able to reduce it non-performing loan loss and ratio from as a high as 12.39% in the year 2008 to 1.94% in the year 2012. This was possible because of effective loan monitoring, staff training and improvement in the quality of loans granted as well as improvement in the economy.

Table 9: Percentage Change in Impairment Loss and Ratio

Year	% Change in impairment loss	% Change in impairment loss ratio
2008	0	0
2009	-23.97	-38.58
2010	-24.26	-70.83
2011	103.40	35.14
2012	-7.66	-35.33

Source: Field Data (2013)

It would be realized from Table 9 that bad loans were reduced by 23.97% and 24.26% and impairment loss ratio was also reduced by 38.58% and 70.83% in the years 2009 and 2010 respectively. This was due to conscious effort by management to reduce impairment loss to its barest minimum by ensuring that more quality loans were granted and also loan monitoring and recovery of overdue loans were more effective and efficient. In absolute value terms, these figures were huge and it greatly affected the bank's cash flow and profitability even though it reduced in value. In 2011, the Bank recorded it highest impairment loss, increasing by 103.40% in value and increasing by 35.14% in ratio terms but management implemented effective strategies to curb its growth reducing it in the 2012 by 7.6% in value and 35.33% in ratio terms.

Impact of Non-performing Loans

The analysis was to establish the impact of non-performing loans on the following variables; interest income, profitability and liquidity of UT bank for the period 2008 – 2012.

1. **Interest Income**

Banks cannot survive without generating sufficient interest income and same can be said of UT bank. Banks depend heavily on interest income as their biggest source of income generation. This analysis will help us to appreciate the adverse impact of non-performing loans on interest income.

Table 10: Interest Income Pattern

Year	Interest Income GH¢000	Non-performing loans GH¢000	% of NPL to Interest Income GH¢000
2008	43,568	12,161	27.91
2009	67,612	9,246	13.68
2010	74,706	7,003	9.37
2011	99,901	14,244	14.26
2012	134,110	13,153	9.81

Source: Annual financial statement, 2008-2102

It could be seen from table 10, that interest income for the past five years have been increasing from GH¢43,568,000 in 2008 to GH¢134,110,000 in 2012. This is indicative that the Bank's interest income has been increasing every year as a result of the growth in the loan portfolio. Unfortunately, the bank loses a chunk of this income to impairment loss as a result of loan repayment default by customers. Non-performing loans to interest income ratio was 27.91%, 13.68%, 9.37%, 14.26% and 9.81% respectively for the years 2008, 2009, 2010, 2011 and 2012 and the highest being the year 2008 and the least being the year 2010.

In the year 2008 and 2009, the bank lost GH¢12,161,000 and GH¢9,246,000 of their interest income to non-performing loans representing 27.91% and 13.68% respectively. During the five year period (2008-2012) the bank lost GH¢55,807,000 of their total interest income of GH¢419,897,000 to impairment loss as a result of bad loans. This represented 13.29% of the interest income lost as a result of impairment loss. The high percentage of bad loan to interest income in the year 2008 was because of the 2008 election, global financial crises, bad weather for agricultural products, low investing and spending by government and lack of effective monitoring.

Management (realizing the effect of these figures on the interest income generated), implemented effective polices by intensifying their loan recovery, growing loan portfolio with quality loans and also writing-off some of the bad loans. This confirms the study of Guttunentag (2007) that in cases where banks see falling revenues, measures like halting loan advances ought to be taken to arrest the situation. This reduced the bad loans to interest income ratio to

9.37% and 9.815 in the year 2010 and 2012 even though the absolute value for 2012 was still higher.

2. **Profitability**

This analysis is conducted to find out the impact of non-performing loans on the profitability of UT Bank. The period covered under this analysis is from the year 2008 to 2012.

Table 11: Profitability to Impairment Loss Analysis

Year	Profit before impairment loss GH¢000	Impairment loss GH¢000	Profit after impairment loss GH¢000	Percentage of impairment loss on profitability
2008	19,711	12,161	7,550	61.70
2009	18,278	9,246	9,035	50.59
2010	19,163	7,003	12,160	36.54
2011	31,544	14,244	17,300	45.16
2012	39,861	13,153	26,708	33.00

Source: Annual financial statement, 2008-2102

It was revealed in the table 11 that operating profit for the year 2008 was reduced by 61.70% as a result of impairment loss of GH¢12,161,000 that was provided on the account of non-payment of loans and in 2009, impairment loss eroded 50.59% of the banks profit. Also in 2010, 2011 and 2012, the operating profit of the bank was reduced by 36.54%, 45.16% and 33% respectively because of impairment loss. Which means, if the Bank has been able to reduce the incidence of bad loans through effective loan monitoring and recovery mechanism, their operating profit in these respective years would have increased by 61.70%, 50.59%, 36.54%, 45.16% and 33% in 2008, 2009, 2010, 2011 and 2012 all things been equal. It could also be that the bank is taking steps to arrest the non-performing loan situation (Leply, 2003). The Bank lost a total amount of GH¢55,807,000 out of their total GH¢128,557,000 operating profit representing 43.41% of the operating profit within the five period (2008- 2012).

The year 2008, 2009 and 2011 were the worst years that the bank recorded the highest impairment losses. The years 2010 and 2012 were the years they recorded the lowest impairment loss. The percentage of impairment loses on the operating profit of the company resulted from the risk appetite level of the Bank, the need to grow the loan portfolio and also to deliver loans within 48 hours all affected the effectiveness of the credit appraisal and risk assessment of the loans. Because of the merger between UT Bank and UT Financial Service Ltd in 2010, it made the loan portfolio to grow excessively due to the size of the loan portfolio brought together by the merger. Within these five years, the amount and ratio of impairment loss on the profitability have been detrimental. The consequence was that, existing and potential investors were reluctant to invest in the Bank when called upon for injection of cash.

3. Liquidity

The main source of income to banks is interest income and this is generated only through loans granted to existing and prospective clients. Banks can be in a capacity to grant such loans only when they have enough liquidity to do so, because depositors will have to be taken care of when they come to do withdrawal. So banks have to ensure that loans granted to customers are recovered to ensure that there is enough funds available for lending else their lending capacity will be curtailed because of non-availability of liquidity.

Table 12: Trend of Non-performing in Relation to Liquidity

Year	Impairment loss GH¢000	Funds that should be available for loans GH¢000	Interest income lost @ 30% p.a GH¢000	Total Amount lost GH¢000
2008	12,161	12,161	3,648	15,809
2009	9,246	9,246	2,774	12,020
2010	7,003	7,003	2,101	9,104
2011	14,244	14,244	4,273	18,517
2012	13,153	13,153	3,946	17,099
Total	55,807	55,807	16,742	72,549

Source: Annual Financial Statement (2008-2012)

According to Table 12, it could be deduced that the Bank lost total funds of GH¢12,161,000; GH¢9,246,000; GH¢7,003,000; GH¢14,244,000 and GH¢13,153,000 in the years 2008, 2009, 2010, 2011 and 2012 as a result of impairment loss provided for because of bad loans. These funds should have been available to the Bank for lending to generate additional income to increase profitability but because of default in loan repayment of customers, the Bank was deprived of such funds. The Bank also lost a total interest income of GH¢3,648,000; GH¢2,774,000; GH¢2,101,000 GH¢4,273,000 and

GH¢3,946,000 in the years 2008, 2009, 2010, 2011 and 2012 on funds that was not made available to the bank because of the bad loans at the lending rate of 30% p.a.

Again, within these period (2008 -2012), the Bank lost total funds of GH¢55,807,000 to impairment losses and because of that the bank lost a total interest income of GH¢16,742,000 on the impairment loss amount at a lending rate of 30% p.a giving a total funds lost of GH¢72,549,000 that should be available for lending. With the above analysis, it is clear that non-performing loans have an adverse effect on the financial performance of the bank in terms of interest income, profitability and liquidity. This clearly support the assertion of Taylor (1993); Fofac (2009) that one the major bank collapse or bank failure was the soaring non-performing loans.

Dealing with Non-performing Loans by the Bank

The study also sought to find out how the Bank deals with bad loans that come into its books. It came to light from Table 13 that the Bank uses different approaches in taking care of their bad loans. That is not to say that the bank does not have one policy, rather these actions are spelt out by the bank and so any branch could use any combination depending on amount lost vis a vis the expenditure to be incurred to pursue these defaulters. Seventeen (17) respondents representing 65.40% said that they used legal actions to retrieve their monies from customers; four (4) respondents representing 15.40% also indicated that, they sell the collaterals used in securing the loans to repay the loans. Again, three (3) other respondents cited the use of outsourcing (External solicitors/ Debt collectors) to retrieve bad loans from clients and 2 respondents indicated write off of the bad loans as a way of dealing with bad loans in the bank's books.

Table 13: Dealing with Problem Loans by the Bank

Actions Taken	Frequency	% Percentage
Legal action	17	65.4
Outsourcing (External solicitor/ Debt collectors)	3	11.5
Write offs	2	7.7
Sale of Collateral	4	15.40
Total	26	100

Source: Field Data (2013)

Sectorial Analysis of Industry with Highest Non-performing Loans

The research also sought to study the sector of the economy and the bank's business with the highest non-performing loans. Questionnaires were given to respondents to indicate which sector of the business had the highest bad loans and this was summarized on figure 9.

It revealed that the Bank deals with the following sectors of the Ghanaian economy; Agriculture, Trading, Services, Manufacturing and Construction. Out of the twenty-six (26) branches, seven (7) of them each representing 27% indicated that Agriculture, Trading and Construction were the sectors with highest bad loans to the bank. However, Manufacturing and services sectors were the lowest.

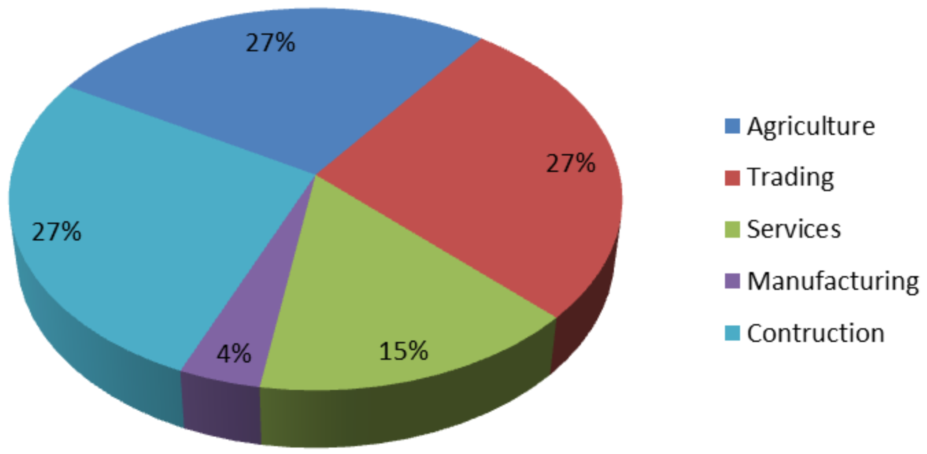

Figure 10: Analysis of Industry with Highest Non-performing Loans

Source: Field Data (2013)

Construction was one of the three mostly defaulted sectors in loan repayment. Twenty seven (27%) of the respondents chose the sector as the highest non-performing loans sector. According to the respondents, most contracts were government contracts and payments delayed after the execution of the contracts by government were the main reason. Again, some contractors also diverted the loans taken to engage in other businesses without completing the contract for which the loan was granted. Aside construction, agriculture was also among three sectors with the highest non-performing loans within the bank. Seven (7) respondents representing 27% confirmed through the questionnaire. Even though it is the highest occupation in the country, it still counts for the highest non-performing loans sectors in the country.

The causes of loan default rate among this sector are poor timing of loan facility, poor weather condition that affects harvesting, the seasonality and poor infrastructure like irrigation, storage, agro-processing industries, good roads mostly, lacking in farming areas in Ghana. The absence of these facilities in farming communities, hinder the farming business and thereby causes loan repayment problems. Trading is the last among the three biggest non-performing loans sector recording seven (7) respondents out of the total twenty-six (26) respondents. Some of the reasons the respondents gave were dip in sales, overtrading, business failure, diversion of funds for other business, mismanagement of the business among others.

Causes of Delay in Loan Approval

Questionnaires were also administered to solicit the response of respondents on what were some of the causes of delay in loan approval. Seven (7) of the respondents representing 26.90% indicated that rigid loan approval procedures accounted for it. Fifteen (15) respondents representing 50% also indicated customers' inability to meet loan approval eligibility was the cause of loan approval delay. Again four (4) respondents cited poor credit appraisal, one (1) respondent indicated insufficient loanable funds and one (1) other respondent indicated it was the combination of rigid loan approval procedures, customer's inability to meet loan approval requirement and poor credit appraisal that accounted for the delay in loan approval.

Factors Accounting for Diversion of Funds

Customers who apply for loans at times do not use the funds accessed for the purpose for which the loan was granted. This at times makes it difficult for the loan beneficiaries to pay back the loan when it falls due. Respondents were interviewed to give reasons why customers divert funds granted for different purpose. Various reasons were given and prominent among them were lack of proper monitoring, ignorance of lending terms and conditions by customers, over financing, under financing and anticipation of windfall profits in other businesses.

Measures Put in Place by Management to Reduce the Incidence of Non-performing Loans

Management was and is still aware of the bad repercussion non-performing loans could have on the performance of the bank if not properly checked. Performance indicators like interest income, operating profit, liquidity and quality of operating assets of the bank can be seriously affected because of non-performing loans and shareholders wealth maximization cannot be achieved by the Bank. Due to this, the Bank employs certain techniques to monitor the health of their loan portfolio. Twenty-six (26) respondents for this research all cited ageing analysis as the technique used by management to monitor the health of the bank's loan portfolio. This technique helps to group the loan according to their duration since it was disbursed by the Bank to the customer and a certain amount are made as provision for doubtful and bad debts depending on the duration stage of the loan. Table 14, shows how the loans are categorized based on the duration and length of time the loan has been running.

Table 14: Categories of Loans and their Provisions

S/N	CATEGORY	PROVISIONS (%)	NO. OF DAYS DELIQUENCY
1	Current	1	0- less than 30 days
2	Olem	10	30 days – less than 90 days
3	Substandard	25	90 days – less than 180 days
4	Doubtful	50	180 days - less than 360 days
5	Loss	100	360 days and above

Source: Section 53 (1) of Banking Act 2004

Aside using the ageing analysis to monitor the health of their loan portfolio, management has also put certain measures in place to help curb the occurrence of non-performing loans. Respondents indicated in table 15 that management has put systems in place to reduce the occurrence of non-performing loans. Out of the entire respondents 9.80% indicated proper risk assessment as a measure of reducing non-performing loan, 7.80% indicated effective loan monitoring whilst 13.80% also mentioned proper loan appraisal. Again, 19.60% mentioned adequate collaterals and 13.80% stated no new start-up business loans. Moreover, 17.70% mentioned regular staff training and 9.80% indicated moderate loan interest rates. Only four (4) respondents, representing 7.80% mentioned training and orientation for customers.

Table 15: Measures by management to help reduce the incidence of NPLs

Items	Frequency	Percent
Proper risk assessment	5	9.80
Effective loan monitoring	4	7.80
Proper loan appraisals	7	13.80
Adequate collaterals	10	19.60
No new start-up business loans.	7	13.80
Regular staff training	9	17.70
Moderate loan interest rates	5	9.80
Training and orientations for customers.	4	7.80
Total	51	100.00

Source: Field Data (2013)

The chapter four dealt with data analysis, presentation and discussions of the study findings in relation to the research questions. The next chapter covers the summary, conclusions and recommendations.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

The aim of the study was to examine the key causes of non-performing loans and its impact on the performance of banks focusing on UT Bank as a case study. The chapter five recaps the research findings and also gives conclusions and suggests recommendations that align with objectives of the study. The chapter covers the summary, conclusions and recommendation for the research.

Summary of Findings

The study mainly focused on the major causes of non-performing loans and its impacts on the performance of banks using UT Bank as a case study. It was established through the study that there were certain factors accounting for the occurrence of non-performing loans. Prominent among these factors are weak credit monitoring, borrowers orientation/culture, risk appetite of the bank, high loan interest rate, rapid loan portfolio growth, poor risk assessment, compromised integrity of credit officers, size of the bank, poor credit assessment, high inflation and funds diversion. More than 80% of respondents agreed that the above mentioned factors accounted for the occurrence of non-performing loans.

The research also confirmed that the pattern of non-performing loan ratio for UT Bank for the five year period reviewed (2008 to 2012) has been on the decline even though there was slight increase of 35.14% from the year 2010 to 2011. This was explained by the staff that, the Bank had granted a lot of construction loans especially from the government in the year 2010 which had become overdue in 2011. The Bank recorded the lowest non-performing loans ratio of 1.94% in the year 2012 and the highest in the year 2008 with a ratio of 12.39%. The Bank was able to reduce its impairment loss ratio in the year 2012 because it deliberately reduced the loans granted to the problem sectors by increasing loans to services and manufacturing. The bank doubled the loan portfolio because of the merger with UT Financial Services Ltd in the year 2010, the Bank also intensified its loan monitoring and re-negotiated some of the bad construction loans. The absolute values for the year 2008 was GH¢12,161,000 and GH¢13,153,000 in the year 2012. The Bank was able to reduce non-performing loan ratio by 538.66% from 12.39% in 2008 to 1.94% in the year 2012. The average non-performing loan ratio for the period 2008 to 2012 was 5.43% which was still high as compared to the industry average of 2.3%.

The study also revealed that non-performing loans had an adverse effect on performance of the bank with respect to interest income, operating profit and liquidity. Interest income of the bank had been increasing for the five year period (2008 to 2012) and within that period interest income grew from GH¢43,568,000 in 2008 to GH¢134,110,000 in 2012 representing 307.82% increment. This was achieved because of the growth in the bank's loan portfolio from GH¢98,116,000 in 2008 to GH¢679,648,000 representing 592.70%. These interest incomes are normally eroded every year by high provisions made for loan impairment loss. Throughout the five year period, the bank made total provisions for loan impairment loss of GH¢55,807,000 against its total interest income of GH¢419,897,000 representing 13.29% of total interest income. The bank recorded its highest impairment loss to interest income ratio of 27.91% in the year 2008 and its lowest impairment loss ratio of 9.37% in the year 2010 even though the pattern of impairment loss was volatile within the five year period I reviewed.

Profitability is another performance indicator which non-performing loans had major impact on. Due to the growth in the bank's interest income in the five year period (2008 to 2012), it also recorded significant increase in its operating profit before impairment loss of GH¢19,711,000 in the year 2008 to GH¢39,861,000 in 2012 representing 202.22% increment. However, this did not translate into higher profit. They lost 61.70% in 2008 and 33% in 2012 due to impairment loss respectively. The bank lost 50.59% in 2009, 36.54% in 2010 and 45.16% in 2011 of its operating profit to impairment loss which represented an average loss of 45.40 % for the five year period. The total operating profit before impairment loss of the bank from 2008 to 2012 was GH¢128,557,000 but recorded a total of GH¢72,753,000 profit after impairment loss from 2008 to 2012, losing 43.41% to impairment loss.

The third component non-performing loans had major impact on is liquidity. The bank lost a total liquid funds of GH¢55,807,000 to impairment loss which could have been used to lend to customers at a prevailing interest rate of 30% p.a within the five year period. The bank lost interest income of GH¢16,742,000 on the GH¢55,807,000 which was provided for as impairment loss accumulating to a total loss of GH¢72,549,000 to the bank. The effect of this is that the lending capacity of the bank is weakened and its investment prospects are reduced by the occurrence of bad loans. The bank uses the following procedures in dealing with its problem loans; taking legal action, selling off collaterals to off-set the loan commitment, outsourcing the loan facility to external solicitors and debt collectors and writing the loan off from its books by seeking board of directors authorization.

The research went further to identify which of the sectors of the economy the bank did have it difficult in retrieving back loans granted hence recording the highest non-performing loans. Eighty-one percent (81%) of respondent's concluded that agriculture, trading and construction were the industry with the highest non-performing loans, followed by services and manufacturing. Even though, the bank dealt with all sectors of the economy, it was the above mentioned sectors which were the dominant sectors with non-performing loans.

It was noted that the following factors accounted for delay in loan approval; customers inability to meet loan approval, rigid loan procedures, poor credit appraisal and insufficient funds. Response received from respondents indicated that lack of proper monitoring, ignorance of lending terms and conditions by customers, over financing, under financing and anticipation of windfall profits in other businesses were factors which accounted for diversion of funds by customers.

The management of the bank has also instituted the following measures to reduce the incidence of non-performing loans: effective monitoring of loans by recovery/loan monitoring officers, proper loan risk assessment before loan is granted and good loan appraisals. The rest are regular staff training, security of loans with adequate collaterals to start-up businesses owing to uncertainties surrounding such endeavours, loan pricing done accurately to avoid overburdening customers with excessive principals and interest payments and use credit reference bureau among other things.

Conclusions

From the analysis in chapter four and the summary above it can be concluded that non-performing loans have major impact on the performance of UT Bank. This is evident from the amount of impairment provision provided for by the bank in the five year period I reviewed. It can also be concluded from the findings that the following factors accounted for the occurrence of non-performing loans; weak credit monitoring, borrowers orientation/culture, risk appetite of the bank, high loan interest rate, rapid loan portfolio growth, poor risk assessment, compromised integrity of credit officers, size of the bank, poor credit assessment, high inflation and funds diversion.

The trend of non-performing loans has been on the downwards trend but averagely it is still above the prevailing industry average rate. It can be concluded that non-performing loans have unfavourable effect on the performance of UT Bank as regards interest income generation, profitability and liquidity needed to extend credits to their existing and prospective customers.

It was also concluded that the bank applied the following means of retrieving bad loans from its customers; taking legal action, selling off collaterals to off-set the loan commitment, outsourcing the loan facility to external solicitors and debt collectors and writing the loan off from their books by seeking board of director’s authorization. It was confirmed that agriculture, trading and construction were the industry with the highest non-performing loans.

Additionally, it was concluded that there is a delay in loan approval because of customer's inability to meet loan approval requirements, rigid loan procedures, poor credit appraisal and insufficient funds. It was again confirmed that lack of proper monitoring, ignorance of lending terms and conditions by customers, over financing, under financing and anticipation of windfall profits in other businesses accounts for funds diversion by clients.

Finally, management has put in place the following measures to curb the increased occurrence of non-performing loans; effective monitoring of loans, proper loan risk assessment, good loan appraisals, regular staff training, supply of adequate collaterals, avoidance of loans to start-up businesses, proper pricing of loans, use of credit reference bureau and training and orientation of customers. The bank uses ageing analysis as a technique in monitoring the health of their loan portfolio.

Recommendations

The adverse impact of non-performing loans robs the bank of its interest income generated, profit and liquid funds that should be available for further investments in loans to generate additional profit. To ensure better performance of the bank the following recommendations are made.

1. Effective Loan Monitoring

For the bank to be able to reduce the occurrence of non-performing loans drastically, it needs to ensure effective and constant loan monitoring.

This will help the bank to monitor the activities of the borrower to prevent funds diversion into other businesses other than the purpose for which the loan is granted. This monitoring will also help the bank to share and discuss any difficulties the borrower is encountering in his/her business to help address it. Constant loan monitoring will also help the bank to move swiftly to secure the interest of the bank if the borrower goes contrary to the terms of the loan. Head office should support the branches with enough logistics and to beef up the number of staff to ensure effective loan monitoring and also provide a supervisory eye for the branches.

2. Staff Training

Management of the bank is urged to organize relevant and regular training programmes for their credit staff to build upon their capacity in the execution of their work. Relevant training in risk management, credit appraisal, and financial data analysis will help to build their capacity and expertise to do better credit appraisal, risk and financial analysis to improve the quality of the bank's loans portfolio. Through effective training, staff can do better analysis of the bank's loans portfolio with a good technical analysis tool like ageing analysis as used by the bank to monitor the health of the portfolio. The bank should also ensure that staff refers to the lending and the operational manual of the bank for credit delivery.

3. Adequate and Liquid Collateral

Because of uncertainties in the business environment, even after proper risk assessment has been done through the loan appraisal, the bank should request adequate and liquid collateral to back the loan granted. These collaterals used by the borrowers to secure the loan should be legally complete and properly documented and secured in the bank's name. Ensuring that collateral used to secure loans is adequate and liquid will prevent wilful defaulters in defaulting and also makes it easier for the bank to convert the collateral into cash when customers default.

4. **Customer Orientation and Training**

Bank staff should make effort of orienting and training of their existing and prospective customers to understand the terms and conditions of the loan facility before granting the facility. Customers take loan with different mind-set and at times do not understand the terms of the facility. This situation renders it difficult in fulfilling their part of the contract. To prevent this from happening they need to be re-oriented. From time to time, the bank should also educate and run basic business management practices programme for its customers to sharpen their business management skills to grow their businesses.

5. **Use of Credit Reference Bureau**

According to Bank of Ghana (2007), this credit reporting system is to provide timely, accurate, and up-to-date information on the debt profile and repayment history of borrowers. The bank should use credit reference agencies in line with the Credit Reporting Act, 2007 (Act 726) for the purpose of determining the creditworthiness of borrowers as a means of minimizing bad loans. The credit bureau gives data on individuals, companies and institutions to ensure that credit are granted to customers who are creditworthy. The bank should ensure that all officers of the bank use this data in assessing the status of the customer before loans are approved for this disbursement.

6. **Effective monitoring of Business Cycle of Industries**

The bank should conduct extensive research into the various sectors of the economy to gather data on the peaks and low periods in the various sectors. This will help the Bank to make an informed decision regarding to when it is feasible to grant credit to customers within certain industry and when it is not. This will help the Bank to avoid certain bad loans as result of seasonality. Example, Agriculture is a seasonal industry.

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APPENDIX 1

QUESTIONNAIRE

The following questionnaire is meant for data collection for academic study. Your response to this questionnaire will be highly appreciated and treated with utmost confidentiality.

---

1. What is your sex? Please circle your answer

A. Male B. Female

2. What is your age? Please circle your answer

A. 25 years and below B. 26-35 years C. 36-45 years D. 45 years and over

3. What level of education have you completed? Please circle your answer

A. SSCE/WASSCE B. 'O'/'A' Level C. Diploma

D. First Degree E. Masters Level F. Ph. D.

G. Others please specify:..

4. What is your current position in the Bank? Please circle your answer

A. Loan Officer B. Relationship manager C. Credit analyst D. Branch Manager

E. Recovery/ monitoring Officer F. Other, please specify

____

5. How long have you work in the bank? Please circle your answer

A. Less than 1 year B. 1-5 years C. 6-10 years D. 11-15 years E. Above 15 years

6. How many years of experience do you have in bank credit processes? Circle your answer

A. Less than one year B. 1-5 years C. 6-10 years D. 11-15 years

E. Above 15 years

7. Are determinants of non-performing loans obvious? Please circle your answer

A. Agree B. Neutral C. Disagree

8. In your opinion, which of the following factors account for the incidence of non- performing loans in your organization?

A. Rapid loan growth by banks B. Business Failure C. Poor credit appraisal

D. Willful default E. Poor monitoring/follow up F. High interest rate

G. Lenient credit terms H. Size of the bank I. Diversion of funds

J. Poor Weather K. Poor risk assessment L. Wrong timing of credit delivery M. All of the above

N. Others, please specify

9. Please indicate your degree of agreement or disagreement to the statements pertaining to the occurrence of NPL.

Factors	**Strongly Agree**	**Agree**	**Neutral**	**Disagree**	**Strongly Disagree**
Poor credit assessment					
Weak credit monitoring					
Type of Collateral					
Borrowers orientation/culture					
Risk appetite of the bank					

Loan interest rate					
Rapid loan portfolio growth					
Compromised integrity of credit officers					
Size of the bank					
Poor risk assessment					

10. Which of the following factors hinder effective monitoring of loans?

A. Staffing problem B. Lack of logistics C. Poor road network

D. All the above

11. What are the causes of delayed loan approval?

A. Rigid approval procedures B. Customers inability to meet approval requirement. C. Insufficient loan able funds D. Poor credit appraisal

12. How do you price your loans/credit facility?

A. Treasury Bill + risk premium B. Policy rate + risk premium

C. Base rate + premium D. Average of the market

13. Do you have any formal training in credit appraisal? A. Yes

B. No

14. What type of security / collateral is often offered by borrowers to secure loans or overdraft?

A. Landed property B. Cash (Fixed Deposit, S/A)

C. Guarantee D. Other please, specify ……………………………………..

15. Which of the following factors account for diversion of funds?

A. Lack of proper monitoring B. Ignorance of lending terms and conditions

C. Over financing D. Under financing

E. Anticipation of windfall profits in other business areas

16. Which sector loan record the highest incidence of NPLs?
A. Agriculture B. Trading C. Services

D. Manufacturing E. Others, please specify

17. Are there any particular reasons for your answer in above? Please specify
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18. What technique do you employ to monitor the health of loan portfolio?

A. Ageing Analysis B. Portfolio at Risk (PAR)

19. How do you deal with problem loans?

A. Legal Action B. Outsourcing (External solicitor/ Debt collectors)

C. Write off D. Others please specify

20. What are the measures put in place by management to help reduce the incidence of NPLs?

(a) ____

(b)____

(c) ____

(d) ____

21. If you have further comments on the bank specific factors leading to non-performing loans in UT Bank, please use the space below

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APPENDIX 2

STATEMENT OF COMPREHENSIVE INCOME AS AT 31ST DECEMBER

	2008 (,000)	2009 (,000)	2010 (,000)	2011 (,000)	2012 (,000)
Interest Income	43,568	67,612	74,706	99,901	134,110
Interest Expense	(14,803)	(36,739)	(40,429)	(50,232)	(72,621)
Net Interest Income	28,765	30,874	34,277	49,669	61,489
Net Fees and Commissions	416	1,515	4,561	18,607	29,753
Other Operating Income	4,604	2,887	6,855	10,681	13,421
Operating Income	33,785	35,275	45,693	78,957	104,663
Operating Expenses	(14,074)	(16,997)	(25,530)	(47,413)	(64,802)
Impairment loss and Bad debt	(12,161)	(9,246)	(7,003)	(14,244)	(13,153)
Profit before taxation	7,560	9,035	12,160	17,300	26,708
Taxation	2,250	(1,988)	(2,255)	(3,380)	(5,777)
National Stabilization Levy		(199)	(605)	(855)	
Profit for the year	5,300	6,849	9,905	13,065	20,931

APPENDIX 3

STATEMENT OF FINANCIAL POSITION AS AT 31ST DECEMBER

ASSETS	2008 (,000)	2009 (,000)	2010 (,000)	2011 (,000)	2012 (,000)
Cash and Balances with BoG	213	397	39,739	62,183	92,147
Due from other Banks and Financial institutions	10,395	39,490	43,325	31,288	52,579
Loans and Advances	98,116	138,281	315,297	475,232	679,648
Other Assets	9,841	22,943	47,553	77,424	54,720
Property for Sale					
Goodwill			11,388	10,397	10,397
Taxation			1,134	938	278
Medium term investments in Other securities	61	61	35,980	31,480	68,988
Property and Equipment	4,504	6,921	18,043	18,109	21,033
Lease property	4,593	3,786	2,864	2,060	
Intangible assets	100	42	1,309	3,753	7,115
Total Assets	**127,823**	**211,921**	**516,632**	**712,864**	**986,905**

Equity	2008 (,000)	2009 (,000)	2010 (,000)	2011 (,000)	2012 (,000)
Stated Capital	4,000	4,000	30,000	36,000	85,275
Retained earnings	9,876	13,478	11,275	8,539	16,206
Statutory Reserve Fund	2,383	3,511	8,464	14,996	25,462
Credit risk reserves	619	1,290	1,348	1,694	1,492
Total Shareholders Fund	**16,878**	**22,279**	**51,086**	**61,229**	**128,435**

Current Liabilities	2008 (,000)	2009 (,000)	2010 (,000)	2011 (,000)	2012 (,000)
Customer deposit and current account	95,747	165,275	377,286	545,808	797,782
Interest Payable and Other Liabilities	7,520	23,226	56,096	48,416	30,776
Due to other Banks and Financial Institutions	6,253	22,213	44,970	2,000	
Defined benefit obligation		289	289		

Deferred Income	980	1,015	830	637	2,665
Tax	40	59			
Total current liabilities	**110,540**	**189,575**	**456,714**	**640,120**	**833,223**
Long term liabilities					
Deferred Tax	405	67	126	176	607
Term Debt			8,706	24,640	11,339
Total Liabilities	**110,945**	**189,642**	**465,546**	**651,635**	**858,470**

Total Liabilities and Shareholders	**2008 (,000)**	**2009 (,000)**	**2010 (,000)**	**2011 (,000)**	**2012 (,000)**
Equity	**127,823**	**211,921**	**516,632**	**712,864**	**986,905**

APPENDIX 4

1. Sex					
		Frequency	**Percent**	**Valid Percent**	**Cumulative Percent**
Valid	Male	16	61.5	61.5	61.5
	Female	10	38.5	38.5	100
	Total	26	100	100	

2. Age					
		Frequency	**Percent**	**Valid Percent**	**Cumulative Percent**
Valid	25 years and Below	6	23.1	23.1	23.1
	26-35 years	11	42.3	42.3	65.4
	36-45 years	5	19.2	19.20	80.8
	45 years and Above	4	15.40	15.40	100
	Total	26	100	100	

3. Level of education					
		Frequency	**Percent**	**Valid Percent**	**Cumulative Percent**
Valid	SSCE/ WASSCE	1	3.8	3.8	3.8
	First Degree	15	57.7	57.7	61.5
	Masters	10	38.5	38.5	100.0
	Total	26	100.0	100.0	

4. Current position in the Bank			
Count			
		Aging Analysis	**Total**
Current position in the Bank	Loan Officer	8	8
	Relationship manager	4	4
	Credit manager	6	6
	Branch manager	4	4
	Recovery/ monitoring Officer	4	4
Total		26	26

5. Length of Service of Respondents at the bank					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 1 year	1	3.8	3.8	3.8
	1-5 years	6	23.1	23.1	26.9
	6-10 years	10	38.5	38.5	65.4
	11-15 years	6	23.1	23.1	88.5
	Above 15 years	3	11.5	11.5	100.0
	Total	26	100.0	100.0	

6. Number of years of experience in bank credit processes					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-5 years	10	38.5	38.5	38.5
	6-10 years	12	46.2	46.2	84.7
	11-15 years	3	11.5	11.5	96.2
	Above 15 years	1	3.8	3.8	100.0
	Total	26	100.0	100.0	

7. Determinant of non-performing loans obvious					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	22	84.6	84.6	84.6
	Neutral	1	3.8	3.8	88.5
	Disagree	3	11.5	11.5	100.0
	Total	26	100.0	100.0	

9a. Poor Credit Assessment					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	22	84.62	84.62	84.62
	Agree	4	15.38	15.38	100.0
	Total	26	100.0		

9b. Weak credit monitoring					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	16	61.5	61.5	61.5
	Agree	10	38.5	38.5	100.0
	Total	26	100.0	100.0	

9c. Type of Collateral					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	4	15.4	15.4	15.4
	Agree	21	80.8	80.8	96.2
	Disagree	1	3.8	3.8	100.0
	Total	26	100.0	100.0	

9d. Borrowers orientation/ culture					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	2	7.7	7.7	7.7
	Agree	23	88.5	88.5	96.2
	Neutral	1	3.8	3.8	100.0
	Total	26	100.0	100.0	

9e. Risk appetite of the bank					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	17	65.4	65.4	65.4
	Agree	9	34.6	34.6	100.0
	Total	26	100.0	100.0	

9f. Loan interest rate					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	9	34.6	34.6	34.6
	Agree	17	65.4	65.4	100.0
	Total	26	100.0	100.0	

9g. Rapid loan portfolio growth					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	16	61.5	61.5	61.5
	Agree	10	38.5	38.5	100.0
	Total	26	100.0	100.0	

9h. Compromised integrity of credit officers					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	16	61.5	61.5	61.5
	Agree	8	30.8	30.8	92.3
	Neutral	1	3.8	3.8	96.2
	Disagree	1	3.8	3.8	100.0
	Total	26	100.0	100.0	

9i. Size of the bank					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	2	7.7	7.7	7.7
	Agree	22	84.6	84.6	92.3
	Neutral	1	3.8	3.8	96.2
	Disagree	1	3.8	3.8	100.0
	Total	26	100.0	100.0	

9j. Poor risk assessment					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	21	80.8	80.8	80.8
	Agree	4	15.4	15.4	96.2
	Disagree	1	3.8	3.8	100.0
	Total	26	100.0	100.0	

10. Factors that hinders effective monitoring of loans					
		Frequency	**Percent**	**Valid Percent**	**Cumulative Percent**
Valid	Staffing problems	3	11.5	11.5	11.5
	Poor road network	2	7.7	7.7	19.2
	All of the above	18	69.2	69.2	88.5
	12	2	7.7	7.7	96.2
	13	1	3.8	3.8	100.0
	Total	26	100.0	100.0	

11. Causes of delayed loan approval					
		Frequency	**Percent**	**Valid Percent**	**Cumulative Percent**
Valid	Rigid approval procedures	7	26.9	26.9	26.9
	Customers inability to meet approval requirement	13	50.0	50.0	76.9
	Insufficient loan able funds	1	3.8	3.8	80.8
	Poor credit appraisal	4	15.4	15.4	96.2
	124	1	3.8	3.8	100.0

12. Prices your loans/ credit facility					
		Frequency	**Percent**	**Valid Percent**	**Cumulative Percent**
Valid	Treasury Bill + risk premium	0	0	0	0
	Policy rate+ risk premium	0	0	0	0
	Base rate + premium	26	100	100	100
	Average of the market	0	0	0	0
	Total	26	100.0	100.0	

13. Formal training in credit appraisal					
		Frequency	**Percent**	**Valid Percent**	**Cumulative Percent**
Valid	Yes	24	92.3	92.3	92.3
	No	1	3.8	3.8	96.2
	3	1	3.8	3.8	100.0
	Total	26	100.0	100.0	

14. Type of collateral often offered by borrowers					
		Frequency	**Percent**	**Valid Percent**	**Cumulative Percent**
Valid	Landed property	12	46.2	46.2	46.2
	Cash (Fixed Deposit, S/A)	4	15.4	15.4	61.5
	Guarantee	2	7.7	7.7	69.2
	Motor vehicles	6	23.1	23.1	92.3
	24	1	3.8	3.8	96.2
	124	1	3.8	3.8	100.0
	Total	26	100.0	100.0	

15. Factors account for diversion of funds					
		Frequency	**Percent**	**Valid Percent**	**Cumulative Percent**
Valid	Lack of proper monitoring	11	42.3	42.3	42.3
	Ignorance of lending terms and conditions	2	7.7	7.7	50.0
	Over financing	2	7.7	7.7	57.7
	Under financing	3	11.5	11.5	69.2
	Anticipation of windfall profits in other business areas	8	30.8	30.8	100.0
	Total	26	100.0	100.0	

16. Sector with the highest NPLs					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agriculture	7	26.9	26.9	26.9
	Trading	7	26.9	26.9	53.8
	Services	4	15.4	15.4	69.2
	Manufacturing	1	3.8	3.8	73.1
	Construction	7	26.9	26.9	100.0
	Total	26	100.0	100.0	

17. Reasons for answers in Q16					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Overtrading	3	11.5	11.5	11.5
	Diversion of funds	1	3.8	3.8	15.4
	Mismanagement of funds	6	23.1	23.1	38.5
	Non-payment of Government for contracts executed	7	26.9	26.9	65.4
	Dip in sales	1	3.8	3.8	69.2
	Seasonality	2	7.7	7.7	76.9
	Lack of finance management skills	1	3.8	3.8	80.8
	12	1	3.8	3.8	84.6
	36	1	3.8	3.8	88.5
	78	3	11.5	11.5	100.0
	Total	26	100.0	100.0	

18. Techniques to monitor the health of loan portofolios					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Aging Analysis	26	100.0	100.0	100.0

19. How do you deal with problem loans					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Legal action	17	65.4	65.4	65.4
	Outsourcing (External solicitor/ Debt collectors)	3	11.5	11.5	76.9
	Write off	2	7.7	7.7	84.6
	Sale of collateral	4	15.4	15.4	100.0
	Total	26	100.0	100.0	

20. Measures by management to help reduce the incidence of NPLs					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Proper risk assessment	1	3.8	3.8	3.8
	12	1	3.8	3.8	7.7
	935	1	3.8	3.8	11.5
	1245	2	7.7	7.7	19.2
	1268	1	3.8	3.8	23.1
	1345	7	26.9	26.9	50.0
	1354	1	3.8	3.8	53.8
	1435	1	3.8	3.8	57.7
	1543	1	3.8	3.8	61.5
	1847	1	3.8	3.8	65.4
	2451	1	3.8	3.8	69.2
	2458	1	3.8	3.8	73.1
	3157	1	3.8	3.8	76.9
	3415	1	3.8	3.8	80.8
	3467	1	3.8	3.8	84.6
	3542	1	3.8	3.8	88.5
	3546	1	3.8	3.8	92.3
	4132	1	3.8	3.8	96.2
	4531	1	3.8	3.8	100.0
	Total	26	100.0	100.0	

21. Specific factors leading to NPLs in UT Bank					
		Frequency	**Percent**	**Valid Percent**	**Cumulative Percent**
Valid	Compromised integrity of bank staff	1	3.8	4.0	4.0
	Eagerness to achieve targets for bonus	1	3.8	4.0	8.0
	Inadequate risk assessment	2	7.7	8.0	16.0
	High interest rate	5	19.2	20.0	36.0
	Desire to increase loan portofolio size	4	15.4	16.0	52.0
	Poor loan monitoring	6	23.1	24.0	76.0
	Diversion of funds	1	3.8	4.0	80.0
	Inexperience	1	3.8	4.0	84.0
	12	1	3.8	4.0	88.0
	35	1	3.8	4.0	92.0
	36	1	3.8	4.0	96.0
	63	1	3.8	4.0	100.0
	Total	25	96.2	100.0	
Missing	System	1	3.8		
Total		26	100.0		

Experience * Sector with the highest NPLs Crosstabulation							
Count							
		Sector with the highest NPLs					Total
		Agriculture	Trading	Services	Manufacturing	Construction	
Experience	Less than 1 years	1	0	0	0	0	1
	1 - 5 years	3	4	1	0	1	9
	6 - 10 years	2	1	2	0	2	7
	11 - 15 years	1	1	1	1	2	6
	Above 15 years	0	1	0	0	2	3
Total		7	7	4	1	7	26

Chi-Square Tests			
	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	12.978[a]	16	.674
Likelihood Ratio	13.262	16	.654
Linear-by-Linear Association	5.278	1	.022
N of Valid Cases	26		

a. 25 cells (100.0%) have expected count less than 5. The minimum expected count is .04.

Sector with the highest NPLs * Reasons for answers in Q16 Crosstabulation

Count

		Reasons for answers in Q16										Total
		Overtrading	Diversion of funds	Mismanagement of funds	Non-payment of Government for	Dip in sales	seasonality	Lack of finance management	12	36	78	
Sector with the highest	Agriculture	1	0	1	0	0	2	0	0	0	3	7
	Trading	2	0	2	0	0	0	1	1	1	0	7
	Services	0	0	3	1	0	0	0	0	0	0	4
	Manufacturing	0	0	0	0	1	0	0	0	0	0	1
	Construction	0	1	0	6	0	0	0	0	0	0	7
Total		3	1	6	7	1	2	1	1	1	3	26

Chi-Square Tests			
	Value	**df**	**Asymp. Sig. (2-sided)**
Pearson Chi-Square	72.495[a]	36	.000
Likelihood Ratio	54.905	36	.023
Linear-by-Linear Association	4.834	1	.028
N of Valid Cases	26		
a. 50 cells (100.0%) have expected count less than 5. The minimum expected count is .04.			

Case Processing Summary						
	Cases					
	Valid		**Missing**		**Total**	
	N	Percent	N	Percent	N	Percent
Current position in the Bank * Techniques to monitor the health of loan portofolios	26	100.0%	0	.0%	26	100.0%