THE DETERMINANTS OF NON-PERFORMING LOANS
AMONGST TIER 4 BANKS IN GHANA. A CASE STUDY OF
FBNBANK GHANA LIMITED.

A RESEARCH REPORT
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DECLARATION

I hereby declare that this submission is my own work except for references which I have duly acknowledged towards the MBA degree and that to the best of my knowledge it contains neither materials previously published by another person nor materials which have been accepted for the award of any other degree.

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DEDICATION

This project work is dedicated to my loving, caring and selfless husband, Mr. Leron Ekow-Nartey who did more than words can express to assist me in completing this research. The many sleepless nights you endured to cater for our baby, Corrine Adobea Asantewa Ekow-Nartey whilst I put thoughts together to complete this study is very much appreciated.

God bless you abundantly for encouraging me to continue my education and for supporting me to complete it successfully.
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Gratitude goes to the Almighty God for making this a reality, from the first sentence I typed to the last, I would not have made it without His infinite mercies and grace. I am eternally grateful.

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ABSTRACT

Non-performing loans refers to credit facilities which have gone bad and pose profitability problems to banks. Banks in their daily operations, especially in their credit functions seek to identify risks pertaining to credits under consideration and/or management in order to prevent them from crystallizing into bad debts in their books.

In this study, FBNBank Ghana Limited is used as a case study to identify the unique bank-specific factors and customer-specific factors that are contributing to the rising non-performing loans in banks in Ghana.

The study employed both qualitative and quantitative descriptive methodology. The findings of the study proved that poor credit monitoring, poor credit assessment, lenient credit terms and incompetence of staff are largely to be blamed for the non-performing loans at FBNBank Ghana Limited with high interest rates being a lesser contributory factor to high non-performing loans at the bank.

Three customer segments (retail, commercial and corporate) were considered. Findings from the study indicate that the bank’s borrowing customers have multiple banking relationship and multiple loan facilities from their bankers with a more than average of the respondents being unable to pay their multiple loans. The study found that, delays in project execution, wilful default of some borrowers, financial constraints and fund diversion were major causes of the poor performance of loans as related to customer-centric factors.

The researcher made recommendations on trainings for staff, quick processing of credit facilities to meet the timelines and business exigencies of the bank’s customers, creation of a credit monitoring mindset in both risk management and business units to improve the performance of loans in the bank.
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CHAPTER ONE
INTRODUCTION

1.1 Research Background
Banks play a crucial role in the development of the economy of a country, they do this through their intermediation role which involves taking from the surplus units (household savers) and lending to the deficit units (institutional spenders) in the form of loans and advances. Various sectors of the economy (Industry, mining, agriculture, manufacturing, personal and government) benefit from this role played by Banks. However, because of the implication of non-performing assets, banks are cautious in granting loans. (Tiwari & Sontakke, 2013).

The detrimental effect of nonperforming loans on the economy of a country makes it imperative for “people in power” to put in place mechanisms and regulations to manage it. To this end, The Ministry of Finance of Cyprus in 2018 outlined a three-pillar strategy aimed at reducing the levels of non-performing loans by 2.8 billion Euros representing a 40% reduction as compared to that of 2017 with an estimated 0.3 to 0.4% annual impact on GDP. The Government aimed at reforming their legal framework governing NPL management, implementation of a scheme which will use public funds to repay mortgage loans secured by primary residences and the privatisation of the state-owned Cyprus Cooperative Bank which had NPLs close to 60%. (Cyprus Property News, 2018)

According to (Fejos, 2018), high NPLs amassed on the books of banks in the European community as a result of the financial crisis, stiffening their capital and compromising their solvency. Thus, the EU Commission, on March 14, 2018 published its proposals for handling the NPL problem which entailed the development of an EU-wide secondary markets for NPLs through the establishment of a legal framework for the sale of the bad loans and to improve and increase debt recovery procedures through accelerated extrajudicial collateral enforcement procedure (AECE).
This situation is not far from happenings in the Ghanaian banking sector which experienced NPLs as high as 21.3% in August 2018 occasioning the write-off of about GHS1.20 Billion worth of bad loans (Segbefia, 2018). In September 2017, the Bank of Ghana announced the increase in minimum capital requirement for universal banks which was intended to restore confidence and heal the aching banking sector which was saddled with poor asset quality which could easily result in solvency of those banks and the resultant effects on the economy of the country (Bank of Ghana, 2018).

As part of the Central Bank’s functions and responsibilities, the Regulator is expected to supervise, regulate and direct the banking and credit systems to ensure the smooth operation of a sound banking system (Bank of Ghana, 2002) and to improve this function, Bank of Ghana has designed its supervisory functions to be consistent with the Basel Core Principles to ensure effective and efficient supervision of the banks, (Bank of Ghana, 2018).

1.1.1 Overview of the Banking Industry in Ghana

The Ghanaian banking industry is supervised and regulated by the Bank of Ghana which rides on various Acts to enforce its power on the participants in the Banking industry. The regulator categorizes Banks into two Classes – Class 1 Banks and Class 2 Banks. The two classes are differentiated mainly by their permissible activities, licencing requirements, ownership structure and capitalisation. Similarities also lie in some permissible activities like lending to the general public. (Bank of Ghana, 2016).

Class 1 Banks are Universal Banks. According to Bank of Ghana, by year end 2018, the Universal banking space which previously comprised of thirty-four (34) Universal Banks, both domestic and foreign owned, reduced to twenty-three (23) licensed Universal Banks by virtue of the recapitalisation exercise undertaken by Bank of Ghana where all the Banks holding the Universal Banking Licence or class 1 licence were required to maintain a minimum paid-up capital of four
hundred million Ghana Cedis (GHS400,000,000). Sixteen (16) banks (Zenith Bank, Ecobank, GCB Bank, FBNBank, United Bank for Africa (UBA), Stanbic Bank, Republic Bank, Fidelity Bank, SG Bank, GT Bank, CAL Bank, Bank of Africa, Access Bank, Barclays Bank, Standard Chartered Bank and Consolidated Bank) met the capital requirement through capitalisation of income surplus and injection of fresh capital, three (3) mergers (First National Bank & GHL Bank; Energy Bank & First Atlantic Bank; and Sahel-Sahara Bank and OmniBank)) were also approved and five (5) banks (ADB Bank, National Investment Bank, Omni/BSIC, Universal Merchant Bank (UMB) and Prudential Bank) benefited from equity capital injection from private pension funds in Ghana through a special purpose holding company called Ghana Amalgamated Trust Limited (GAT). One Bank’s (GN Bank) licence was revoked and another (Bank of Baroda) voluntarily wound up, with BOG approving an Assumption Agreement between Bank of Baroda and Stanbic Bank. Two banks (Premium and Heritage Banks) lost their licence entirely and were added to the Consolidated Bank which was formed earlier in the year comprising of Unibank, The Royal Bank, Beige Bank, Sovereign Bank and Construction Bank. (Bank of Ghana, 2019a)

Class II Banks are subsidiaries of international banks with representative offices in Ghana. According to (Bank of Ghana, 2018) there are four (4) Class II Banks in Ghana namely; Bank of Beirut (Representative Office), Exim Bank of Korea (Representative Office), Ghana International Bank plc and Citibank N.A Ghana Rep. Office.

1.1.2 Tier 4 Banks in Ghana

The concept of banks being regarded as top tier or otherwise may have risen from the annual banking survey jointly conducted by Pricewaterhouse Coopers (PwC) and the Ghana Association of Bankers (GAB) which groups the banks in the Ghanaian banking industry in four (4) quartiles according to the book value of the bank’s operating assets at the end of the previous year; cash assets, liquid assets, net loans and advances and other operating assets (Pricewaterhouse Coopers,
2011). In their 2018 Ghana Banking Survey titled “Having secured the new capital; what next for banks?”, the various components of the operating assets were expatiated into: cash assets with Bank of Ghana, liquid assets inclusive of Treasury Bills, bonds, investment securities, equity securities and loans and advances. Investment in plant and machinery are excluded from a bank’s operating assets because it only indirectly impacts their income (Pricewaterhouse Coopers, 2018a). According to (Pricewaterhouse Coopers, 2018b), the following Banks are classified as Tier 4 Banks: Sahel Sahara Bank Ghana Limited, OmniBank Ghana Limited, FBNBank Ghana Limited, Bank of Baroda, Energy Commercial Bank, First National Bank Limited and The Construction Bank. According to (Bank of Ghana, 2019b), Omni Bank & Sahel Sahara, First National Bank & GHL Bank and Energy Commercial Bank and First Atlantic Bank have been given the approval to merge, Bank of Baroda has opted out of the Ghanaian Banking industry selling its assets off to Stanbic Bank and The Construction Bank has been added to The Consolidated Bank. Only FBNBank Ghana Limited was able to meet the GHS400 Million capital requirement of Bank of Ghana.

1.1.3 FBNBank Ghana Limited
FBNBank Ghana Limited is one of seven (7) subsidiaries of First Bank of Nigeria Limited, the premier banking brand of Sub-Saharan Africa. FBNBank Ghana Limited started operations in Ghana upon the acquisition of International Commercial Bank (ICB) which commenced operations in Ghana in November 1996. Following the acquisition of 100% equity stake in the West Africa Operations of ICB by First Bank of Nigeria in 2013 and upon the approval by the Bank of Ghana, the name of the Bank was changed to FBNBank Ghana Limited.

The bank’s vision is to be a clear leader and Ghana’s Bank of first choice and has a mission to maximize shareholder value through sustainable growth, superior customer service and innovation. The bank currently operates 17 networked branches and two agencies across Ghana with 12 of these branches located in the Greater Accra Region, (FBNBank Ghana Limited, 2013).
1.2 Research Problem
Non-performing loans arise because of non-payment of loan obligations by customers of the Bank.

The role played by loans in an economy towards its development is vital and its non-payment results in high levels of huge losses on banks and nations as such it cannot be overlooked. (Sharon, 2007)

Businesses in general are created with the aim of making profits (Rawlin et al, 2012) and Loans remain the main source of revenue for banks (Kipyego & Wandera, 2013) as such its management remains core to the operations of banks. According to (Esteban, 2012), deteriorating asset quality is a common cause of failure in banks and remains a serious problem for banks unless mechanisms are implemented to ensure timely recognition of the problem.

Non-performing loans is defined as all material exposures which are more than 90 days past due or where evidence is available to suggest that full repayment of interest and principal without realisation of collateral is unlikely regardless of the number of days past due. (Bank for International Settlements, 2016)

Many studies have been conducted to examine the causes of non-performing loans in developing countries in Europe and the Americas and quite recently in the African continent on the various banking sectors. Very few researchers have attempted conducting studies on specific banks. This research is novel as it attempts to identify the causes of non-performing loans in a foreign-owned bank which started operations in a country after an acquisition of another (foreign-owned bank).

The inconsistencies noticed in the various studies on the subject matter drives the need to bring out the unique causes of non-performing loans in the Ghanaian banking sector and specifically in FBNBank Ghana Limited.

(Das, 2017) identifies two (2) main causes of non-performing loans in the United Kingdom: the macro environment factors (Gross Domestic Product (GDP), Exchange rate, Inflation and Interest
Rate) and the idiosyncratic factors of the bank (objective of profit maximization, low cost efficiencies, high cost efficiencies, lack of credit skills by managers).

Lending rate, inflation and real GDP per capita have also been identified as determinants of non-performing loans in the United States banking sector (Saba, Kouser, & Azeem, 2012)

A study by (Tsumake, 2016) identified Banking Industry level variables (credit growth, industry size and profitability) and macro-economic variables (real gross domestic product growth, inflation, real interest rates and unemployment rate) as determinants of NPLs in Botswana.

(Amuakwa-Mensah & Boakye-Adjei, 2015) also identify both bank-specific variables (previous year’s NPL, bank size, net interest margin and current year’s loan growth) and macro-economic variables (previous year’s inflation, real gross domestic product per capita growth and real effective exchange rate) as the main determinants of NPLS in the Ghanaian Banking sector.

(Adusei, 2018) identified money supply, financial development and macro-economic variables to be main causes of non-performing loans except for real income. (Amuakwa-Mensah et al, 2017) also researched on the determinants on NPLS in Ghana with specific focus on the role of the financial crisis between 2007 to 2009 and identified that NPLs are determined by bank-specific, industry and macro-economic variables.

In terms of individual bank studies, according to (Asfaw, Bogale, & Teame, 2016), bank specific factors (poor credit assessment; poor credit monitoring; credit size which comprised of aggressive lending practices, compromised integrity in approval of credits, rapid growth in credit and the bank’s high risk appetite; high interest rate, poorly negotiated and lenient credit terms and elongated loan approval process) and customer specific factors (credit culture of borrowers; borrower’s lack of knowledge in their business; wilful default; diversion of loan; problems associated with project management) are the causes of non-performing assets at Development Bank of Ethiopia Central Region.
Development Bank of Ethiopia has been in existence since 1909, specializing in development finance to priority projects like commercial agriculture projects, extractive and manufacturing industries, agro-processing industries and lease financing services for small and medium enterprises (Berhane, 2017).

A study by (Mchopa, 2013) also identified operations of the bank (adverse customer selection problem, poor loan policy, inadequate loan monitoring and recovery, long queue in banking hall, poor customer services and corruption of banks officers) and operations of the customer (moral hazards, inadequate business, financial, marketing, entrepreneurship and management skills, fund diversion and multiple loans) as determinants of non-performing loans at NMB Bank Plc.

NMB Bank Plc is located in Tanzania with over 225 branches, about 6000 Agents and over 800 ATMs serving over 2.8 million customers in Tanzania and can boast of a balance sheet size in 5.3 trillion of Tanzania shillings and consistently adjudged the most profitable bank in Tanzania for the past eleven (11) years and also listed on the Dar es Salaam Stock Exchange (DSE). (NMB Bank, 2018)

In view of the above findings and research conducted on quite larger banks which could easily pass for Tier 1 banks in Ghana, this study aims at identifying the determinants of NPLs in a Tier 4 Bank in Ghana: FBNBank Ghana Limited with expectation of discovering other factors which are peculiar to Banks with similar characteristics like FBNBank Ghana Limited. FBNBank Ghana Limited (a subsidiary of First Bank of Nigeria Limited) holds a Class 1 Banking licence to operate as a Bank in the country.

Having entered the Ghanaian banking sector in 2013, taking over 100% equity stake in the West Africa Operations of International Commercial Bank (ICB), FBNBank Ghana Limited joined the other four (4) Nigerian owned Banks operating in Ghana, being the only bank in Ghana operating after an acquisition of another bank.

Banks have recapitalized and, in the position, to grant big volumes of loans to borrowing customers. Provisions on Non-performing loans will always remain an expense which downgrades a bank’s
performance, thus, causes of non-performing loans must be identified to protect the revenues of banks whilst they engage in various forms of lending.

1.3 Research Objectives
1.3.1 Objective

To investigate the determinants of non-performing assets at FBNBank Ghana Limited.

1.4 Research Questions
1.4.1 What bank-specific factors are accountable for the high non-performing assets at FBNBank Ghana Limited?

1.4.2 What customer-specific factors are responsible for the growing non-performing assets at FBNBank Ghana Limited?

1.4.3 What curative practices can be employed to reduce the level of non-performing assets at FBNBank Ghana Limited?

1.5 Significance of the Research
This study is relevant to four (4) groups who stand to benefit considerably independently and altogether.

1.5.1 FBNBank Ghana Limited
This study aimed at identifying the main factors influencing high non-performing assets at FBNBank Ghana Limited to help in the Bank’s drive to reduce the state of poor asset quality which has plagued its performance since it took over from erstwhile International Commercial Bank (ICB) in 2013. The study also assesses some of the control mechanisms in place at the Bank aimed at dealing with non-
performing assets and evaluates their effectiveness to enable FBNBank take cognizance of ineffective procedures/mechanisms. The study also makes recommendations to Management of the Bank to help improve the existing systems to reduce the level of non-performing assets.

1.5.2 Employees of FBNBank Ghana Limited

This research is highly relevant to employees of FBNBank Ghana Limited who are engaged in the lending process of the Bank. Employees in the business facing units (Relationship Managers, Business Managers, Heads of Corporate, Commercial and Retail Banking) and some employees in the Risk Management Directorate of the Bank (Credit Analysts, Credit Monitoring Officers, Credit Availment Officers, Credit Portfolio Officers, Remedial & Classified Asset Management Officers, Heads of Credit Risk Management, Credit Analysis and Processing and Remedial & Classified Asset Management).

Non-performing loans ratio forms part of key performance indicators (KPIs) for these employees and with the rising non-performing loans in the Bank, they are often saddled with lower scores which affects their yearly performance and impedes advancement in the form of promotion of these staff. By appreciating this research, employees could identify the various roles they play in increasing the non-performing loans of the Bank and if recommendations are adopted, aid them to be in line with the drive to cure the poor asset quality of the bank and to preserve their employment.

1.5.3 Other Banks, the Regulator and the Government

Banks do not operate in silos; thus, their performance is affected and affects internal and external players. Most Banks in Ghana are in business with similar category of customers, thus the crystallisation of bad credit behaviour in one bank could easily be evident in another bank where the customer has another banking relationship. This research could be beneficial to other Banks who...
wish to identify the causes of poor asset quality in their books and may serve as a reference point to aid in their quest to minimize their non-performing loans.

The Regulator, Bank of Ghana and the Government stands to benefit from this research as it contains remedial actions for the canker which has the potential of creating insolvent banks and worsening the confidence in the banking sector and to a large extent, the economy. By appreciating the findings of the research, the regulator can implement effective policies with regards to lending to help reduce the levels of non-performing loans in the country. The Government can also enjoy stability in the economy to enable the implementation of its various national development goals.

1.5.4 Researchers and Academicians
This study is vital for future research and contributes to empirical literature for further studies on the topic. By reading this research, Academicians and Researchers have a base upon which they can build their study on in order to contribute to the body of knowledge on non-performing loans. This research is meant to give inspiration to other Researchers to find out more information to advance the topic and to verify the findings of the research.

1.6 Research Limitations
Constraints faced in conducting this research bothered around willingness of the respondents for the questionnaire who comprised of both banking staff and borrowers of the bank. Borrowers sampled for this study initially resisted and declined to respond until their respective Relationship Managers were looped in to help administer the questionnaire.

Time was a major constraint as the researcher is in full time employment, a new mother to a 4-month old baby at the time of commencing the research and a weekend student who had to combine these stressful tasks together with conducting a study as well as putting information together to complete the research.
1.7 Organization of the study
The study was organized into five chapters commencing with the Introduction in Chapter One which covers information on the research background which talks about Non-performing loans, the Ghanaian banking industry, the various Tiers in the banking industry in Ghana and FBNBank Ghana Limited. The introduction also clearly states the research problem and research purpose, followed by the Research Objectives and Research Questions and the Significance of the Research as being helpful to four (4) different groups of people.

The Literature Review is outlined in Chapter two which entails an overview of non-performing loans, both theoretical and empirical theories are discussed. A conceptual framework for this study is also revealed in this chapter.

Chapter three considers the Research Methodology which is clearly defined and highlights the population, sample size, method and the data analysis approach adopted for the study.

Data presentation and analysis is conducted in Chapter four with the use of descriptive statistics, tables and graphs.

In Chapter five, Summary, Conclusion and Recommendation is made following the findings of the study. Areas for further study is also recommended to other researchers to enable the improvement in the body of knowledge on the topic.
CHAPTER TWO

LITERATURE REVIEW

2.1 The Role of Financial Institutions

A healthy economy depends heavily on efficient transfer of funds from savers to individuals, businesses, and governments who need capital. Most transfers occur through specialized financial institutions, which serve as intermediaries between providers/suppliers and users of funds. The financial system has varied and significant roles to play. Perhaps the most central aspect of the financial system is to transfer funds from surplus to deficit economic units in the most efficient way possible (Pilbeam, 2005a). People with the funds but without the business skill needed for saving the funds send them to banks or financial institutions instead of keeping them at home under their pillows and in dug holes for safe keeping. This will prevent their resources from going sterile as it will generate interest when deposited with the banks and/or financial institutions. On the other hand, those who have developed entrepreneurial skill over time but face a problem of lack of funding resort to the banks for financial assistance through credit facilities which have been designed to meet specific needs of customers. Due to asymmetric information which is more prevalent in developing countries, there is a difficulty for the surplus and deficit units to meet each other, thus, there is a need for an intermediary institution, in this case a Bank/financial institution to bridge this gap (Pilbeam, 2005b). Consequently, the presence of a Universal bank like FBNBank Ghana Limited, playing in the Ghanaian economy is indisputably important.
2.2 Theoretical Literature Review

2.2.1 The theory of Information Asymmetric as a cause of non-performing loans

According to the theory of asymmetric information, it may be rather challenging to separate good from bad borrowers (Auronen, 2003 cited in (Mchopa 2013a)), and the consequent outcome to this may be adverse selection and the moral hazards problem. The theory of asymmetric information clarifies that in the market, the party that holds more information on a specific item to be transacted (the borrower) can negotiate optimum terms for the transaction than the other party (the lender) (Auronen, 2003 in (Mchopa 2013b). The party that knows a lesser amount of information about the same item to be transacted is thus in a position of making either decisions rightly or wrongly regarding the transaction. According to (Bofondi and Gobbi, 2003), adverse selection and moral hazard have led to significant accretion of non-performing loans in banks.

2.2.2 Framework for Monitoring the Development of Non-performing loans

Many scholarly articles make use of non-performing loans as an independent variable to explain other banking outcomes such as bank performance and failures as well as a major contributory factor of crises in banking circles. Nevertheless, some other studies investigate non-performing loans as a dependent variable. Interest rates, inflation and GDP growth are also commonly considered macro-economic factors which have been identified as determining non-performing loans. The size of the bank and its credit or lending policy have also been identified as micro-economic factors of determining non-performing loans. These variables (macro and micro economic factors) are not in any way exhaustive but provide a valuable framework for monitoring the development of non-performing loans in banks (Boyd and Gerter, 2005).

In earlier studies, researchers examined the fragility of the Uruguayan Banking system over a period of three (3) years, from 1993 to 1996. Researchers argued that non-performing loans were affected
by both bank specific factors and macro-economic factors. To separate the impact of bank specific and macro-economic factors, the authors/researchers employed survival analysis. They made use of a dynamic model and a panel dataset which covered a twelve-year (12) period: 1985-1997. In researching the determinants of non-performing loans at Spanish Commercial and Saving Banks, (Salas and Saurina, 2002a) revealed that real growth in GDP, bank size, market power, rapid credit expansion and capital ratio are the main causes of non-performing loans. Additionally, (Jimenez and Saurina, 2005a) also examined non-performing loans in the Spanish banking sector from 1984 to 2003, a 19-year period; they offer evidence that non-performing loans are determined by GDP growth, high real interest rates and lenient credit terms.

2.2.3 Relationship of Non-performing loans and Macro Economic conditions

Meanwhile, (Rajan and Dhal 2003a) apply panel regression analysis to conclude that financial factors such as maturity, cost and terms of credit, banks size, and credit orientation and favourable macro-economic conditions impact significantly on the non-performing loans of commercial banks in India. In an IMF working paper, (Babihuga, 2007), explores the relationship between numerous macro-economic variables and indicators of financial soundness (asset quality, capital adequacy and profitability) using aggregate data from various countries. Cross country heterogeneity was explored by differences in the macro-economic factors like interest rates, inflation and others. Consideration was not given to the impact of industry specific variables on non-performing loans.

In another study conducted between 1993 to 2005, (Berge and Boye, 2007) report that non-performing loans are extremely sensitive to unemployment and the real interest rates in the Nordic banking system. In examining theoretical literature of life-cycle consumption model, the probability of default was introduced explicitly by (Lawrence, 1995). He concluded that due to increased risk of facing unemployment, low income borrowers have higher rates of default and this results in their inability to settle financial obligation. (Rinaldi and Sanchis-Arellano, 2006a) in their study on
Household debt sustainability with a focus on what explains non-performing loans originating from households, they add that, customers of banks who are identified as high risk, are charged higher interest rates which also leads to inability of settlement of obligations. Lawrence’s model was also extended by (Rinaldi and Sanchis-Arellano, 2006b) and assumed borrowing was made by agents for the purposes of investment in real assets or financial assets. They argued that the probability of default is dependent on the rate of unemployment and current income, and this is linked to the uncertainty surrounding future income and lending rates.

In an attempt to investigate on macro-economic conditions as a determinant of non-performing loans, (Nkusu, 2011) concludes upon the use of panel regressions model that the repayment capacity of borrowers deteriorate with the increase in interest rates which further results in the increase in non-performing loans.

### 2.2.4 Relationship between Non-performing loans and Economic performance

It has been argued by (Carey, 1998) that “the state of the economy is the single most important systematic factor influencing diversified debt portfolio loss rates”. Using a large panel of Italian banks over a 12-year period (1985–2002), (Castro, 2013) finds that non-performing loans is affected by the business cycle. Also, empirical evidence is provided by (Louzis et al, 2011) for the impact of industrial production on the number of non-performing loans in the Turkish financial system over the period between 2001–2007.

It has been concluded by (Salas and Saurina, 2002b) that GDP growth has a significant negative effect on non-performing loans, and they infer that the ability of borrowers to perform well under loan arrangements i.e. service loan facilities is dependent on macro-economic developments.
Significant empirical evidence exists to suggest that the variation in non-performing loans is explained to a reasonable extent by local economic conditions. (Pilbeam, 2015c) conducted research in the Caribbean and concluded that with the exception of inflation rate and bank size, all other variables of economic conditions have a significant relationship with non-performing loans.

2.3 Empirical Literature

2.3.1 Interest rates as a determinant of Non-Performing Loans

Bloem and Gorter (2001) studied on the treatment of non-performing loans in Macroeconomic statistics and argued that due to sudden variations in interest rates “bad loans” may rise considerably. Various international standards were discussed and best practices on identifying, valuing and treatment of non-performing loans to solve the issue from the point of view of management, controlling and reduction measures were recommended.

In researching on bank-specific factors and macro-economic factors as determinants of non-performing loans, Espinoza and Prasad (2010) discovered that non-performing loans increases in the face of higher interest rates but the relationship between the two variables was not statistically significant.

Some researchers have also concluded that high interest rate has a significant and positive relationship with Non-Performing Loans. They argue that when interest rates are increased by banks, there is increased default rate due to the added repayment burden on borrowers (Boyd and Nicolo, 2005; Asari et al, 2011; Fofack, 2005; Reddy, 2002). (Rajan and Dhal, 2003b) have also found a significant relationship between high cost of borrowing (high interest rates) and non-Performing Loans.
A weaker or insignificant relationship has also been concluded by Kaplin et al, 2009 as existing between interest rate and Non-Performing Loans. (Sinkey, 1992a) also shows in his study that there is a negative relationship between interest rate and non-performing loans.

### 2.3.2 Monitoring as a determinant of Non-Performing Loans

According to (Hughes et al, 1996), banks which have lower NPLs can be seen as those who incur more costs on monitoring loans and assessing prospective borrowers and are often less efficient in financial operations. Numerous studies show that in focusing more on monitoring the NPLs, state-owned banks are less efficient as compared to private banks. In other studies by (Salas and Saurina, 2002c), they are of the opinion that non-performing loans arise as a result of inefficient bank management. When the bank is always in unceasing contact with and checks on the borrower, booked loans are more protected. The bank must do this in order to prevent borrowers from being relaxed at any phase of the lending process, especially the repayment phase. It has been concluded by many researchers including (Agresti et al, 2008a) that non-performing loans result from less monitoring of borrowers.

A lot of evidence exists in literature about bank’s poor monitoring activities being the major course of non-performing loans. The motive of less monitoring is increase in profits as seen in studies by (Salas and Saurina, 2002d) who conducted their research in Spain and (Agresti et al, 2008b) who conducted their studies in the USA. (Sinkey, 1992b) also argued on the same lines.

### 2.3.3 Risk assessment as a determinant of Non-Performing Loans

According to (Basel, 2001), banks are to put in place and practice effective policies with respect to risk management and responsibilities of risk managers should be clearly spelt out. In this regard, banks should ensure to obtain information about the credibility of borrowers in order to reduce non-
performing loans. Risk assessment poorly performed can easily lead to increasing non-performing loans. According to (Petersson and Wadman, 2004) failure to determine the credit standing of borrowers and their ability to make payment under a loan as well as non-assessment of the market value of securities or collaterals during the credit analysis phase of the loan cycle is a key contributor to non-performing loans. The use of personal experience instead of relying on sound credit portfolio management skills, historical data on borrowers and centralized information system have been found by (Hu et al, 2004) as causes of increasing non-performing loans.

2.3.4 Competence of banking staff as a determinant of Non-Performing Loans

(Masood et al 2010a), in their study on Non-performing loans in Pakistan argue that highly qualified bankers in terms of educational qualification and number of years on the job, have a better judgement in determining the credibility of borrowers which advertently results in decreasing non-performing loans as compared to bankers who are under qualified. In other words, highly qualified and experienced bankers can make sound decisions on credits which reduces non-performing loans. Other studies by (De Juan, 2003) also argue that the management’s role is very crucial in arriving at sound credit judgement through the employment and guidance of apt professionals. Additionally, if all regulatory frame work are being adhered to by the bank, together with swift corrective actions which is possible with a smart monitoring team as well as appropriate supervision, then problem loans will be identified quickly and handled before they result in non-performing loans.

According to (Camerer and Johnson, 1997), a bank will survive during a period of high non-performing loans when it has competent bankers who can see the emerging trends in the market which are most likely to worsen the situation and be proactive in putting in place measures to prevent further deterioration of assets. A competent banker is one that is adequately trained to predict a financial situation and can prepare himself to be capable of making appropriate and satisfactory lending decisions (Kim et al 1997).
2.3.5 Lenient credit terms as a determinant of Non-Performing Loans

In approving credits, (Jimenez & Saurina, 2005b) have found out that where credit terms were not appropriately considered, the credit could potentially lead to the occurrence of a bad loan. The researchers, in studying the determinants of non-performing loans in the Spanish banking sector covering the 1982 to 2001 periods concluded that lenient credit terms had a significant impact on non-performing loans. The researchers were of the view that bank managers and executives may be lured into taking excessive risks and to lend unreasonably during periods of prosperity in the bank or the economy, thus the causes of the leniency were ascribed to disaster myopia, behaviour of people, moral hazard and agency problems. Other researchers, (Azofra, 2011) also support this and found that the terms of credit have a huge role to play in the occurrence of non-performing loans.

2.4 Conceptual Framework

2.4.1 Dependent Variable

The research is guided by Non-performing loans as its Dependent variable. Non-performing loans as the dependent variable will be explained by two (2) broad variables: bank-specific factors and customer-specific factors.

2.4.2 Independent Variable

The Independent variables are grouped into bank-specific factors and customer-specific factors

2.4.2.1 Bank-specific factors

Bank-specific factors considered as independent variables are adopted from (Asfaw, Bogale, & Teame, 2016) and (Mchopa, 2013). They are poor credit assessment; poor credit monitoring; high interest rate, lenient credit terms; incompetent staff.
2.4.2.2 Customer-specific factors

Customer-specific factors are adopted from (Asfaw, Bogale, & Teame, 2016) and (Mchopa, 2013).

They are financial constraints; wilful default; problems associated with project management; fund diversion; multiple loans.

Independent Variables                                                                 Dependent Variable

**Independent Variables**

**Bank-specific factors**
- Poor credit assessment
- Poor credit monitoring
- High interest rate
- Lenient credit terms
- Incompetent staff

**Customer-specific factors**
- Financial constraints
- Wilful default
- Project management problems
- Fund diversion
- Multiple loans

**Dependent Variable**

Non-performing loans

Source: Researcher’s developed model
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Research Design

The research is aimed at establishing the major factors that determine non-performing loans at FBNBank Ghana Limited. To accomplish this objective in the face of time constraints, descriptive research design was used as availability and reliability of data from FBNBank Ghana Limited was assured. Collection of data from the banking staff was done with ease as respondents were people the researcher was in daily contact with by virtue of the sector in which the researcher works. The choice of descriptive research design was also largely based on the researcher’s intention of generalization the findings to a larger population (i.e. Tier 4 banks in Ghana and possibly banks in Ghana)

3.2 Research Strategy

In terms of strategy to execute the objective, both quantitative and qualitative approach were used. Quantitative approach was used because some of the information obtained for the study were quantitative in nature and required quantitative analysis. Information for determining the bank-specific factors were readily available as the bank had documented a variety of factors causing the high non-performing assets and a few them were selected for the study. Respondents were asked to rank them, in order to identify the major contributors to non-performing loans.

A ton of information was gathered on the various types of lending classes available in the Bank, being Corporate customers; Commercial Customers; and Retail customers. Interviews were conducted to corroborate statistical outcomes.

Due to the need of information from both bank staff and customers, field study was also adopted where the researcher had to interview businesses and individuals to know their perspective on the
causes of the non-performing loans. To achieve this, Relationship Managers and Business Managers were called upon to aid the researcher to get contact with various customers of the bank.

The qualitative approach served as a supplement to gaps that was captured by the quantitative strategy and it further provided a deeper understanding of the factors leading to the high non-performing loans at FBNBank Ghana Limited. The qualitative approach was adopted to explain the findings in the quantitative information.

3.3 Population and Sample Selection

3.3.1 Population

The population for the customer-specific factors was the borrowers with non-performing loans in the Greater Accra Branches of FBNBank Ghana Limited since they constitute 81% of the entire non-performing loans of the bank. Out of the nineteen (19) branches of the Bank, thirteen (13) of these branches are in the Greater Accra Region of Ghana. There are a total number of 287 non-performing loans in the Bank, of which 226 of these were in the Accra branches as detailed in Table 1.

To be able to arrive at the bank-specific factors causing high non-performing loans at FBNBank, staff respondents were taken from Customer-facing business units and staff from the Risk Management Directorate of the Bank who are directly involved in the lending process.

3.3.2 Sample Selection and technique

The Bank lends to borrowers from three segments; Retail, Commercial and Corporate (as captured in Table 1) which gives a heterogeneous population, but members of the various segments possess similar characteristics and constitute 3 separate subgroups that were considered, thus Stratified Purposeful sampling method was used with the aim of being time-effective and obtaining a sample which represents the three (3) segments.
FBNBank Ghana classifies its loans in defaults into three (3) classes, namely; substandard, doubtful and loss. Loans in good standing are termed performing. The sample selected was taken from loans in defaults under the three classes mentioned above.

Below is a detailed sampling frame adopted for the study:

Table 3.1 Sampling Frame

<table>
<thead>
<tr>
<th>Branch</th>
<th>Segments</th>
<th>Population</th>
<th>Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Corporate</td>
<td>Retail</td>
<td>Commercial</td>
</tr>
<tr>
<td>Ring Road Central</td>
<td>4</td>
<td>210</td>
<td>12</td>
</tr>
<tr>
<td>Airport</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Swanmill</td>
<td>-</td>
<td>20</td>
<td>1</td>
</tr>
<tr>
<td>Kaneshie</td>
<td>-</td>
<td>23</td>
<td>1</td>
</tr>
<tr>
<td>Spintex 1</td>
<td>2</td>
<td>9</td>
<td>-</td>
</tr>
<tr>
<td>Spintex 2</td>
<td>-</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td>Tema</td>
<td>1</td>
<td>10</td>
<td>1</td>
</tr>
<tr>
<td>Dome</td>
<td>-</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Koforidu</td>
<td>-</td>
<td>17</td>
<td>-</td>
</tr>
<tr>
<td>Makola</td>
<td>-</td>
<td>21</td>
<td>-</td>
</tr>
<tr>
<td>Dansoman</td>
<td>-</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Achimota</td>
<td>-</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>Santa-maria</td>
<td>-</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td><strong>Sub -Total</strong></td>
<td><strong>4</strong></td>
<td><strong>210</strong></td>
<td><strong>12</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Staff</th>
<th>Population</th>
<th>Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Analysts</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>Monitoring Officers</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Credit Availment Officers</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Recovery Officers</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Head of Credit Risk Management</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Head of Credit Analysis and Processing</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Business Head - Commercial</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Business Head - Retail</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Position</td>
<td>Total</td>
<td>Subtotal</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>-------</td>
<td>----------</td>
</tr>
<tr>
<td>Business Head - Corporate</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Business Development Managers</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Relationship Managers - Retail</td>
<td>15</td>
<td>3</td>
</tr>
<tr>
<td>Relationship Manager - Commercial</td>
<td>25</td>
<td>3</td>
</tr>
<tr>
<td>Branch Managers</td>
<td>13</td>
<td>3</td>
</tr>
<tr>
<td>Business Manager - Corporate</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Relationship Manager - Corporate</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td><strong>Sub -Total</strong></td>
<td><strong>85</strong></td>
<td><strong>28</strong></td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>311</strong></td>
<td><strong>68</strong></td>
</tr>
</tbody>
</table>

Source: Various respondents from the Bank.

### 3.3.3 Sample size

A total sample size studied was 68 units as displayed in Table 1 above, where 40 borrowers with non-performing loans and 28 bank officers directly involved in the credit processes of the bank were considered in the study.

### 3.4 Type of Data and Data Collection Instruments

Data was collected from both primary and secondary sources.

#### 3.4.1 Primary Data

Primary data was collected through questionnaires administered to staff of FBNBank and borrowers of the bank. Two separate questionnaires were administered depending on the respondent; Staff or Borrower.

##### 3.4.1.1 Questionnaire to Staff

The questionnaire to the staff explored information on the staff’s employment background, the staff’s role in the credit process, and bank’s role in terms in relation to occurrence of non-performing loans in the Bank.
The survey was conducted using a structured questionnaire and classified into three (3) sections. Section one (1) was designed to collect demographic information on the respondent. Section two (2) was designed to collect information on the determinants of non-performing loans related to the bank. In section two (2), respondents were to rank several factors according to a rating scale, with 1 being the highest and 5 being the lowest for bank-specific factors.

Section three (3) of the questionnaire sought to collect information on credit risk management and its effect on non-performing loans. This section was sub-grouped into five (5); A to E. Part A collected information on credit assessment in relation to non-performing loans, Part B collected information on credit monitoring in relation to non-performing loans, Part C collected information on Interest rates in relation to non-performing loans, Part D collected information on Incompetent Staff in relation to non-performing loans and Part E collected information on Lenient Credit Terms in relation to non-performing loans. Both sections two and three presented a scale from 1 to 5, with 1: Strongly Agree, 2: Agree, 3: Neutral, 4: Disagree and 5: Strongly Disagree and required respondents to indicate their level of agreement or disagreement to various statements in relation to the subject.

3.4.1.2 Questionnaire to Borrowers

The questionnaire to the borrowers also explored the borrower’s orientation and main causes of default with regards to the loans they have with the bank.

The survey was conducted using a structured questionnaire and prepared in the English Language and administered to the borrowers with the assistance of their relationship officers. The questionnaire was classified into two (2) sections. Section one (1) was designed to collect demographic information on the respondent. The type of borrower could easily be determined from this section.
Section two (2) was designed to collect information on the determinants of non-performing loans. This section was binomial as it required the respondent to select either yes or no as responses to the questions asked. It was structured this way because, the researcher anticipated respondents to drag their feet in giving responses thus, a simple answer with very few straight to the point questions were required.

3.4.2 Secondary Data

Secondary data were sourced from reviewing FBNBank Ghana Limited’s annual financial reports, policies and procedures and memos/notices issued by the Bank as well as customer’s files for information on recovery, monitoring and credit review reports. Other literature on determinants of non-performing loans were also considered.

3.4.3 Data Collection tools, Measurement and measuring scale

As indicated above, the study employed the use of structured questionnaires. Questions were framed in several ways to serve as a cross-examination tool in order to determine the truth. The study also employed nominal and ordinal scales. Arbitrary scales measuring method were developed to aid in the demonstration of the main causes of non-performing loans at FBNBank.

3.5 Data Reliability

3.5.1 Test of Reliability

To ensure reliability of information, measurement for all categories (staff; borrowers) of respondents were carefully analyzed using computerized tools. Borrower-respondents were carefully selected in relation to their participation in the current non-performing loans state of the
bank. Staff selected for the study are also a credible source of information given their role in the credit process. Additionally, ambiguous terms were not used in the study in order to prevent any form of confusion.

3.5.2 Test of Validity

To ensure validity of the information gathered, the researcher gathered information from respondents who were knowledgeable on the subject matter. Respondents gave response to questions voluntarily and were aware of the purpose of the survey.

3.6 Data analysis

In conducting data analysis, descriptive statistics including measures of central tendency (mean and standard deviation), frequency and percentages were used and processed through SPSS software and Microsoft Excel. Results were also presented using tables and diagrams.
CHAPTER FOUR

DATA ANALYSIS AND RESULTS

4.1 Demographic Characteristics of Respondents

4.1.1 Sample Analysis

Two sets of questionnaires were prepared and presented to a sample of 68 respondents, 28 of whom were bank officers involved in the lending process of the bank and 40 borrowers. Out of the 68 questionnaires, 49 were completed and returned, thus the overall response rate was 72.06% (41.18% for bank respondents and 30.88% from borrower respondents). All questionnaires from bank officers were completed and returned making a 100% response rate on questionnaires presented to them whilst 52.5% was achieved for questionnaires sent out to borrowers.

Table 4.1 Survey Response Rate

<table>
<thead>
<tr>
<th>Respondents</th>
<th>Sample size</th>
<th>Responses received</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Officers</td>
<td>28</td>
<td>28</td>
<td>100%</td>
</tr>
<tr>
<td>Borrowers</td>
<td>40</td>
<td>21</td>
<td>52.50%</td>
</tr>
</tbody>
</table>

Source: Survey outcome and own computation

4.1.2 Gender of respondents

Out of the 49 responses which were received, 65% were male and 35% were female.

Table 4.2 Gender of Respondents

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>32</td>
<td>65%</td>
</tr>
<tr>
<td>Female</td>
<td>17</td>
<td>35%</td>
</tr>
<tr>
<td>Total</td>
<td>49</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Survey outcome and own computation
In sub-grouping to reflect the gender of the two groups (borrowers and bank officers) considered in this survey, it is illustrated in Figure 4.2 below that males (17 in number) form 60.7% of workers in the credit function in the bank whilst female (11 in number) form 39.3% in the credit function. It can be inferred that; the bank prefers more males than females in credit related jobs. A similar trend can be noticed in the borrowers where the males are more than the females as depicted in Figure 4.3.

**Figure 4.1 Gender of Bank Respondents**

![Bar chart showing gender distribution of bank respondents](image)

Source: Survey outcome and own computation

**Figure 4.2 Gender of Borrower Respondents**

![Bar chart showing gender distribution of borrower respondents](image)

Source: Survey outcome and own computation
4.1.3 Age of respondents

A majority, being 37% of the respondents, were between the ages of 40-49 years. 31% of the respondents were aged between 30-39 years, 18% of the respondents were aged 50 years and above with only 14% of the respondents aged between 20 to 29 years.

Table 4.3 Age of Respondents

<table>
<thead>
<tr>
<th>Age range</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>20-29</td>
<td>7</td>
<td>14%</td>
</tr>
<tr>
<td>30-39</td>
<td>15</td>
<td>31%</td>
</tr>
<tr>
<td>40-49</td>
<td>18</td>
<td>37%</td>
</tr>
<tr>
<td>50 and above</td>
<td>9</td>
<td>18%</td>
</tr>
<tr>
<td>Total</td>
<td>49</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Survey outcome and own computation

Further analysis revealed that, most bank officers involved in the lending process were between the ages of 40-49 years whilst a majority of borrowers were 50 years and above. Only one bank officer was aged 50 years and above and only 2 borrowers were between the ages of 20-29 years.

Figure 4.3 Age of Respondents

Source: Survey outcome and own computation
4.1.4 Educational Level of respondents

Out of the 49 valid responses received, 57% of the respondents had received tertiary education, 24% of the respondents had post-graduate certificates, 8% held professional certificates, 6% had secondary school certificates whilst only 2% had received just basic education as depicted in Table 4 below:

Table 4.4 Educational Level of Respondents

<table>
<thead>
<tr>
<th>Educational level</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic</td>
<td>2</td>
<td>4%</td>
</tr>
<tr>
<td>Secondary</td>
<td>3</td>
<td>6%</td>
</tr>
<tr>
<td>Tertiary</td>
<td>28</td>
<td>57%</td>
</tr>
<tr>
<td>Post-graduate</td>
<td>12</td>
<td>24%</td>
</tr>
<tr>
<td>Professional</td>
<td>4</td>
<td>8%</td>
</tr>
<tr>
<td>others</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Total</td>
<td>49</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Survey outcome and own computation

To depict the educational level of the two groups considered, it was revealed that out of the 28 respondents with tertiary education, 61% of them, being 17 respondents were bank officers. This can be attributed to the fact that the entry level of employment in the bank is a Tertiary certificate. It is also worthy to note that, out of the 4 respondents with professional certificates, only one bank officer held a professional certificate from the Chartered Institute of Bankers. The other Professional certificate holders were all borrowers working in various types of employment.
4.1.5 Years in current business/employment/FBNBank

The survey indicated that 35% of the respondents had been in their current employment between 4 to 6 years, 24% of them had been working in the same job between 1 to 3 years, 22% of the respondents had kept their current jobs for 10 years and over whilst 18% of the respondents were between 7 to 9 years on their current job.

**Table 4.5. Years in current business/employment/FBNBank**

<table>
<thead>
<tr>
<th>Years</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-3 years</td>
<td>12</td>
<td>24%</td>
</tr>
<tr>
<td>4-6 years</td>
<td>17</td>
<td>35%</td>
</tr>
<tr>
<td>7-9 years</td>
<td>9</td>
<td>18%</td>
</tr>
<tr>
<td>10 years and above</td>
<td>11</td>
<td>22%</td>
</tr>
<tr>
<td>Total</td>
<td>49</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Survey outcome and own computation
The graphical diagram of the duration in current job of the various groups of respondents is depicted in Figure 5 below:

**Figure 4.5. Years in current business/employment/FBNBank**

From Figure 5 above, 24 of the bank officers being 85.7% have been working with the bank for about 6 years with the remaining 4 officers working at FBNBank for 7 years and over. Contrary to this trend, 16 of the respondents who were borrowers translating into 76.2% have been in their current jobs for 7 years and over with the remaining 5 borrowers staying in their current jobs for less than 7 years. This indicates that, new employees were taken in when FBNBank took over from International Commercial Bank (ICB) with only few officers keeping or staying in their jobs after the takeover.

**4.1.6 Years in industry**

The survey indicated that 33% of the respondents have been working in the same job industry between 4 to 6 years, whilst 27% of the respondents had been in their job industry between 7 to 9
years with 22% of them working in the same job industry for 10 years and over and 18% of the respondents were working in the same industry between 1 to 3 years.

Table 4.6. Years in Industry

<table>
<thead>
<tr>
<th>Years</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-3 years</td>
<td>9</td>
<td>18%</td>
</tr>
<tr>
<td>4-6 years</td>
<td>16</td>
<td>33%</td>
</tr>
<tr>
<td>7-9 years</td>
<td>13</td>
<td>27%</td>
</tr>
<tr>
<td>10 years and above</td>
<td>11</td>
<td>22%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>49</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Survey outcome and own computation

Having fragmented the information received, the following was established about the two groups considered in the survey:

Figure 4.6. Years in Industry

Source: Survey outcome and own computation
From Figure 6 above, quiet contrary to the results in Figure 5, 16 bank officers representing 76.2% of the responses from bank officers have been working in the banking industry for more than 6 years. This can mean that, even though most of the employees involved in the credit function are fairly new in the bank, they seem to have a considerable amount of experience in the job. It was also established that, most of the borrowers have been working in their respective business industries for less than 7 years.

4.1.7 Years in credit related job

This information was required from only bank officers. The survey showed that out of the 28 bank officers who were considered, 32% of them being 9 bank officers had been working in the credit related job between 4 to 6 years, 29% being 8 bank officers had been working in the credit related job between 7 to 9 years and 21% for less than 4 years with 18% being 5 officers, working in the credit function for 10 years and above.

*Table 4.7. Years in credit related job*

<table>
<thead>
<tr>
<th>Years</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-3 years</td>
<td>6</td>
<td>21%</td>
</tr>
<tr>
<td>4-6 years</td>
<td>9</td>
<td>32%</td>
</tr>
<tr>
<td>7-9 years</td>
<td>8</td>
<td>29%</td>
</tr>
<tr>
<td>10 years and above</td>
<td>5</td>
<td>18%</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Survey outcome and own computation
4.1.8 Bank Unit of Work

This information was also required from only the bank officers. This was intended to determine the exact unit where respondents operate in the credit process of the bank. Business unit refers to officers who are directly in contact with customers of the bank and includes Relationship Managers, Business Managers, Business Development Managers and Business Heads. Support Unit refers to officers who work in the Risk Department of the bank and comprises of Credit Analysts, Head of Credit Analysis and Processing, Head of Credit Risk Management, Credit Availment Officers, Monitoring Officers and Classified Assets & Recovery Officers.

From Table 8 below, it can be seen that, out of the 28 respondents form the bank, 18 of them work in the Business Unit and 10 of them work in the Support Unit. The un-proportionate state of officers in both units is normal as officer in the Risk Department serve a support function for the business unit who go into the market to prospect and market the bank’s products.

Table 4.8. Unit of Work

<table>
<thead>
<tr>
<th>Unit</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Unit</td>
<td>18</td>
<td>64%</td>
</tr>
<tr>
<td>Support Unit (Risk)</td>
<td>10</td>
<td>36%</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Survey outcome and own computation

4.1.9 Type of employment

This information was only required from borrowers. This was required because, the researcher intended to determine the type of employment held by borrowers of the bank in order to be able to classify the respondents in accordance with the three (3) segments of lending in the bank, being Retail, Corporate and Commercial.
From Table 9 below, 57% of the bank’s borrowers whose loans are currently not performing are employees (Retail customers) whilst 43% of them are self-employed, thus Corporate and Commercial customers. Out of the sample of 40 borrowers which was considered, 26 of them were Retail customers, thus only 46.2% of the retail customers responded to the survey. The other 14 were corporate and commercial customers with 64.3% of them successfully responding to the questionnaire. This may be attributed to the nature of the work the borrowers do, so that those with their own jobs have enough time on their hands to partake in other activities whilst those working for others seem not to have any free time or may be just unwilling to partake in other activities aside work.

Table 4.9. Employment type

<table>
<thead>
<tr>
<th>Employment type</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self-employment</td>
<td>9</td>
<td>43%</td>
</tr>
<tr>
<td>Employee</td>
<td>12</td>
<td>57%</td>
</tr>
<tr>
<td>Others</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Total</td>
<td>21</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Survey outcome and own computation

4.1.10 Size of business

This information was also required from only the borrowers with the intention of determining the size of the businesses being managed by the corporate and commercial customers which will enable the researcher to clearly define the number of Corporate and Commercial customers who partook in the survey. From Table 10 below, it can be established that, out of the 4 corporate customers considered for the survey, only 1 responded successfully, and 8 Commercial customers out of 10 responded. This result is impressive considering an 80% response rate was received from the Commercial borrowers.
Table 4.10. Size of business

<table>
<thead>
<tr>
<th>Size of business</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large</td>
<td>1</td>
<td>5%</td>
</tr>
<tr>
<td>Medium</td>
<td>6</td>
<td>29%</td>
</tr>
<tr>
<td>Small</td>
<td>2</td>
<td>10%</td>
</tr>
<tr>
<td>Not applicable</td>
<td>12</td>
<td>57%</td>
</tr>
<tr>
<td>Total</td>
<td>21</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Survey outcome and own computation

4.2 Bank-Specific Causes of Non-Performing Loans
One of the central objectives of this survey was to determine the bank-specific and customer-specific factors affecting Non-performing loans at FBNBank. The study required respondents to rank some bank-specific factors, indicate their level of agreement and disagreement to certain statements related to identified bank-specific variables which may be the reason behind the non-performing loans.

4.2.1 Ranking of Factors
Out of the 28 bank officers who were considered for the survey, 32% of them, being 9 officers ranked Poor Credit Monitoring as the number one cause of increasing non-performing loans at FBNBank. This was followed by High Interest Rate, which was ranked second by 11 bank officers, comprising of 39% of the respondents (bank officers). Rank 3 and rank 4 were occupied by Incompetent Staff and Poor Credit Assessment respectively which was ranked by 32% of the bank officers, being 9 bank officers as being the third and fourth cause of non-performing loans at the bank with Lenient credit terms ranking as number 5 with the 82% of the bank officers believing it to be the least cause of the bank’s non-performing loans as depicted in Table 11 and Figure 7 below:
### Table 4.11. Ranking of Factors

<table>
<thead>
<tr>
<th>No.</th>
<th>Factors</th>
<th>Rank 1 %</th>
<th>Rank 2 %</th>
<th>Rank 3 %</th>
<th>Rank 4 %</th>
<th>Rank 5 %</th>
<th>Final ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>a</td>
<td>Poor credit assessment</td>
<td>18%</td>
<td>14%</td>
<td>18%</td>
<td>32%</td>
<td>18%</td>
<td>4</td>
</tr>
<tr>
<td>b</td>
<td>Poor credit Monitoring</td>
<td>32%</td>
<td>25%</td>
<td>25%</td>
<td>18%</td>
<td>0%</td>
<td>1</td>
</tr>
<tr>
<td>c</td>
<td>High interest rate</td>
<td>2%</td>
<td>39%</td>
<td>25%</td>
<td>7%</td>
<td>0%</td>
<td>2</td>
</tr>
<tr>
<td>d</td>
<td>Incompetent staff</td>
<td>21%</td>
<td>21%</td>
<td>32%</td>
<td>25%</td>
<td>0%</td>
<td>3</td>
</tr>
<tr>
<td>e</td>
<td>Lenient credit terms</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>18%</td>
<td>82%</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: Survey outcome and own computation

### Figure 4.7. Ranks of Factors

Source: Survey outcome and own computation
4.2.2 Credit assessment and structuring as a cause of Non-Performing Loans

From Table 12 below, with a mean of 4.79 and standard deviation of 2.10, it shows that all the respondents were of the view that when risk assessment of borrowers is done poorly, it could be a major cause of non-performing loans. (Hu et al, 2004) pointed out that poor risk assessment has an impact on the quality of loan.

This is so because, during risk assessment, key aspects of the borrower, loan purpose, source of repayment and all the other vital aspects to ensure successful repayment of the loan will be performed and if this is done haphazardly could result in no identification of risk factors, thus no risk mitigating conditions will be included in the credit facility and the facility could go bad.

On the other hand, with a mean of 4.61 and standard deviation of 2.06, 96% of the respondents also agree that the credit structure in relation to the use of the credit has a direct impact on non-performing loans. Only 4% of the respondents remained neutral with no respondent disagreeing with the factor. This result is similar to observation in the previous factor which required respondents to evaluate the impact of risk assessment on non-performing loans. Credit structure is determined after risk assessment which will show the purpose and use of the credit, thus the bank will be able to determine how the borrower operates their business or intention of use of the funds and the bank will be able to structure the credit to ensure it is in the known of when funds will be available for repayment. Probably even receive funds directly before the customer has access to the funds. Where a credit is structured to move along a particular transaction dynamics, and the customer deviates from the set structure of the facility, funds may be lost along the way as the bank may not have total oversight over the credit and this may result in loans not performing.

Borrowers who can meet all requirements of loans may default as revealed in Table 12 with a mean of 1.25 and standard deviation of 1.03. This has been acknowledged by 97% of the respondents with 4% of them remaining neutral on this factor. This question was asked because at credit assessment phase of loan processing and approval, borrowers are required to meet several conditions which
may make them credit worthy and fit to access credit facilities. It was intended to establish the extent to which this practice has on performance of the granted facilities.

Table 2.12. Factors indicating Credit Assessment has an impact on non-performing loans

<table>
<thead>
<tr>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor risk assessment of borrowers could easily lead to default</td>
<td>79%</td>
<td>21%</td>
<td>0%</td>
<td>0%</td>
<td>4.79</td>
<td>2.10</td>
</tr>
<tr>
<td>The credit structure in relation to use of credit has a direct impact on NPLs</td>
<td>64%</td>
<td>32%</td>
<td>4%</td>
<td>0%</td>
<td>4.61</td>
<td>2.06</td>
</tr>
<tr>
<td>Borrowers who can meet all requirements of loans do not default</td>
<td>0%</td>
<td>0%</td>
<td>4%</td>
<td>18%</td>
<td>1.25</td>
<td>1.03</td>
</tr>
</tbody>
</table>

Source: Survey outcome and own computation

4.2.3 Credit monitoring as a cause of Non-Performing Loans

Strict monitoring of credits ensures loans perform satisfactorily. Respondents indicated their agreement to this statement with 89% of them indicating approval of the statement with a mean response of 4.5 and standard deviation of 2.4. This has been verified in the literature as Agresti et al (2008c) stated that regular and adequate monitoring of a loan would result in Non-Performing Loans. However, 11% indicated disagreement for this notion. Credit monitoring entails having an oversight over the use of funds lent, the borrower’s business operations as well as circumstances which could negatively affect the successful repayment of the loan, being on the lookout for issues or triggers which could prevent the payment of the loan if it were to be made from a third party, say a Principal
who has contracted the borrower on a job or task. In retail or consumer loans, an employer could be a Principal to a salaried worker who has accessed a loan facility; in business loans a principal could be anyone who enters into a contract for some works with the borrower and from whom payment will be received to make payment for the loan. When all risks factors surrounding the loan facility are carefully monitored due to identification at the credit assessment stage, there is a likelihood that the credit facility will be liquidated successfully, otherwise it may result in a bad loan.

On the matter of poorly assessed loans performing well if properly monitored, 36% of the respondents agreed, whilst another 36% opted to be neutral on this and the other 28% disagreed with the statement with a mean of 3.11 and standard deviation of 1.79%. The different views on this matter stems from the premise of monitoring which lies in identification of risks factors and then putting in place measures to mitigate the identified risks which will then be monitored to ensure crystallization of the risks does not occur. Thus, what you have not been able to identify through sound credit assessment cannot be properly monitored. Also, it could be that, just by keeping close contact with the customer’s operations, risks factors may be identified and reported, and the bank could take quick steps to prevent them from occurring.

68% of the respondents agreed that the frequency of monitoring of loans has a direct impact on loan performance whilst 21% of the respondents disagreed and 11% remained neutral on this statement with a mean of 3.71 and standard deviation of 2.16. Frequency of monitoring is performed with respect to the facility type, purpose, risks concerns, credit rating of the borrower amongst other reasons. Once a risk is identified on a credit facility, all measures put in place to mitigate it must be closely monitored to ensure the facility is cleaned up according to schedule. Being informed on the loan facility through constant oversight over possible risks which could cause the loan to go bad may alleviate the loan from bad to a performing one. Earlier studies on credit monitoring support this, as (Salas and Saurina, 2002e) are of the view that the loans are more secured if the banks keep a continuous check on the borrowers.
Table 4.13. Factors indicating Credit Monitoring has an impact on non-performing loans

<table>
<thead>
<tr>
<th>Statements</th>
<th>Strict monitoring ensures loan performance</th>
<th>Poorly assessed and granted loans may perform well if properly monitored</th>
<th>Frequency of monitoring of granted loans has a direct impact on loan performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree %</td>
<td>71%</td>
<td>18%</td>
<td>39%</td>
</tr>
<tr>
<td>Agree %</td>
<td>18%</td>
<td>18%</td>
<td>29%</td>
</tr>
<tr>
<td>Neutral %</td>
<td>0%</td>
<td>36%</td>
<td>11%</td>
</tr>
<tr>
<td>Disagree %</td>
<td>11%</td>
<td>14%</td>
<td>7%</td>
</tr>
<tr>
<td>Strongly Disagree %</td>
<td>0%</td>
<td>14%</td>
<td>14%</td>
</tr>
<tr>
<td>Mean</td>
<td>4.5</td>
<td>3.11</td>
<td>3.71</td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>2.4</td>
<td>1.79</td>
<td>2.16</td>
</tr>
</tbody>
</table>

Source: Survey outcome and own computation

4.2.4 High Interest rates as cause of Non-Performing Loans

When asked about the impact of high interest rates on loans in two different statements, 36% of the respondents agreed that loans with high interest rates end up being non-performing and Non-performing loans result when high interest rates are charged. 11% of the respondents disagreed with these statements while 54% of the respondents remained neutral with a mean of 3.43 and standard deviation of 1.71.

Interest rates are the price for the loans which is borne by the borrower as compensation to the lender for parting away with its funds for the specified period of time. In Ghana, most loans from banks are quoted per annum. Presently, the Ghana Reference Rate is used as the basis for setting up interest rates instead of the base rate which was scrubbed off in April of 2018 (Bank of Ghana, 2018). For a loan to be successfully paid off, it may require among other things to be beneficial to the borrower i.e. it should yield in much more than he should have to pay back to the bank, so that even after paying off the loan, the borrower will still have some value or funds remaining with them.
The presence of interest rates in loans create a situation of profit sharing with the bank, thus whatever venture the borrower applies the loaned funds should be profitable enough for them to be able to pay back their loan and still have enough to plough back into their business or to take care of their personal needs. The high rate of neutrality in these two statements will probably stem from the fact that, profitability of the purpose of the funds to both customer and bank is considered before it is granted, thus a borrower cannot be excused from paying off their loans because they claim the interest rate was high. A retail customer is granted a loan based on a debt service ratio of 40% in accordance with labour rules thus it is believed that such a customer will have the other 60% of their salary to cater for their other expenses, so they cannot claim that interest rates being high is the cause of the loan not performing. Various researchers have given different findings about the relationship between interest and NPLs. Some researchers find a significant and positive relationship between interest and NPLs (Khemraj and Pasha 2009; Fofack 2005). They are of the view that when banks increase interest rate there is an additional burden on borrowers due to which loan default increases. Some studies have shown a weaker or insignificant relationship between NPLs and interest (Kaplin et al 2009). This survey does not indicate a very strong relation between interest and NPLs as only 10.1% of respondents agree that interest can turn a loan into non-performing. Similarly, 50.3% of respondents believe that high interest rate can lead to loan defaults, which is not a very high percentage. Therefore, the results of the study match with the literature that supports a weak relation between interest and NPLs.
Table 4.14. Factors indication High Interest Rates has an impact on non-performing loans

<table>
<thead>
<tr>
<th>Statements</th>
<th>Loans with high interest rates end up being NPL</th>
<th>NPL will result when high interest rates are charged</th>
<th>Price of loans affect loan performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>18%</td>
<td>18%</td>
<td>21%</td>
</tr>
<tr>
<td>Agree</td>
<td>18%</td>
<td>18%</td>
<td>57%</td>
</tr>
<tr>
<td>Neutral</td>
<td>54%</td>
<td>54%</td>
<td>14%</td>
</tr>
<tr>
<td>Disagree</td>
<td>11%</td>
<td>11%</td>
<td>7%</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Mean</td>
<td>3.43</td>
<td>3.43</td>
<td>3.93</td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>1.71</td>
<td>1.71</td>
<td>1.93</td>
</tr>
</tbody>
</table>

Source: Survey outcome and own computation

4.2.5 Incompetent Staff as cause of Non-Performing Loans

Respondents from the survey confirm their agreement that incompetence of staff of the bank influence non-performing loans with a mean of 3.46 and standard deviation of 1.86. From Table 15, 54% of the respondents agree that highly skilled credit analysts can prevent the incidence of non-performing loans, only 18% disagreed with 29% remaining neutral on the statement. The role of Credit Analysts in the loan process is that of reviewing a customer’s eligibility for a loan facility from the bank and making recommendations based on the assessment. Several factors are considered with the primary starting point being the credit policy of the bank which will detail the bank’s target market, types of credit facilities the bank is willing to fund, collateral preferred and so on. A credit Analyst requires analytical, conceptual, financial, report writing skills etc. to be able to execute his/her role in the credit creation process. During the analysis of credits, the Analysts identifies risk areas and proposes mitigants to reduce its effect on the bank, where such risks are outside the risk acceptance criteria of the bank, the credit may have to be passed on. The role of the Analyst in booking a good loan is undoubtedly crucial as they are the first point of contact with the credit
facility in the risk department which is responsible for managing risk in the bank. Incompetence on their part, will gravely affect the bank.

On the matter of role of officers in charge of managing credit customers having a huge role to play in non-performing loans, with a mean of 4.5 and standard deviation of 2.03, 97% of the respondents indicated agreement with only 7% remaining neutral on the statement. Officers in charge of managing credit customers include relationship managers, business managers, business development managers and their heads. They are widely referred to as business facing units of banks as they are in contact with the customers and management acts upon reports they present on their customers, as such their role in creating a bad loan is undeniable. When the loans are booked, they also monitor the facility until successful repayment. Literature on competence of staff indicates that, in present day’s competitive banking environment, banks need such competent bankers who can help identify and prevent loans from going bad and convert the non-performing loans into performing ones. (Masood et al 2010b) has corroborated this in their study and conclude that bankers with high qualification are in a better position to determine the credibility of a loan which prevents high levels of NPLs than ones with lower qualification.

Table 4.15. Factors indicating Incompetent Staff has an impact on non-performing loans

<table>
<thead>
<tr>
<th></th>
<th>Highly skilled credit analysts can prevent the incidence of non-performing loans</th>
<th>Officers in charge of managing credit customers have a huge role to play in NPLs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>11%</td>
<td>57%</td>
</tr>
<tr>
<td>Agree</td>
<td>43%</td>
<td>36%</td>
</tr>
<tr>
<td>Neutral</td>
<td>29%</td>
<td>7%</td>
</tr>
<tr>
<td>Disagree</td>
<td>18%</td>
<td>0%</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Mean</td>
<td>3.46</td>
<td>4.5</td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>1.86</td>
<td>2.03</td>
</tr>
</tbody>
</table>

Source: Survey outcome and own computation
4.2.6 Lenient Credit Terms as cause of Non-Performing Loans

With a mean of 3.64 and standard deviation of 1.83, 57% of the respondents are in agreement that lenient credit terms have an impact on poor performing loans, whilst 32% are neutral in the statement with 11% disagreeing to the statement. Credit terms encompasses all the requirements for the loan facility which the borrower is expected to adhere to and comply in order for a successful loan cycle to be completed. Credit terms are meant to safeguard both parties (bank and borrower) on the credit in order to prevent any losses. They may include domiciliation of receivables from third parties to ensure successful repayment of the loan, turnover covenants, lien on funds in borrower’s accounts for a period, execution of sales collection agreements, appointments of project consultants, presentation of management accounts bi-annually, employer’s undertaking to direct payments of salaries through the borrower’s account with the bank etc. Where terms are lax, it creates room for non-performance by a party in the credit facility, thus risks may crystalize and the loan may go bad.

Poorly negotiated credit terms as a determinant of bad loans has been agreed to by 82% of the respondents with a mean of 4.25 and standard deviation of 2.06. 11% of the respondents are neutral on this with 7% disagreeing with this. A poorly negotiated credit is one where essential terms were omitted or redundant terms were included or both. Such a credit may pose difficulties to both the bank and borrower as the bank may be unable to obtain the full benefits of the credit facility granted and the borrower may be unable to utilize the facility due to some terms which were unfavourable to the purpose of the facility. Where such a borrower notwithstanding these terms utilises the facility, repayment becomes an issue as the fundamentals of the credit were not set right and it results in non-performing loans.

Studies undertaken by Jimenez and Saurina (2005) on the Spanish banking sector from 1984 to 2003 and (Rajan and Dhal, 2003c) who studied the Indian commercial banks, found that non-performing loans are determined by credit terms which caused moral hazard and agency problems.
Table 4.16. Factors indicating Lenient Credit Terms has an impact on non-performing loans

<table>
<thead>
<tr>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>18%</td>
<td>39%</td>
<td>32%</td>
<td>11%</td>
<td>0%</td>
<td>3.64</td>
<td>1.83</td>
</tr>
<tr>
<td>7%</td>
<td>32%</td>
<td>25%</td>
<td>29%</td>
<td>7%</td>
<td>3.04</td>
<td>1.78</td>
</tr>
<tr>
<td>50%</td>
<td>32%</td>
<td>11%</td>
<td>7%</td>
<td>0%</td>
<td>4.25</td>
<td>2.06</td>
</tr>
</tbody>
</table>

Source: Survey outcome and own computation

4.3 Customer-specific causes of Non-Performing Loans

One of the main objectives of this study is to determine the customer-specific causes of non-performing loans at FBNBank Ghana Limited. From Table 17 below, the following were identified as the major causes of non-performing loans as pertaining to the customers;

4.3.1 Financial Constraints
15 respondents, representing 71% declared that their default is as a result of financial constraints whilst 6 respondents being 29% declared otherwise. Also, 13 of the respondents being 62% declared they had other commitments which was preventing them from repaying their loans with 8 of them being 38% saying otherwise. This is also a clear sign of poor credit culture with the borrowers.

4.3.2 Wilful Default
When asked about their intention of paying the loan, 9 respondents representing 43% of the respondents declared they will repay the loan in their own time with 12 respondents being 57%
saying otherwise. This response is a little below average declaring wilful default of their loans whilst above average have other reasons for the non-payment of their loans.

4.3.3 Project Management Problems
Out of the 21 respondents, 14 of them representing 67% indicated that they experienced delays in executing the project which resulted in their inability to pay their loans with the bank. Of these respondents, 3 of them representing 21.4% of the respondents with project management problems and 14% of the total respondents have not received payments form the Principal/third party from whom they obtained the contract which can be as a result of the delay in executing the contract. 7 of the respondents representing 33% had no such delays in executing the contract, thus their default being contributed by some other factor.

4.3.4 Fund diversion
Majority of the respondents being 12 respondents, representing 57%, revealed that, the loan obtained from the bank was used for the intended purpose with 9 of the respondents being 43% unable to use the loan for the intended purpose, thus it was diverted into other ventures. This results indicates that, a little below average of the non-performing loans of the bank are due to fund diversion whilst other borrowers are defaulting on their obligation to the bank due to some other reason.

4.3.5 Multiple loans
Out of the 21 successfully completed questionnaires, 15 of the respondents representing 71%, had multiple banking relationships with 12 of them, representing 57% of the respondents having multiple loans with other banks and financial institutions, thus 3 of the respondents with multiple banking relationship only have credit facilities with FBNBank. Of this number (12 respondents with multiple loans), 7 respondents being 33% of the total respondents are unable to pay all their debts from these banks. This also means that, 58.33% of the respondents with multiple loans are unable to pay their loans which is above average and lends evidence to the inability to borrowers to manage multiple loans successfully which can result in non-performing loans.
<table>
<thead>
<tr>
<th>No</th>
<th>Statements</th>
<th>Yes</th>
<th></th>
<th>No</th>
<th></th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Freq</td>
<td>%</td>
<td>Freq</td>
<td>%</td>
<td>Freq</td>
</tr>
<tr>
<td>a</td>
<td>I have banking relationship with other banks apart from FBNBank</td>
<td>15</td>
<td>71%</td>
<td>6</td>
<td>29%</td>
<td>21</td>
</tr>
<tr>
<td>b</td>
<td>I have loans with other banks</td>
<td>12</td>
<td>57%</td>
<td>9</td>
<td>43%</td>
<td>21</td>
</tr>
<tr>
<td>c</td>
<td>I am unable to pay all my loans from all my bankers</td>
<td>7</td>
<td>33%</td>
<td>14</td>
<td>67%</td>
<td>21</td>
</tr>
<tr>
<td>d</td>
<td>I could not use the loan for the intended purpose</td>
<td>9</td>
<td>43%</td>
<td>12</td>
<td>57%</td>
<td>21</td>
</tr>
<tr>
<td>e</td>
<td>I have still not received payment from the Principal/third party</td>
<td>3</td>
<td>14%</td>
<td>18</td>
<td>86%</td>
<td>21</td>
</tr>
<tr>
<td>f</td>
<td>Other commitments are preventing me from paying my loan</td>
<td>13</td>
<td>62%</td>
<td>8</td>
<td>38%</td>
<td>21</td>
</tr>
<tr>
<td>g</td>
<td>I experienced delays in executing the project, thus the default</td>
<td>14</td>
<td>67%</td>
<td>7</td>
<td>33%</td>
<td>21</td>
</tr>
<tr>
<td>h</td>
<td>Financial constraints are preventing me from paying my loan</td>
<td>15</td>
<td>71%</td>
<td>6</td>
<td>29%</td>
<td>21</td>
</tr>
<tr>
<td>i</td>
<td>I will pay the loan in my own time</td>
<td>9</td>
<td>43%</td>
<td>12</td>
<td>57%</td>
<td>21</td>
</tr>
</tbody>
</table>

Source: Survey outcome and own computation
CHAPTER 5
SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary
The main objective of this research was to identify the determinants of non-performing loans in tier 4 banks in Ghana, using FBNBank as a case study. To arrive at this, two sub-objectives were derived, being the identification of bank-specific causes of non-performing loans and customer-specific causes of non-performing loans at FBNBank Ghana Limited. To accomplish this objective, quantitative and qualitative research approach was used. The Greater Accra branches of the bank were considered in this research as it held the largest number of non-performing loans and for the ease of access to the researcher. Bank staff and borrowers were contacted for their views on the research topic through the administration of questionnaires. From the view of the respondents, the results of the study indicate the following factors as being the determinants of non-performing loans amongst tier 4 banks in Ghana:

The study revealed that competence of staff involved in the credit creation and management process is vital in ensuring the health of the credit facility. The state of the credit can also be determined by the credit assessment, which is undertaken, so that when it is performed well, risk areas will be identified, and the bank will be protected from future cases of non-performing loans. The study also revealed that credit terms must be set rightly and in accordance with the purpose and type of credit to prevent redundant terms which will lead to the bank not attaining the full benefits of the credit facility and further incurring losses due to poorly performing loans. The study also established that, credit monitoring is essential in preventing the incidence of non-performing loans. Monitoring triggers which are instituted for the purpose of protecting the bank from the crystallization of risks identified on credit facilities when applied, saves the bank from further troubles of recovering bad debts.
However, respondents were neutral about high interest rates being a contributory factor to the high non-performing loans.

On the objective of identifying the customer-specific causes of non-performing loans, the study revealed that most customers of banks have multiple banking relationship with some having multiple loans and are unable to repay their debts probably due to poor credit culture. Financial constraints and poor project management were also identified as causes of non-performing loans at the same time as wilful default and fund diversion were proven to be a factor determining the poor performance of loans in the bank.

5.2 Conclusion
In view of the findings, Competence of Banking Staff, Credit Assessment, Credit Terms and Credit Monitoring are major bank-specific causes of non-performing loans in banks in Ghana, specifically, Tier 4 Banks in Ghana. High Interest rates do not have an impact on non-performing loans.

Also, Multiple Banking Relationship, Financial Constraints, Wilful Default, Fund Diversion and Poor Project Management are the major customer-specific causes of non-performing loans in banks in Ghana, specifically, Tier 4 Banks in Ghana.

5.3 Recommendations
Based on the findings above, the following is recommended to mitigate the causes of non-performing loans;

- Continuous training for banking staff directly involved in the lending process should be undertaken frequently to improve upon their competence to enable quick identification of signals and risk factors that can result in non-performing loans.
- Banking staff responsible for credit assessment must be diligent in their analysis taking cognizance of the bank’s credit policy and borrower’s business and loan purpose.
requirement. Conducting a needs assessment on credit requests to determine right amounts of credit required to execute the borrower’s intended purpose to ensure too much or too little funding is avoided in order to prevent the occurrence of non-performing loans.

- To improve credit monitoring which is a sure way of improving credit quality, the bank should equip the credit monitoring unit to enable them execute their role in credit management appropriately. Both risk management staff and business units alike should be in contact with the customer as often as possible in order to identify early warning signals.
- Loan processing should be performed with speed and done efficiently as well in order to meet the timelines and business exigencies of the borrowers in order to prevent cases of delayed execution of projects or works which could result in delayed payments from third parties or non-payment as a result of breach of some underlying contracts.

The study was intended to identify both bank-specific and customer-specific variables resulting in the non-performing loans at FBNBank Ghana. Many other variables were excluded from this study, thus researchers who may be interested in conducting studies on the topic may consider including macroeconomic factors resulting in non-performing loans. Other factors under the bank-specific variables which could also be considered in future research includes credit policy, loan size, bank ownership, elongated loan process and rapid credit growth. Future researchers may also consider conducting research on the various loan customers in order to identify the specific factors which pertain to each type of customer i.e. Retail (individuals), Commercial (Small and Medium Enterprises) and Corporate (large businesses) borrowers.
REFERENCES


54


Castro, V. 2013. Macroeconomic determinants of the credit risk in the banking system: The case of the GIPSI. Economic Modelling. 31:672–683


branching. Journal of Money, Credit and Banking, p 1045-1071.


Petersson Jessica and Wadman Isac (2004): Non-Performing Loans - The Markets of Italy and Sweden, Published Thesis (MSc)


APPENDIX

a. QUESTIONNAIRE (STAFF)

Dear Respondent,

I am an MBA student of the University of Ghana Business School, conducting a study on the topic: “Determinants of Non-Performing Loans Amongst Tier 4 Banks in Ghana. A Case Study of FBNBank Ghana Limited”.

To this end, the study intends to gather information from selected practitioners in the credit processes of FBNBank Ghana (Heads of Credit Departments, Relationship and Business Managers, Business Developments Managers, Recovery and Monitoring Officers etc) through the administration of this questionnaire.

Your participation is fully voluntary, and responses will be confidential. The responses will be reported without compromising the anonymity of respondents.

I would appreciate your favourable consideration in completing the questionnaire to assist in my research endeavour.

Thank you in advance

SECTION ONE – DEMOGRAPHIC INFORMATION

(Please tick appropriate boxes)


2. Age: a. 20 – 29 yrs   b. 30 – 39yrs   c. 40-49yrs   d. 50 and above


4. Number of years worked in the Banking industry: a. 1 – 3yrs   b. 4 – 6yrs   c. 7 – 9yrs   d. 10yrs and above

5. Number of years worked in FBNBANK: a. 1 – 3yrs   b. 4 – 6yrs   c. 7 – 9yrs   d. 10yrs and above

6. Number of years worked in the credit related job: a. 1 – 3yrs   b. 4 – 6yrs   c. 7 – 9yrs   d. 10yrs and above

7. I work in the ....................... unit of FBNBank Ghana Limited.
SECTION TWO – DETERMINANTS OF NON-PERFORMING LOANS

A. Please rank the following factors that cause the occurrence of non-performing loans in FBNBank Ghana Limited.

Please rank the factors in order of importance from 1 to 5. i.e. 1 = highest  5 = lowest

<table>
<thead>
<tr>
<th>No.</th>
<th>Factors causing non-performing loans</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>a</td>
<td>Poor credit assessment</td>
<td></td>
</tr>
<tr>
<td>b</td>
<td>Poor credit Monitoring</td>
<td></td>
</tr>
<tr>
<td>c</td>
<td>High interest rate</td>
<td></td>
</tr>
<tr>
<td>d</td>
<td>Incompetent staff</td>
<td></td>
</tr>
<tr>
<td>e</td>
<td>Lenient credit terms</td>
<td></td>
</tr>
</tbody>
</table>

Apart from the factors listed above, kindly specify other factors you believe are causing the high non-performing loans at FBNBank

…………………………………………………………………………………………………………………………………………………………
…………………………………………………………………………………………………………………………………………………………
…………………………………………………………………………………………………………………………………………………………
…………………………………………………………………………………………………………………………………………………………

SECTION THREE: CREDIT RISK MANAGEMENT AND NON-PERFORMING LOANS

A. For each of the following statements, please indicate your degree of agreement or disagreement to the statements pertaining to credit assessment and the occurrence of NPL


<table>
<thead>
<tr>
<th>No.</th>
<th>Statements</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>a</td>
<td>Poor risk assessment of borrowers could easily lead to default</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b</td>
<td>The credit structure in relation to use of credit has a direct impact on NPLs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c</td>
<td>Borrowers who can meet all requirements of loans do not default</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
B. For each of the following statements, please indicate your degree of agreement or disagreement to the statements pertaining to credit monitoring and the occurrence of NPL

1. Strongly Disagree  
2. Disagree  
3. Neutral  
4. Agree  
5. Strongly agree

<table>
<thead>
<tr>
<th>No.</th>
<th>Statements</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>a</td>
<td>Strict monitoring ensures loan performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b</td>
<td>Poorly assessed and granted loans may perform well if properly monitored</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c</td>
<td>Frequency of monitoring of granted loans has a direct impact on performing loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

C. For each of the following statements, please indicate your degree of agreement or disagreement to the statements pertaining to Interest Rates and the occurrence of NPL

1. Strongly Disagree  
2. Disagree  
3. Neutral  
4. Agree  
5. Strongly agree

<table>
<thead>
<tr>
<th>No.</th>
<th>Statements</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>a</td>
<td>Loans with high interest rates end up being NPL</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b</td>
<td>NPL will result when high interest rates are charged</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c</td>
<td>Price of loans affect loan performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

D. For each of the following statements, please indicate your degree of agreement or disagreement to the statements pertaining to Incompetent Staff and the occurrence of NPL

1. Strongly Disagree  
2. Disagree  
3. Neutral  
4. Agree  
5. Strongly agree

<table>
<thead>
<tr>
<th>No.</th>
<th>Statements</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>a</td>
<td>Highly skilled credit analysts can prevent the incidence of non-performing loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b</td>
<td>Officers in charge of managing credit customers have a huge role to play in NPLs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

E. For each of the following statements, please indicate your degree of agreement or disagreement to the statements pertaining to Lenient Credit Terms and the occurrence of NPL

1. Strongly Disagree  
2. Disagree  
3. Neutral  
4. Agree  
5. Strongly agree

<table>
<thead>
<tr>
<th>No.</th>
<th>Statements</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>a</td>
<td>Lenient terms of credit lead to loan defaults</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b</td>
<td>Default occur when borrowers do not understand the terms of the credit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c</td>
<td>Poorly negotiated credit terms lead to loan defaults</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Thank you for your participation
b. QUESTIONNAIRE (BORROWER)

Dear Respondent,

This questionnaire seeks to gather information on the determinants of Non-performing Loans Amongst Tier 4 Banks in Ghana and aimed at improving the credit processes and structures of FBNBank.

To this end, the study intends to gather information from selected borrowers of FBNBank through the administration of this questionnaire.

Your participation is fully voluntary, and responses will be confidential. The responses will be reported without compromising the anonymity of respondents.

I would appreciate your favourable consideration in completing the questionnaire to assist in the research endeavour.

Thank you in advance

SECTION ONE – DEMOGRAPHIC INFORMATION

(Please tick appropriate boxes)

1. Gender:    a. Male  [ ]  b. Female  [ ]

2. Age: a. 20 – 29 yrs  [ ]  b. 30 – 39 yrs  [ ]  c. 40-49 yrs  [ ]  d. 50 and above  [ ]


4. Number of years worked in the current business or organization: a. 1 – 3 yrs  [ ]  b. 4 – 6 yrs  [ ]  c. 7 – 9 yrs  [ ]  d. 10yrs and above  [ ]

5. Number of years worked in the industry: a. 1 – 3 yrs  [ ]  b. 4 – 6 yrs  [ ]  c. 7 – 9 yrs  [ ]  d. 10yrs and above  [ ]

6. I am ………………………. a. Self-employed  [ ]  b. Employee  [ ]  c. Others  [ ]

7. My business is a. large  [ ]  b. medium  [ ]  c. small  [ ]
SECTION TWO – DETERMINANTS OF NON-PERFORMING LOANS

For each of the following statements, please indicate how it applies to you.

<table>
<thead>
<tr>
<th>No</th>
<th>Statements</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>a</td>
<td>I have banking relationship with other banks apart from FBNBank</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b</td>
<td>I have loans with other banks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c</td>
<td>I am unable to pay all my loans from all my bankers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>d</td>
<td>I could not use the loan for the intended purpose</td>
<td></td>
<td></td>
</tr>
<tr>
<td>e</td>
<td>I have still not received payment from the Principal/third party</td>
<td></td>
<td></td>
</tr>
<tr>
<td>f</td>
<td>Other commitments are preventing me from paying my loan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>g</td>
<td>I experienced delays in executing the project, thus the default</td>
<td></td>
<td></td>
</tr>
<tr>
<td>h</td>
<td>Financial constraints are preventing me from paying my loan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>i</td>
<td>I will pay the loan in my own time</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Thank you for your participation
c. Growing Non-Performing Loans at FBNBank Ghana

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>NPL ratio</td>
<td>2.37%</td>
<td>8.78%</td>
<td>5.24%</td>
<td>9.73%</td>
<td>19.57%</td>
</tr>
</tbody>
</table>

Source: FBNBank Ghana website

![Graph showing NPL ratio from 2013.5 to 2018.5](attachment://npl_graph.png)

Source: FBNBank Ghana website