

UNIVERSITY OF GHANA

**CORPORATE GOVERNANCE PRACTICES AND LOAN PERFORMANCE OF BANKS
IN GHANA**

BY

PATRICK KWEKU SAM

(10029100)

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PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF MPhil
ACCOUNTING DEGREE**

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DECLARATION

I, Patrick Kweku Sam, do hereby declare that this work is the result of my own research and has not been presented by anyone for academic award in this or any other university. All references used in the work have been fully acknowledged.

I bear sole responsibility for any shortcomings.

Student Name

Date

Signature

PATRICK KWEKU SAM
(10029100)

.....

.....



CERTIFICATION

We hereby certify that this thesis was supervised in accordance with procedures laid down by the University of Ghana.

.....

DR. CLETUS AGYENIM-BOATENG
(PRINCIPAL SUPERVISOR)

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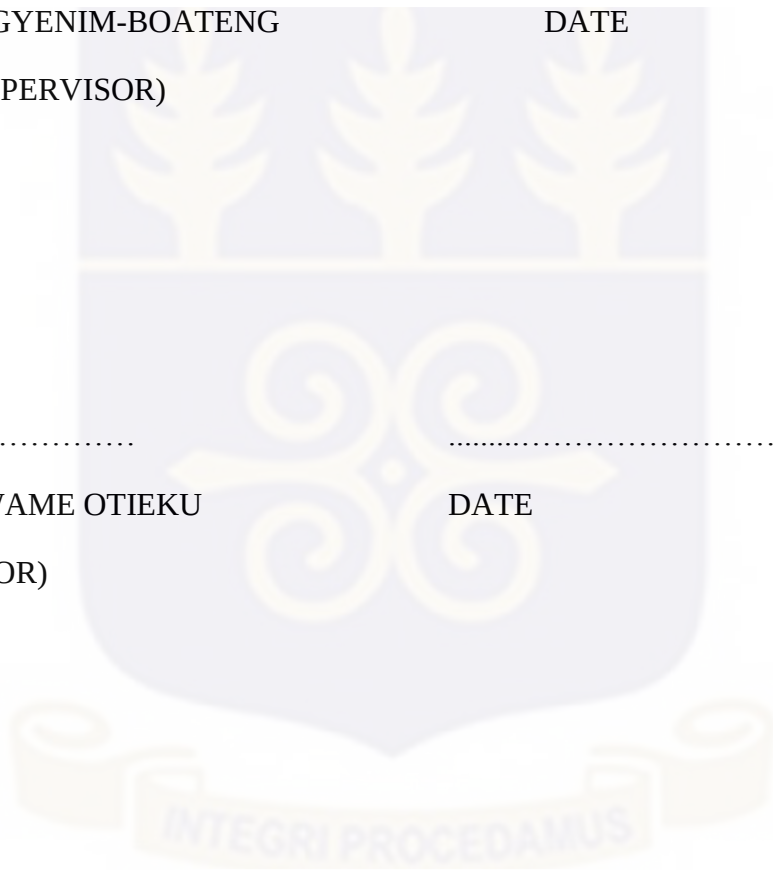
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MR. JAMES KWAME OTIEKU
(CO-SUPERVISOR)

.....

DATE



DEDICATION

This work is dedicated to my merciful mother, Madam Mercy Adwoa Mansa Ellis, who has single-handedly been both a father and mother to me since the demise of my biological father when I was an infant. I also dedicate the work to my children: Patrick, Patience, Patricia and Prince and to my wife Mrs. Faustina Sam, for their unfailing support, care and encouragement at various stages in my education.



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I dedicate this work to the Almighty God for granting me His Grace and seeing me through this work.

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ABSTRACT

Corporate governance in loan administration has become a subject of sustained research interest in recent years. This study specifically examines the relationship between various variables of corporate governance practices and the loan performance of banks using loan loss provisions. Using quantitative techniques of trend analysis, regression and correlation of secondary data from the Bank of Ghana, the study looked at twenty (20) selected commercial banks in Ghana on the relationship between corporate governance and loan administration from 2006 to 2013. The results of the data are presented in statistical tables and graphs. The results show that the banking industry in Ghana was formerly dominated by four banks namely Ghana Commercial Bank (GCB), Barclays Bank Ghana (BBG), Standard Chartered Bank (SCB) and Ecobank Ghana (EBG). These banks command more than 35% of the market share. The market share of GCB, BBG and SCB dipped and banks such as Universal Merchant Bank (UMB) and the International Commercial Bank (ICB) saw negative growth in total deposits in 2012 and 2013. Also, the loan loss provisions of all the banks showed that nine (9) banks achieved a loan loss provision above the industry average of 9% as at 2013. Zenith Bank was the only bank with a loan loss provision of 9% at 2013 whilst sixteen (16) banks had a loan loss provision below the industry average as at 2013. The multivariate analysis finds that corporate governance variables of board of directors (BD), credit committee (CC), lending units (LU), relationship management (RM), credit monitoring (CM), and Bank of Ghana (BG) all have a significant impact on non-performing loans of commercial banks. The study recommends that emphasis should not only be on these explanatory variables, but on other corporate governance variables such as; insider abuse, transparency, disclosure and accountability in line with loan management.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the study

In recent decades corporate governance has become a subject of sustained research interest in academia and corporate settings as it is believed to contribute positively to organisational outcomes as well as enhancing shareholder value and investors' confidence (Claessens & Yurtoglu, 2012). There exists empirical evidence of events that are responsible for the heightened interest in corporate governance (Ioannou & Serafeim, 2010). For instance Claessens & Yurtoglu (2012) conducted a survey on corporate governance in emerging markets. Their study reveals that voluntary and market corporate governance mechanisms have less effect when a country's governance system is weak. This is shown in how governance regimes change and the entrance of democracy into governance systems have impacted on firms in many economies. Also the study reveals that there is less evidence available on the direct relationship between corporate governance and socio-environmental performance of firms.

Corporate governance has been established as one of the tools that can mitigate corrupt behaviours and encourage ethical practices in organisations (Rossouw, 2005; Arjoon, 2005). Adams and Mehran (2012) posit that one of the major roles played by effective governance structures in banks is to shape their stability and sustainability. Again, a number of research studies on corporate governance practices (e.g. board composition, Chief Executive Officer (CEO)/Chairperson split, non-executive directors, audit committees) has shown that sound corporate governance practices boost the annual financial performance of firms (e.g. Laing & Weir, 1999; Bauer et al., 2004; Alves & Mendes, 2004). Besides these good radiance on

corporate governance, a number of studies have also shed light on a poor corporate governance practices of a company and how it impacts negatively on their financial performance.

Chen et al. (2011) explored how ownership structures of borrowing firms influence the financing arrangements for their syndicated loans. Using a novel data set made up of borrowing firms across twenty-two (22) countries from 1996 to 2008, it came out of the study that divergence between the control rights and cash-flow rights of the largest ultimate owner of a borrowing firm significantly affects the structure of its syndicated loan. Marie et al. (2013) examined the influence of corporate governance quality on firms' choice between convertible debt, straight debt, and equity. Using a Western European sample of security offerings made between 2000 and 2010, it was found that weaker firm-specific and country-specific corporate governance quality increases firms' likelihood of issuing convertible debt instead of straight debt and common equity. The results also suggest that corporate governance quality is a significant security choice determinant, with firms using convertible debt as a substitute for high quality governance mechanisms. Sungyoon and Wooseok (2008) also studied the corporate governance role of banks by investigating the effect of bank monitoring on the borrowers' earnings management behaviour. They concluded that earnings management behaviour generally decreases as the strength of bank monitoring increases. Their study's strength of bank monitoring is measured as (1) the magnitude of a bank loan, (2) the reputation (rank) of a lead bank, (3) the length of a bank loan, and (4) the number of lenders. These results imply that bank monitoring plays an important role in the corporate governance of bank-dependent firms. Additional studies of bank loan characteristics such as collateral, refinancing, loan types, and loan purposes and their effects on borrowers' earnings management behaviour show that collateral and loan types

are significantly associated with borrowers' earnings management behaviour, while refinancing and loan purposes have no association (Sungyoon & Wooseok, 2008). In all these studies, loan loss provision is paramount in determining the quality and quantity of bank loans of commercial banks as a result of non-performing loans which drain the growth and sustainability of banks.

On the macro level, the financial crises in 1998 in Russia, Asia and Brazil as well as the financial crisis in 2007 and 2008 showed how deficiencies in corporate governance can endanger global financial stability (Williamson, 2013). Corporate governance scandals in the United States and Europe after the 1998 financial crises proved this (Anderson et al., 2004). In December 2003, Parmalat, an Italian leading worldwide dairy company, followed suit with a financial scandal as a result of poor corporate governance structures (Buchanan, Yang, 2005). Effective governance is critical to all economic transactions in emerging and transitioning economies (Dharwadkar, George, & Brandes, 2000). The issue of corporate governance is widely acknowledged as a major challenge in achieving sustainable financial sector development and economic growth in developing economies (Nenova, 2004; Oman & Blume, 2005; Iskander & Chamlou, 2000). The significance of better corporate governance in private as well as public sector firms has also emerged as one of the most critical components of regulatory reforms in many countries.

Ghana, as an emerging economy is not exempted from the wave of corporate governance issues happening across nations. To show this, CAL bank in 2008 faced a huge challenge when the bank's corporate governance issues came to light showing many flaws in its corporate governance practices (Tetteh, 2008). This rumpus exposed many flaws in the governance set-up

of the bank and caused shareholders to know their rights and responsibilities. Corporate governance therefore plays a critical role in an organisation's operations.

1.2 Research problem

Weak corporate governance does not only lead to poor firm performance and risky financing patterns but it is also conducive for macroeconomic crises (Claessens et al., 2002). Most recent financial crises have seen their share of corporate governance failure in financial institutions and corporations leading to systemic consequences (Ashbaugh-Skaife et al., 2006). Corporate governance systems differ in corporations and industries (Yoshikawa & Rasheed, 2009). But the financial scandals in the banking sector seems has attracted much attention. But research work in this area is little and more work is needed for banks to know the components of corporate governance practices in relation to their loan performance. Addressing this issue should be key since banks are important financing agents. Furthermore, Byers et al (2008) studied whether corporate governance and bank monitoring influence the effective running of banks. They found that loan announcements are more likely to have positive wealth effects for firms with weak internal corporate governance. The study revealed how banks monitor their borrowers just to be sure they are credit worthy. But the study was not able to find out how banks measure their loan loss, and it looked at only internal structures without considering external factors. Also, corporate governance tend to extend beyond the internal corporate governance to include other external stakeholders like the government through the central bank, customers, competitors, and other environmental factors (Billett & Xue, 2007). Aside this, there are a number of studies on corporate governance on helping banks to achieve it targets in relation to risks (Kashyap et al.,

2008). For instance, firms with higher institutional ownership took more risks prior to the global financial crisis, which resulted in larger shareholder losses during the crisis period (Brunnermeier, 2009). Also, firms with more independent boards raised more equity capital during the crisis, which led to a wealth transfer from existing shareholders to debt holders (Taylor, 2009).

Also, corporate governance has been identified in previous studies to influence firms' financing or capital structure decisions which affect performance (Berger et al., 1997; Friend & Lang, 1988) in the advanced economies. Bertrand et al. (2002) have argued that corporate governance of financial institutions has been an under-highlighted area in developing economies when there were massive failures at major institutions in advanced countries. Even though there are some researches on corporate governance of other areas in developing economies (Gompers et al., 2003; Bauer et al., 2004), corporate governance of banks in these economies has received little attention. Very little, however, has been done on corporate governance in Sub-Saharan Africa, especially with respect to loan performances. In Ghana, for instance, economic development and restructuring have introduced modern forms of banking business and diverse loan financing structures like a loan in forty-eight (48) hours by Unique Trust Bank and internet banking to make loans easy to access. Thus firms are being exposed to more financing options than previously. It is crucial to determine how current issues in corporate governance affect the loan financing decisions of Ghanaian firms (customers) and the banks. This study specifically examines the relationship between various variables of corporate governance practices and the loan performance of twenty (20) banks using the loan loss provision from 2006 to 2013.

1.3 Research Aim

The main aim of this study is to assess the relationship between corporate governance practices and loan performance of banks in Ghana.

1.4 Research objectives

The study's objective is to investigate the relationship between corporate governance practices and loan performance of banks in Ghana by considering the following specific objectives:

- i) To determine corporate governance practices which are related to the administration of bank loans
- ii) To use loan loss provisions to explain non-performing loans of banks in Ghana;
- iii) To determine the relationship between corporate governance practices of banks and the performance of bank loans.

1.5 Research questions

- i) What are the corporate governance practices related to loan administration?
- ii) What are causes of the fluctuations in the trend of loan loss provisions of banks in Ghana?
- iii) What are the relationships between of corporate governance practices and loan administration of banks in Ghana?

1.6 Significance of the study

This research will establish the need for corporate governance in loan administration in banks. The banking sector regulator that is Bank of Ghana will be able to have a full understanding of the scope of corporate governance in banks with respect to loan performance of banks. For instance, the Bank of Ghana has increased the primary reserve ratio from 9% by 200 basis points to 11 % effective May 2014. This was done to limit the release of loans to customers which are non-performing over the years. By the central bank's decision, commercial banks are now obliged to retain or deposit 11 % of their available funds in cash with the Central Bank to serve as a buffer in unforeseen default in loan payment in future which has a capacity to affect the financial strength of the banks. This decision was taken based on the loan loss provision of the commercial banks in Ghana in conjunction with the increase in inflation from 16% in February 2015 to 16.5% in March 2015 with the cedi struggling with major foreign currencies (Bank of Ghana, 2015). This research helps in future decisions of the central bank in respect of the universal banking areas in Ghana.

Banks will gain insights into the scope of corporate governance in loan administration. This study will help all the twenty-seven (27) existing commercial banks in Ghana as at 2014 to know how to strengthen or create new avenues to tighten their loan administration policies. All the commercial banks have different corporate governance practices and with this study, the incoming banks will better understand how to develop their credit policy to suit their aims and the Ghanaian market. In addition, banks and other financial institutions can use this research as a reference document for corporate governance practices in loan administration.

The findings will serve as a reference point for students and researchers in this area or related areas of study since corporate governance in banks has been an under-studies in developing countries. The research gaps identified by this study will assist researchers in future studies. This research will be a reference document for academic conferences, seminars and group studies on loan administration and the corporate governance practices.

1.7 Chapter disposition

The research study is organized into five (5) chapters. Chapter one captures the background of the study, the problem statement, objectives of the study, the hypothesis statement, the significance of the study, the scope of the study, the organisation of the study and limitations. The second chapter reviews existing literature on corporate governance and its effect on loan performance of banks, as well as conceptual framework used in the study. The third chapter focuses on the part used to evaluate the corporate governance effect on loans performance in banks. These methods include research design, population sample frames, sampling techniques, model specifications, etc. The next chapter is fourth which presents simple financial model based on regression and correlation to look at the relationship between corporate governance practices and loan administration. The last chapter looks at the contribution this study add to existing literature by summarising, concluding and making recommendations for current and future progress of banks in their loan administration.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section of the thesis reviews relevant and related literature on the subject matter. The purpose of this chapter is to examine secondary sources of data relevant to the topic such as academic papers, articles, journals, etc. and to set the tone for the background of this research work. It will explore areas such as the corporate governance practices of banks, bank loan management, and the supervisory role played by the central bank. It will go further to explain the nexus between corporate governance practices and its impact on bank loan management in Ghana.

2.2 Corporate governance

2.2.1 What is corporate governance?

Corporate governance has been an issue of global concern long before now. Currently, academics and professionals have shown increasing interest in the study of corporate governance which enhances our knowledge of how corporate governance influences a firm's management, strategies and performance (Sarbah, 2014). By definition corporate governance is the way in which the suppliers of finance to corporations assure each other of getting a return on their investment (Shleifer & Vishny, 1997). It can be defined as a system by which companies are directed and controlled (Cadbury, 1999). Corporate governance has also been defined as 'a

system of laws and sound approaches by which corporations are directed and controlled focusing on the internal and external corporate structures with the intention of monitoring the actions of management and directors and thereby mitigating agency risks which may stem from the misdeeds of corporate officers' (Sifuna, 2012). It centres on the configuration of control mechanisms that attempt to limit problems arising from potential conflict of interest between the different participants in the firm, managers, shareholders, employees, creditors, etc. As a control mechanism, Jensen (1994) outlines four basic categories of corporate governance: (1) legal and regulatory mechanisms; (2) internal control mechanisms; (3) external control mechanisms; and (4) product market competition.

The revised principles of corporate governance of the Organisation for Economic Co-operation and Development (OECD) (2004), explain corporate governance as a framework to coordinate the relationship between shareholders, board of directors, managers and other stakeholders. Specifically, corporate governance is divided into corporate governance structure and corporate governance process (Aboagye et al, 2012). Governance structures, which include ownership structure and board structure, are intended to discipline the behaviour of corporate governance actors. These actors include shareholders, regulators, auditors, directors and executive management.

The governance practices refer to the interaction of governance actors based on governance structures. Hence, governance structures influence the effectiveness of governance practices and ultimately the firm's performance. Evidence from the literature suggests that good governance generates investor goodwill and confidence. Since they believe that the monies invested in the

firm will not go waste. For example, Gompers et al. (2003) state that where there is good corporate governance it increases the firm's valuations and boosts the bottom line. Claessens et al. (2002) also maintain that better corporate frameworks benefit firms through greater access to financing, lower cost of capital, better performance and a more favourable treatment of all stakeholders. In the banking circles, (Zakaria, 2012) stated that proper corporate governance conduct may control and minimize the default (credit or loan risk) probability as well as ensuring good performance and maintaining high firm value. The default risk could arise due to excess leverage, poor financial performance and weak internal control practices. Sound corporate governance via its monitoring may help to mitigate default risk.

The origin of corporate governance research can be traced back to 18th century and the work of Adam Smith's (1776) work entitled "The Wealth of Nations". Adam Smith argued that people in charge of other people's money do not take as much precaution as they would with their own. The idea of separating the powers of owners and management or control was looked at by Berle and Means (1932) in their research paper. Jensen and Meckling (1976) brought an idea which can be described as the modern day theory on corporate governance. This modern theory on corporate governance integrated the agency theory, the theory of property rights and the theory of finance.

Since its emergence, corporate governance has dominated the policy agenda in developed market economies for more than two decades, and it is gradually warming its way to the top of the policy agenda on the African continent. The Asian crisis and the relative poor performance of the

corporate sector in sub-Saharan Africa have made corporate governance a catchphrase in the development debate (Berglof & von Thadden, 1999).

It is commonly asserted that corporate governance is associated with larger companies and the existence of the agency problem. This agency problem arises as a result of the relationships between shareholders and managers. It comes about when members of an organisation have conflicts of interest within the firm. This may occur when there is mismanagement of funds at the expense of the owners of the firm. This is mainly due to the separation between the ownership and the control of the firm.

It has been identified, in many studies that corporate governance has a positive influence on a business's performance (Bebchuk & Cohen, 2004; Bebchuk, Cohen & Ferrell, 2004; Kyereboah-Coleman & Biepkpe, 2006a; Kyereboah-Coleman & Biekpe, 2006b; Kyereboah Coleman, Biekpe 2006c and Sarbah, 2014) and that poorly governed firms are expected to be less profitable, have more bankruptcy risks, lower valuations and pay out less to their shareholders. Others argue that weak corporate governance does not only lead to poor firm performance and risky financing patterns, but are also conducive to macroeconomic crises.

2.2.2 Principles and components of corporate governance practices

2.2.2.1. Principles guiding corporate governance practices

The Organisation for Economic Co-operation and Development (OECD) published its 'Principles of Corporate Governance' in 2004. These principles have become the standard principles guiding all corporate governance in recent years (Sarbah, 2014). These are:

- **Rights of shareholders:** The corporate governance framework should protect shareholders and facilitate their rights in the company. Companies should generate investment returns for the risk capital put up by the shareholders.
- **Equitable treatment of shareholders:** All shareholders should be treated equitably (fairly), including those who constitute a minority, individuals and foreign shareholders. Shareholders should have redress when their rights are contravened or where an individual shareholder or group of shareholders is oppressed by the majority.
- **Stakeholders:** The corporate governance framework should recognise the legal rights of stakeholders and facilitate cooperation with them in order to create wealth, employment and sustainable enterprises.
- **Disclosure and transparency:** Companies should make relevant, timely disclosures on matters affecting financial performance, management and ownership of the business.
- **Board of directors:** The board of directors should set the direction of the company and monitor management in order that the company will achieve its objectives. The corporate governance framework should underpin the board's accountability to the company and its members.



Figure 2. 1: The five basic principles guiding corporate governance practices

2.2.2.2. Approaches to corporate governance practices

Most organisations or countries adopt a principles-based approach to corporate governance (ACCA, 2013). This involves establishing a comprehensive set of best practices to which listed companies should adhere. If it is considered to be in the best interests of the company, not to follow one or more of these standards, the company should disclose this to its shareholders, along with the reasons for not doing so. This does not necessarily mean that a principles-based approach is a soft option, however, as it may be a condition for membership of the stock exchange so that companies strictly follow this ‘comply or explain’ requirement.

Some countries prefer a rules-based approach through which the desired corporate governance standards are enshrined in law and are therefore mandatory. The best example of this is the US, where the Sarbanes-Oxley Act lays down detailed legal requirements.

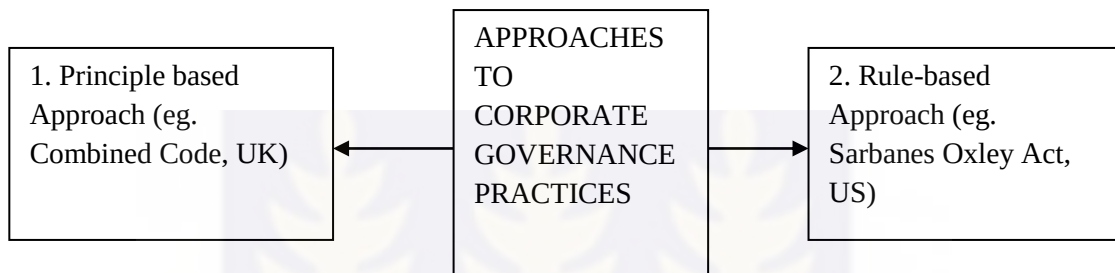


Figure 2. 2: Approaches to corporate governance practices

2.2.2.3 Components of corporate governance practices



Figure 2. 3: The elements of corporate governance practices in relation to loan performance

2.2.2.3.1 Board of directors

- **Why the board?**

The board of directors is the supreme governing body of a bank. The board is responsible for setting the strategic direction of a bank and overseeing the risk management policies of a bank. The board of directors is appointed by the shareholders of a bank. The board has the ultimate responsibility for the manner in which the operations/business of a bank is conducted. Among its responsibilities are: appointing senior management, establishing operational policies and, above all, taking responsibility for ensuring the soundness of a bank.

A board must be strong, independent and actively involved in the activities of a bank. Although a bank's directors may not be experts in banking, it is important that they have the skills, knowledge, and experience to enable them perform their duties effectively. The board oversees and supports management efforts, tests and probes recommendations before approving them. It should make sure that adequate controls and systems are in place to identify and address concerns before they become major problems. During bad times, a board that is active and involved can help a bank survive if it is able to evaluate problems, take corrective actions, and when necessary, keep the institution on track (Greuning & Bratanovic, 2003). No single individual should be able to dominate decision making. It follows that the board should work as a team with outside members contributing to strategy rather than simply having a monitoring or policing role. Boards need to comprise of members who possess skills and experience appropriate for the organisation. All board members should endeavour to acquire a level of

understanding of financial matters that will enable them to participate in decisions regarding the organisation.

In summary, the board of directors have the following responsibilities: select competent executive officers; evaluate and compensate them accordingly; review and approve the management-developed strategy i.e. approve the overall risk-appetite of the institution; monitor the control of the environment; ensure that the necessary corrective actions are taken to remedy the situation; ensure the compliance of the institution with its legal and regulatory requirements; select competent board members; and establish guidelines to govern the organisation and its structures. Directors are to perform these functions in the best interest of the shareholders and other stakeholders.

- **Ideal size of the board**

What is the optimal size of a board of directors? The right answer can be found in a look at the function of the organisation, the size of its assets and the board's culture (Todd, 2012).

The average board size is 19 and the median is 17 (Board Source Non-profit Governance Index, 2010). The non-profit organisations with budgets of \$10 million or more have an average of 18 members and those with less than \$1 million typically have 14 members. Bain Capital (2011) asserts that the optimal board size for effective decision making is seven (7) people. Bain Capital Survey suggests that, 'every person added after that decreases decision-making ability by 10 percent'. So for boards with the median of 17 people, Bain Capital would put their decision-making ability at zero. Corporate Library's Study (2009) puts the average board size to 9.2

members and most boards range from 3 to 31 members but admit that other analysts think the ideal size is seven.

While a smaller board size does reflect new thinking about board functioning, many boards work extremely well with 17-22 people and do not buy into Bain Capital's assertion. So the ideal size of a corporate entity's board is dependent on so many factors, like the cost of maintaining a board, organisational size etc.

- **Board size and loan performance**

Large boards can be less effective than small boards (Jensen, 1993; Lipton & Lorsch, 1992). The issue is that when the size of a bank's board becomes too big, agency problems (such as director free-riding) increase within the board and the board becomes more symbolic and less a part of the management process (Yermack, 1996). Yermack (1996) drew a relationship between Tobin's Q and board size on a sample of large U.S. corporations, controlling for other variables that are likely to affect Q. His results suggest that there is a significant negative relationship between board size and Q.

Eisenberg et al. (1998) confirmed that a similar pattern holds for a sample of small and mid-sized Finnish firms. Their data therefore appear to reveal a fairly clear picture: board size and firm value are negatively correlated.

Another measure of the importance of board size is how participants in the marketplace view it. Gertner and Kaplan (1996) use a novel approach to examine the boards of a sample of reverse-leveraged buyouts. Their idea is that these firms are more likely than ongoing public firms to choose a value-maximizing board. Gertner and Kaplan find that, in this sample, boards tend to be smaller than in otherwise similar firms. Market participants seem to think that small boards do a better job of monitoring management than do large boards.

Although striking, these results nevertheless raise some questions (Cue et al., 2011). For instance, why, if they are destructive to firm value, do we see large boards? Perhaps large boards are uniformly bad because size exacerbates some free-riding problems among directors vis-à-vis the monitoring of management. These issues are pertinent to the success or failure of loan agreement and its performance which is an ingredient of banks annual performance.

- **Structure of the board**

The board of directors is made up of executive directors and non-executive directors. Executive directors are full-time employees of the company and, therefore, have two relationships and sets of duties. They work for the company in a senior capacity, usually concerned with policy matters or functional business areas of major strategic importance. Large companies tend to have executive directors responsible for finance, IT/IS, marketing and so on.

Executive directors are usually recruited by the board of directors. They are the highest earners in the company, with remuneration packages made up partly of basic pay and fringe benefits and partly performance-related pay. Most large companies now engage their executive directors

under fixed term contracts, often rolling over every 12 months. The chief executive officer (CEO) and the finance director (in the US, chief financial officer) are nearly always executive directors. Non-executive directors (NEDs) are not employees of the bank and are not involved in its day-to-day running. They usually have full-time jobs elsewhere, or may sometimes be prominent individuals from public life. The non-executive directors usually receive a flat fee for their services, and are engaged under a contract for service (civil contract, similar to that used to hire a consultant). They give expert advice on the running of the bank, and other responsibilities as agreed by the shareholders.

- **Board structure and loan performance**

The most widely discussed question regarding boards is whether having more non-executive directors increase banks' performance? A number of papers have addressed this question using several methods. The first method has been to examine contemporaneous correlations between accounting measures of performance and the proportion of outside directors on the board. MacAvoy et al. (1983), Hermalin & Weisbach (1991), Mehran (1995), Klein (1998), Abor (2008), Bhagat & Black (2000) all report insignificant relationships between accounting performance measures and the fraction of outside directors on the board. A second approach, suggested by the work of Morck et al. (1988), is to use Tobin's Q as a performance measure, the idea being that it reflects the 'value added' of intangible factors such as governance. Hermalin and Weisbach (1991) and Bhagat and Black (2000) use this approach and find, as with accounting performance measures, that there is no noticeable relationship between the proportion of outside directors and Q. Finally, Bhagat and Black (2000) examine the effect of board composition on long-term stock markets and accounting performance. Once again, they do not

find any relationship between board composition and firm performance. Overall, there is little to suggest that board composition has any cross-sectional relationship to firm performance.

An important issue to consider when evaluating these studies is the endogeneity of board composition. Hermalin and Weisbach (1998) suggest that poor performance leads to increases in board independence. In a cross-section, this effect is likely to make firms with independent directors look worse, because this effect leads to more independent directors on firms with historically poor performance. Both Hermalin and Weisbach (1991) and Bhagat and Black (2000) have attempted to correct for this effect using simultaneous-equation methods.

In particular, these papers logged past performance as an instrument for current performance. Still, even correcting for endogeneity in this manner, there does not appear to be an empirical relationship between board composition and firm performance.

A somewhat more successful approach has been to measure the impact on firm value through changes in board composition. Rosenstein and Wyatt (1990) examine the stock price reaction on the day of the announcement that outside directors will be added to the board. They find that on average there is a statistically significant 0.2 percent increase in stock prices in response to the announcement of these appointments.

In many ways, the Rosenstein and Wyatt approach is a cleaner test of the relationship between board composition and ultimate value than the other studies considered above; the Rosenstein

and Wyatt approach controls for all firm-specific effects and tests directly for the desired effect. Controlling for firm-specific effects is critical because as Hermalin (1994) predicts and Kole (1997) and Hermalin and Wallace (forthcoming) confirm, there is no reason to imagine that a specific board composition (for example, percentage of outsiders) is optimal for all firms. Hence, the impact of board composition on performance could be difficult to identify cross-sectionally.

However, there is a potential drawback to the Rosenstein and Wyatt approach. Presumably, firms change their board structure to improve their operations and, thus, ultimately their value. Thus, all change announcements, to the extent that they are unexpected, should cause a positive change in the stock price. If this is true, then the Rosenstein and Wyatt results tell us nothing about the value of outsiders per se. Yet if only the addition of outsiders increased firm value, while other changes are neutral or lowered firm value, then we have to ask why this is allowed to happen and why firms do not continually add outsiders to boost value. In their follow-up paper, Rosenstein and Wyatt (1997) address some of these concerns. Overall, they find no definitive effect of adding an insider to the board. In some specifications, however, they find that adding an insider increases the stock price. Hence, the original Rosenstein and Wyatt effect could, as we have suggested, simply reflect value increase associated with the change, rather than anything in particular about outsiders. This shows the overall effects of the board structure on the general performance of a bank which includes loan performance.

- **Power separation**

It is generally recognized that the CEO should not hold the position of chairman, as the activities of each role are quite distinct from each another. In larger companies, there would be too much work for one individual, though in Marks & Spencer, a large listed UK retail organisation, one person did occupy both positions for several years (ACCA, 2013).

Probably the most important factor determining a board's effectiveness is its independence from the CEO. Independence from the CEO's influence is the underlying factor in many discussions of boards and their relationship with management.

However, this variable is fundamentally unobservable, and this is an important reason why empirical work on boards of directors is a challenging topic. A number of recent papers have addressed the power struggle between the board and the CEO empirically in creative ways. Hallock (1997, 1999) examines board interlocks, which occur when a firm's employee sits on another firm's board and that firm's employee sits on the first firm's board. These employees are generally the CEO or another person high in management in their respective firms. Given this type of relationship, the potential for collusive or quid pro quo behaviour on the part of the 'interlocked' directors is particularly high. Hallock documents that the prevalence of interlocking directorships is too high to be explained by random chance. In addition, he finds that CEOs with interlocking boards get paid more than otherwise similar CEOs. These findings are consistent with the view that interlocking directorships provide the CEO a degree of control over his board or, at the very least, that the CEO has the bargaining power to obtain a friendly board. Shivdasani

and Yermack (1999) examine the extent to which the CEO is involved in the board-selection process. This is an interesting empirical exercise because case-study evidence suggests that CEOs play an important role in selecting new board members (Mace 1986; Lorsch & MacIver 1989) and because theoretical work implies that the role of the CEO in choosing directors can have an impact on the board's effectiveness (Hermalin & Weisbach 1998). Shivdasani and Yermack construct a measure of CEO involvement in the selection process based on whether the board has a separate nominating committee, and conditional on such a committee existing, whether the CEO is on it. The authors find that this measure of CEO involvement decreases the firm's subsequent number of independent directors. Shivdasani and Yermack's results are consistent with the view that, at least in some firms, the CEO is able to use his control over the selection process to decrease the board's independence. Baker and Gompers (2000) examine the board-selection process in a large sample of initial public offerings. They test whether factors that are plausibly related to CEO bargaining power influence the selection of board members. In particular, they argue that CEO tenure and CEO voting stake, as measured by its Shapley value, are likely to be positively related to CEO bargaining power.

In contrast, the presence of a venture capital investor, especially one with a strong reputation, is likely to decrease the CEO's bargaining power relative to the board. Empirically, Baker and Gompers find that, consistent with the bargaining framework, CEO tenure and CEO Shapley value are positively related to the number of insiders on the board, while the number of insiders decreases with the reputation of the venture capitalist financing the firm.

Overall, the literature has documented a number of facts about board dynamics. These facts can be explained reasonably well by a bargaining framework such as Hermalin and Weisbach (1998). Interested parties' control of the board appears to be a function of their bargaining power. When banks' financial claims become more uncertain and their legal rights in bankruptcy courts therefore become stronger, their representation on boards increases (Gilson 1990; Kaplan & Minton 1994; Morck & Nakamura 1999). After a period of good performance, when a CEO's perceived value relative to a potential replacement is likely to be high, he is able to add more insiders to the board (Hermalin & Weisbach 1988; Denis & Sarin 1999). Finally, direct measures of a CEO's bargaining position such as his voting stake, the use of interlocks, his representation on the nominating committee, and his dealings with venture capitalists appear to affect board composition in ways consistent with the bargaining framework (Hallock 1997, 1999; Shivdasani & Yermack 1999; Baker & Gompers, 2000).

The secretary should not also be the chairman of the company. As the secretary has a key role in liaising with the government registration body, having the same person occupying both roles could compromise the flow of information between this body and the board of directors.

2.2.2.3.2 Credit committee

The Credit Committee exercises the Board's responsibilities on credit and credit related matters in line with its delegated limit. In most of the sampled banks, there are representatives of the board on the credit committee. The credit committee comprises mainly executive and

management committee members as well as officers connected with loan administration, monitoring and recoveries.

The Management credit committee performs among others the following duties:

- Recommend to the board the credit risk inherent in every loan application.
- Recommend innovative financial and credit products to the Board for approval.
- Propose credit approval authority levels to the Board.
- Establish effective credit pricing policies.
- Periodic review of credit portfolio.
- Approve credits within its delegated limits.

In most of the banks, a facility request is expected to include comments from areas of risk management with respect to the following risk:

- Credit risk
- Legal risk
- Liquidity risk
- Market risk
- Accounting and financial reporting
- Operational risk

This will ensure that the relevant issues surrounding the facility pertaining to these areas have been properly examined and that satisfactory mitigation measures are in place.

To encourage greater accountability on the credit committee, individual reservations and dissensions should be recorded in the Minutes.

2.2.2.3.3 Lending units (LUs)

The banks have lending units responsible for the granting of loans in accordance with their authority limits and credit policy statements.

Thus the lending units are basically responsible for:

- Making credit recommendations within their limits as approved by their boards.
- Managing relationships and portfolios of banks.

Lending units' credit proposals are submitted to their credit risk management for appraisal and approval within their limits, or recommendation to the next level of authority.

2.2.2.3.4 Relationship management

The relationship manager has the primary responsibility for credit relationship management in a lending unit. He/she sponsors and analyses credits, negotiates with the customer, monitors and renders adequate credit reviews, account maintenance, security documentation and other credit related issues as they pertain to his/her unit. Thus they originate and manage credit relationships. Other responsibilities include the following:

- Developing marketing plan and budget for individual accounts.
- Business development.
- Credit collection.
- Documentation and disbursement management.
- Monitoring of Accounts.
- Monitoring and problem loan recognition.

Therefore, a successful credit management must of necessity involve a series of tasks to be performed at the right time and with initiative. This will help in the timely detection of threats and the prompt identification of appropriate effective containment and remedial action(s).

In broad terms, the monitoring activity of the Relationship Manager will ensure that:

- Funds advanced are used only for the purpose stated in the customer's credit application;
- Financial condition of a borrower is regularly tracked and management advised in a timely fashion;
- Borrowers are complying with contractual covenants;
- Collateral coverage is regularly assessed and related to the borrower's financials;
- The institution's internal risk ratings reflect the current condition of the customer;
- Contractual payment delinquencies are identified and emerging problem credits are classified on a timely basis and
- Problem credits are promptly directed to management for remedial actions.

2.2.2.3.5 The credit risk management department

The credit risk management department is the custodian of a Bank's credit processes and has the primary responsibility of evolving the Bank's credit policies and strategies and also implementing the decisions of the board, the credit committee and the executive management in the delivery of credit products and services.

The credit risk management department independently reviews all proposals emanating from the lending units with an element of credit risk to ensure that optimal decisions are taken and that such decisions when taken are in compliance with a bank's credit policies.

Specifically, the responsibilities of the department include the following:

- Problem loan avoidance through the independent review or concurrence and rating of the credit risk attached to each credit facility and exposure without which an approval is incomplete or not valid.
- Ensuring compliance with the provisions of a bank's credit policy.

- Ensuring compliance with Banking Act, 2004 (Act 673) as amended by Banking (Amendment) Act, 2007 (Act 738) and the Bank of Ghana's guidelines for reporting institutions.
- Review of a bank's credit policy in line of changing trends and legislations.
- Review of credit documentation and approving disbursements.
- Ensuring the adequacy, maintenance and safety of credit information.
- Determining the credit risk appetite of a bank.
- Monitoring and tracking of post approval account performance, through covenants in facility letters.

2.2.2.3.6 Credit monitoring

The banks have a specific unit within the credit risk management department responsible for monitoring of credit portfolios. The unit is primarily responsible to review a bank's risk assets on a post approval basis with a view to:

- Ensure the performance of the risk assets portfolio of a bank.
- Improve on a bank's credit process by identifying process lapses.
- Review the ageing analysis and the classifications based on the performance of the accounts.

In addition to the monitoring unit within banks, there is a committee responsible for credit monitoring which preside over all problem loans or classified accounts with the following characteristics:

- Expired but unpaid facilities;
- Accounts with repayment(s) in arrears;
- Accounts operating consistently above approved limits
- Accounts placed on the early alert list

2.2.2.3.7 Credit approval limits

The credit approval limits for all levels within the credit management structure of a bank which clearly documents the approval limits of officials in accordance with the authority level and functions within a bank.

2.2.2.3.8 Legal team

Banks have a legal department responsible for the perfection of securities before loans are granted. The legal department has to authorise for a draw down request from the credit risk management department before the credit risk management department can authorise for a customer to draw down a facility. The Legal Department does the approval when conditions for draw down have been met.

2.2.2.3.9 Audit committee

Banks have an audit committee with direct responsibilities to the board. The committee usually consist of membership from the board, the internal control department, the accounting and the finance department. It is the board's responsibility to review the reports of independent auditing firms. Such reviews should include: scope of audit and auditor's conclusions, adequacy of the bank's internal controls and actions needed to correct existing deficiencies and solve problems, and the bank's compliance with laws and regulations.

- **Functions of audit committees**

Surrey Bancorp (2009) identified the following functions for audit committees which affects loan management and performance:

- **Authority of audit committee.**

The board of directors hereby delegates to the committee, in its capacity as a committee of the board, the sole authority to engage, determine the compensation of, and provide oversight to the independent accounting firm engaged to prepare and issue an audit report (and related work) for the company, which firm shall report directly to the committee (Universal Merchant Bank, 2014). The committee shall approve in advance any permissible non-audit services provided by the independent accountants. The committee may delegate to the chair and/or one or more other designated members of the committee the authority to grant pre-approvals of permissible non-audit services. Any such pre-approvals shall be presented to the full committee at its next scheduled meeting. The committee shall have the authority to engage independent counsel and other advisors, as the committee determines necessary to perform its functions (Universal Merchant Bank, 2014). The committee shall also resolve disagreements, if any, between management and the independent auditor to assure compliance with laws and regulations.

- **Plan of audit**

The committee shall consult independent external auditor regarding the plan of audit. The committee also shall review with the independent accountants their report on the audit and review with management the independent accountants' suggested changes or improvements in the company's accounting practices or controls

– **Accounting principles and disclosures**

The committee reviews significant developments in accounting rules. The committee shall review with management recommended changes in the company's methods of accounting or financial statements. The committee also shall review with the independent accountants any significant proposed changes in accounting principles and financial statements.

– **Internal accounting controls**

The committee shall consult with the independent accountants regarding the adequacy of internal accounting controls. Where appropriate, consultation with the independent accountants regarding internal controls shall be conducted out of management's presence. In connection with this function, the committee may require the company's counsel to circulate a questionnaire to evaluate the company's compliance with banking, financial disclosure and accounting laws.

– **Financial disclosures document**

The committee shall review with management and the independent accountants the company's financial disclosure documents, including all financial statements and reports filed with the securities and exchange commission (or the company's primary federal securities regulator), or sent to stockholders and, following the satisfactory completion of each year-end review, recommend to the board the inclusion of the audited financial statements in the company's filing on Form 10-K (or Form 10-KSB). The review shall include any significant problems and material disputes between management and the independent accountants and a discussion with the independent accountants out of management's presence of the quality of the company's accounting principles as applied in its financial reporting, the clarity of the company's financial

disclosures and degree of aggressiveness or conservatism of the company's accounting principles and underlying estimates, and a frank and open discussion of other significant decisions made by management in preparing the financial disclosure.

– **Internal Control systems**

The committee shall review with management and internal auditors the company's internal control systems intended to ensure the reliability of financial reporting and compliance with applicable codes of conduct, laws, and regulations. The review shall include any significant problems and regulatory concerns. The committee also shall review internal audit plans in significant compliance areas

– **Ethical environment**

The committee shall consult with management on the establishment and maintenance of an environment that promotes ethical behaviour, including the establishment, communication, and enforcement of codes of conduct to guard against dishonest, unethical, or illegal activities.

– **Oversight of executive officers and directors and conflicts of interest.**

The committee shall review significant conflicts of interest involving directors or executive officers. The committee shall review compliance with company policies and procedures with respect to officers' expense accounts and perquisites, including their use of corporate assets, and consider the results of any review of these areas by the internal auditor or the independent accountant. The committee shall review executive officers' and directors' loan and deposit relationships and consider the results of any review of these areas by the internal auditor or the independent accountant. The committee also shall review significant questionable or illegal payments.

– **Oversight of independent accountants**

The committee shall evaluate the independent accountants on an annual basis and, where appropriate, replace for the independent accountants. In such evaluation, the committee shall ensure that the independent accountants deliver to the committee a formal written statement delineating all relationships between the accountants and the company. The committee also shall engage in a dialogue with the accountants with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent accountants and in response to the independent accountant's report take appropriate action to satisfy itself of the independent accountant's independence.

– **Adequacy of personnel**

The committee shall review periodically the adequacy of the company's accounting, financial, and auditing personnel resources.

– **Risk management**

The committee shall review and evaluate risk management policies in light of the company's business strategy, capital strength, and overall risk tolerance. The committee also shall evaluate on a periodic basis the company's investment and derivatives risk management policies, including the internal system to review operational risks, credit risks, interest rate risks, procedures for derivatives investment and trading, and safeguards to ensure compliance with procedures.

– **Tax policies**

The committee shall review periodically the company's tax policies and any pending audits or assessments.

– **Offerings of securities**

The committee shall perform appropriate due diligence on behalf of the board of directors with respect to the company's offerings of securities.

– **Charter amendments**

The committee shall review this charter annually, assess its adequacy and propose appropriate amendments to the Board.

– **Complaint procedures**

The committee shall establish procedures to receive complaints or concerns regarding accounting or auditing matters and investigate any matter brought to its attention within the scope of its duties.

– **Issue tracker procedures**

The committee shall review the Issue Tracker to track outstanding audits and examinations issues. The above must be looked at. The sections read as official documents and if they are, they must be acknowledged.

2.2.2.3.10 The central bank and loan management

The Bank of Ghana being the central Bank of the republic of Ghana is charged with the responsibility of seeing to it that the universal banks conduct themselves within the framework of rules and regulations that govern their activities. It enforces relevant regulatory provisions which have extensive sanctions available to impose on banks such as fines, revocation of license (in extreme cases), variations in the terms and conditions of licensing, as well as civil and criminal penalties for non-compliance.

Banking supervision in Ghana entails an on-going monitoring of overall operations of banks and the enforcement of banking regulations and policies with the objective of promoting the safety, soundness and stability of banks and the banking system. Banking supervision in Ghana also ensures that monetary and banking guidelines are complied with and to guarantee monetary stability in the economy. Furthermore, banking supervision seeks to promote efficiency and competition among banks in Ghana.

The central bank of Ghana does the supervisory function through its monitoring department called the Banking Supervision Department (BSD). The BSD requires commercial banks to submit periodic returns on a daily, weekly, fortnightly, monthly, quarterly, semi-annually, yearly and on as and when basis so as to monitor and sanction banks appropriately. BSD 4 deals with the sectorial analysis of overdrafts, loans and other advances. The BSD has categorised nine (9) sectors of the economy for reporting and these sectors are:

- Agriculture, forestry & fishing
- Mining & quarrying
- Manufacturing
- Construction
- Electricity, gas & water
- Commerce & finance
- Transport, storage & communication
- Services
- Miscellaneous

Banks are to report advances granted to customers in line with the above sectors and are to indicate in columnar form whether such customers are:

- Central government
- Public institutions
- Public enterprises
- Commercial banks
- Other depository institutions
- Other financial institutions
- Private corporations
- Households, and
- Non-Profit Institutions Serving Households (NPISH)

The BSD wants to assure itself of the risk profile of the sector as well as the type of customers banks lend to. For instance a loan to the Electricity Company of Ghana is not as risky as a loan to a farmer engaged in tree crops because the demand in power is high and also it takes a longer period for the farmer to harvest tree crops such as cocoa. Secondly the Electricity Company of Ghana as a public enterprise is less risky than a private corporation engaged in farming. Thus the BSD will ensure that banks allocate more capital for risky loans than to those of less risk.

In addition, BSD requires banks to segregate loans granted to the above customers into performing and non-performing loans in order to make a realistic analysis and to monitor banks appropriately. Performing loans are current and OLEM (i.e. other loans exceptionally mentioned). Current loans are advances granted within one (1) to thirty (30) days while OLEM are advances granted after thirty (30) days but less than or equal to ninety (90) days. Non-performing loans are substandard, doubtful and loss. Substandard loans are advances outstanding beyond ninety (90) days but less than or equal to one hundred and eighty (180) days. Doubtful loans are advances outstanding beyond one hundred and eighty (180) days, but less than or equal to three hundred and sixty (360) days. Loss loans are advances beyond three hundred and sixty (360) days.

BSD 5 deals with the capital adequacy ratio (CAR) which is measured as a proportion of a bank's adjusted capital over its risk-weighted assets. The minimum capital adequacy ratio required by the central bank is 10%. The most risky and volatile assets of a bank are loans and as such the central bank requires that more capital should be allocated to risky loans than to less risky loans. Thus loans to public enterprises such as the Electricity Company of Ghana attracts a risk-weight

of 100% while loans to public institutions such as the Volta River Authority attracts a risk-weight of 50%. The implication is that the more risky an asset the more required of a bank to provide adequate capital to cover the risk in order to ensure that the bank meets the minimum capital adequacy ratio.

BSD 8 deals with advances subject to adverse classification which categorise advances into current, OLEM, substandard, doubtful and losses. This is to enable the BSD to determine whether a bank has made adequate provision in its records regarding its classes of advances. Thus the provision made in a bank's books will be reconciled with the required provision in BSD 8. Advances of current nature attracts 1% provision, OLEM 10%, Substandard 25%, doubtful 50% and loss 100%.

Board appointment is central to good governance practice. It is required by the Bank of Ghana that board members must consist of individuals who have both generic attributes and specific skills to support the policy formulation, decision-making and oversight process in relation to the full scope of board responsibilities (Quigley & Scott, 2004). Because the corporation's need for particular backgrounds and experiences may change over time, the board should monitor the mix of the skills and experience of its directors in order to assess, at each stage in the life of the business, whether the board has the necessary tools to perform its oversight function effectively.

Considering the significant contribution that good corporate governance can make to the achievement of the above objectives, the Bank of Ghana has considered it appropriate to formulate and enunciate its position on the matter. The central bank has also considered it

appropriate to issue guidance notes on how loans management should be taken serious with respect to the corporate governance of each bank in Ghana. In doing this, the Bank of Ghana, considers so many things such as the state of development of the banking market in Ghana, the regulatory framework and the domestic corporate culture and circumstance and whether the principles of corporate governance could be implemented in the Ghanaian context.

2.3 Tools for controlling commercial banks loans

The monetary policy role played by the Bank of Ghana are measures employed by governments to influence economic activity, specifically by manipulating the supplies of money and loans and by altering rates of prime interest rates which affects the commercial banks.

The main goals of these monetary policies are to achieve or maintain full employment, to achieve or maintain a high rate of economic growth, and to stabilize prices and wages. Until the early 20th century, a monetary policy was thought by most experts to be of little use in influencing the economy, but recent researches have proved that central banks do more than fulfil their traditional role. Inflationary trends have caused government to adopt measures that reduced inflation by restricting growth in the money supply thus the monitoring of loans of commercial banks.

The Bank of Ghana uses three main instruments in regulating the money supply:

Open-market operations, the discount rate, and reserve requirements. The first is by far the most important.

- **Open market operations**

The central bank buys or sells government securities (or bonds) to affect the money supply and interest rates. If, for example, the Bank of Ghana buys government securities, it pays with a cheque drawn on itself. This action creates money in the form of additional deposits from the sale of the securities by commercial banks. By adding to the cash reserves of the commercial banks, then, the central bank enables those banks to increase their lending capacity. Consequently, the additional demand for government bonds bids up their price and thus reduces their yield (i.e., interest rates). The purpose of this operation is to ease the availability of credit and to reduce interest rates, which thereby encourages businesses to invest more and consumers to spend more. The selling of government securities by the central bank achieves the opposite effect of contracting the money supply and increasing interest rates.

- **Discount rate**

The second tool is the discount rate, which is the interest rate at which the central bank lends to commercial banks. An increase in the discount rate reduces the amount of lending made by banks. In most countries the discount rate is used as a signal, in that a change in the discount rate will typically be followed by a similar change in the interest rates charged by commercial banks.

- **Reserve requirements**

Commercial banks by law hold a specific percentage of their deposits as required reserves with the central bank. These are held either in the form of non-interest-bearing reserves or as cash. This reserve requirement acts as a brake on the lending operations of the commercial banks by increasing or decreasing this reserve-ratio requirement. The Bank of Ghana can influence the

amount of money available for lending and hence the money supply. This tool is rarely used, however, because it is so blunt. In Ghana the reserves requirement used to be 9% until May 2014 when the Bank of Ghana increased it to 11%. The Bank of England and most other central banks also employ a number of other tools, such as the 'treasury directive' regulation of instalment purchasing and special deposits.

2.4 Difficulties associated with corporate governance

Recent developments show clearly that there are many problems with the organisation of many corporate boards. Some of the problems are: lack of independence of directors, vested interests, inadequate time, and sometimes lack of expertise to carry out their obligations to shareholders. In a nutshell, experiences from the Enron (2002) scandal and the 2008-2009 economic recessions exhibit the following weaknesses in corporate governance:

- Fraudulent and self-serving practices among members of the board, management and staff.
- Weak internal controls.
- Non-compliance with laid-down internal controls and operational procedures.
- Poor risk management practices resulting in a large quantum of non-performing credits including insider-related credits.
- Abuses in lending, including lending in excess of single obligor limit.
- Sit-tight directors even where such directors fail to make meaningful contributions to the growth and development of the bank.
- Technical incompetence, poor leadership and administrative ability.

- Inability to plan and respond to changing business circumstances.
- Ineffective management information systems.

For a board of directors to operate optimally there is the need for independence. But such independence is often compromised because of the manner of appointment and the way they operate. There are those who are appointed because of their close relationship with the chief executive of the bank and therefore may not be in a position to challenge his decisions. Similarly, there are many directors who do not discharge the functions of their office satisfactorily because they do not have enough time to devote to the operations of the bank. This situation could arise as a result of several factors. One is that they may be holding directorships in several organisations thereby limiting their effectiveness in any one of them. Another reason may be that information may be passed to the directors so close to the meeting date that they do not have the time to read and digest the information contained in the papers. Some of the directors are appointed because of the amount of shareholding they have in the company. In such a case, they may lack the expertise necessary to contribute meaningfully to the decisions of the board.

As a safeguard, the selection and appointment committees of the board are expected to exercise due diligence in the appointment of members so that those appointed can contribute maximally to the work of the bank. Moreover, in some countries including Ghana the selection of board members is subject to the approval of the regulatory authorities. In other words, the list of proposed board members is sent to the regulatory authorities and prior approval must be obtained

before they can start to function. This is to ensure that the persons so appointed are proper and fit persons to occupy the lofty position of a bank director.

One of the factors hindering the effectiveness of boards is the availability of information. Therefore management information systems (MIS) should be established in such a way that it provides management with the information necessary for the effective management of the bank. MIS are used for monitoring different types of banking activities including risk management. The Board of Directors should formulate risk management policies and procedures that include mechanisms for identifying, measuring, controlling and monitoring risks. All information necessary for a director to make an informed decision should be distributed to directors in advance of the meeting to allow sufficient time for directors to consider the information. In form and substance, such information should be relevant, concise but complete, well organized, and supported by any relevant background data.

2.5 Loan management and performance

2.5.1 What is a bank loan (credit)?

Credit in general is the trust which allows one party to provide resources to another party where that second party does not reimburse the first party immediately (thereby generating a debt), but instead arranges either to repay or return those resources (or other material of equal value) at a later date (Sullivan et al., 2003). The resources provided may either be financial (e.g. granting of loans), or they may consist of goods or services (e.g. consumer credit). Therefore credit

encompasses any form of deferred payment which is extended by a creditor, also known as the lender, to a debtor also known as a borrower. In this study, the credit will cover bank loans. Credit is advanced to beneficiaries who promise to pay on a future date. Individuals, enterprises and other corporate entities have different reasons for accessing credit.

Therefore the purpose and the nature of credit have been categorised into short term, medium term and long term loans (Tetteh, 2012). In banking, short term loans are advances extended with a repayment period of within one (1) year to three (3) years. Medium term loans have a repayment period that falls between more than three (3) years up to five (5) years. Long term loans have a repayment period of more than five (5) years. In Ghana most of the banks' credits accessed fall within the short term.

Advancing credit is key to a bank's operations, weighing significantly within the asset balance file. It has the potential of generating huge profit, but equally high risk. Practice shows that credit risks are the highest registered in time by banks, in connection with losses.

Credit risk is an investor's risk of loss arising from a borrower who does not make payment as promised (Bluhn et al., 2002)

2.5.2 Sources of credit risk

Tetteh (2012) identifies some of the sources of credit risks attached to bank loans in Ghana.

These sources explain why bank loans are not paid when given to borrowers:

- **Economic conditions**

Changes in the national economy in areas of unemployment, business cycles, exchange rates, availability and quality of credit, and interest rates can affect bank loans. A liquidity crunch or economic problems has the ability to impact borrowers' ability to fulfil their obligation. In addition a legal and regulatory change could cause financial institutions to change how they oversee a transaction, as well as the quality and ability of debt collection.

- **Competition**

Competition among financial institutions in terms of growth, profitability and the desire to be a market leader have the ability to cause financial institutions to lower their standards or improperly price their loan products. This could result in higher cost of increasing non-performing loans.

- **Underwriting standards**

Lenient credit underwriting can incur losses to financial institutions especially when debt repayment cannot be demanded or a collateral cannot be seized in time. Many credit risks arise from deficiency in underwriting standards and credit monitoring.

- **Competence of staff**

Credit officers without the necessary expertise in the activities they are responsible for, be it credits, investment, management of problem assets or new products, can lead to poor lending practice, ineffective administration, and eventually, loss to financial institutions.

This may result from technical incompetence which is evident when management cannot obtain and assess credit information in order to analyse the viability of credit products. Such management weakness can eventually lead to loan losses.

- **Management Information System (MIS)**

Risk will increase if management does not regularly receive accurate and timely reports on credits. The reports shall comprise important information relating to the underwriting process such as economic trends, change in the structure of the industry, or market share, commodity prices, exchange rates, including past due credits, credit concentrations, and the analysis of problem loans.

- **Inappropriate assessment of credit quality**

This problem may result from competitive pressure and credit growth as they tend to put a time constraint on getting accurate data. Moreover, rapid growth and/or entry into new markets can tempt the management to lend without sufficient financial and economic analysis.

- **Introduction of new products or services without proper risk assessment**

Financial institutions that fail to thoroughly assess risk in the introduction of new products and do not install a risk management system prior to the launch of new products represent another important problem. With rapid credit growth and heightened competition, financial institutions are pressured to introduce new products and services to the market without proper testing.

- **Subjective decision making**

Subjective decision making by management happens especially when the borrower appears to have met the credit approval criteria. However, subjective underwriting without proper consideration on supporting data can lead to credit risk.

- **Lack of Proper Supervision**

Part of credit risks arise when financial institutions' boards or management cannot oversee various units to ensure that they appropriately comply with the policy.

2.6 Loan loss provision (LLP)

It is an expense that is reserved for defaulted loans or credits. It is an amount set aside in the event that the loan defaults.

In general, banks conduct their business by taking deposits and making loans using those deposits. It is a bit more complicated. However, this is the basic banking model. Banks must balance their loan receivables that is the principal and interest repayments from borrowers, with the demand for deposits (i.e. the requests from depositors for all or a portion of their deposits.) In any group of loans, banks expect there to be some loans that do not perform as expected. These loans may be delinquent on their repayments or in default of the loan entirely, creating a loss for the bank on expected income.

Therefore, banks set aside a portion of the expected loan repayments from all loans in its portfolio to cover all, or a portion, of the loss. In the event of a loss, instead of taking a loss in its cash flows, the bank can use the amount set aside to cover the loss. Since the bank does not expect all loans to be late, there is usually enough in the loan loss reserve to cover the full loss for any one defaulter or a small number of loans when needed. The loan loss reserve acts as an internal insurance fund. To establish the loan loss provision amounts, bank regulators require regular screening of bank loan portfolios, ranking each asset (i.e. loan) or group of assets by market conditions, collateral condition, and other business risk factors. According to the Bank of Ghana (2009), the amount set aside for loan losses is about 2.5% of the outstanding loan receivables each year, depending on the quality of the loans in the portfolio.

From the statement of the financial position perspective, a loss on a loan is still a loss of an asset. However, on an operating basis, because of the loan loss provision, the cash flow remains available. The loan loss provision ensures that banks have sufficient funds to provide services to its depositors.

Table 2. 1: Category of loan, days and loss provision

Category of Loan	DAYS	Provision
A	30-90	1%
B	90-180	10%
C	180 < 360	25%
D	=360	50%
E	>360	100%

Source: Bank of Ghana (2014)

2.7 Regulatory framework and corporate governance practices

Public oversight is concerned with ensuring that the confidence of investors and the general public is maintained. This can be achieved by direct regulation, the imposition of licensing requirements (including, where appropriate, exercising powers of enforcement) or by self-regulation. As the US operates a rule-based system of governance, these responsibilities are discharged by a national board approved to do such, which has the power to enforce mandatory standards and rules laid down by the Sarbanes-Oxley Act. In the UK and most commonwealth countries, regulation is required for corporate governance (ACCA, 2013).

Being a former British colony, Ghana inherited the English common law system from their colonial masters, Britain (Sarbah, 2014). The Ghanaian corporate governance system follows the Anglo-American model. The company law that regulates the activities of corporate bodies is based on this model of corporate governance. The Ghanaian regulatory framework with regard to corporate governance comprises the Ghana Companies Code 1963 (Act 179), the Securities Industry Law, 1993 (PNDCL 333) and the Securities Industry (Amendment) Act, 2000 (Act 590), and the Membership and Listing Regulations of the Ghana Stock Exchange (GSE, 1990). It is supported by the Ghana National Accounting Standards and the codes of professional conduct imposed by the Institute of Chartered Accountants (Ghana) on its members.

The Companies Code, 1963 (Act 179) provides the framework to a company with regards to its membership, its independence and the expertise of its directors. It also provides, under section 180(1) of the code that every company must have at least two directors with the maximum to be

fixed by the shareholders at an annual general meeting of the company under the provisions of section 181. Directors have a fiduciary role and the code provides sanctions under section 185 in the event of breaches.

Similarly, the Securities Industry Law, 1993 (PNDCL, 333) gives the Securities and Exchange Commission regulatory authority over institutions and persons operating in the industry such as stock exchanges, investment advisers and securities dealers. The primary goal of the Securities Exchange Commission, Ghana is to protect investors and maintain the integrity of the securities market. The Commission is an active regulator that has been unafraid to suspend market participants that disobey. Also, the Ghana Stock Exchange (GSE) regulates listed entities registered under the Ghana Stock Exchange (GSE) and enforces conformity to the Listing Regulations (1990). Listed companies are required to comply with the corporate governance guideline for best practices by the Securities and Exchange Commission, Ghana and the Listing Regulations.

Most of the firms listed on the GSE are predominantly foreign and multinationals and operate under mandatory regulations. In view of this, most companies tend to be compliant with its requirements under the international corporate governance principles of best practices (ROSC, 2005). The GSE listing regulations provide the timeframe within which annual reports should be circulated and also require investors to be provided with information such as members of the board and key executives and their remuneration, material foreseeable risk factors, major share ownership and voting rights, and the financial and operating results of the company. The

Company's Code requires the disclosure by directors of material interests in transactions or contracts affecting the company. In addition, the code is supported by the GSE listing regulations, requires, among others, that listed companies establish and maintain audit committees, and it provides for the appointment, retirement and removal of directors as well as their qualifications. When it comes to the financial reporting by banks and non-bank financial services, listed companies are regulated by the Bank of Ghana under the accounting and auditing requirements set by the Banking Act 2004, (Act 673) as amended by the Banking (Amendment) Act 2007, (Act 738).



CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter sets out the procedure and tools which were used in collecting data for the research project. The methodology was designed to enable the researcher achieve the objectives of the study which were set out in Chapter One. It captures the following sub-headings: study design, population, sample and sampling procedures, instruments, data collection and data analysis procedures.

3.2 Research Design

The research design adopted for this study is descriptive and explanatory designs with a quantitative research approach. According to Cooper & Schindler (2013), a research design broadly consists of various elements like the type of research approach, the sampling technique and size, data collection instruments, and the data analysis method. Thus, the research design is considered as the framework created to seek answers to the research questions in chapter one. Explanatory and descriptive research designs are adopted for this study with the aim of explaining into details the relationship between corporate governance practices of banks and loan administration. This study also adopted a quantitative research approach because the data for this study is secondary data of annual financial reports sampled banks used in this study.

3.3 Population and sample size

i) Population

The population of the study consists of all twenty-seven (27) deposit money banks licensed by the Bank of Ghana to undertake banking services (Bank of Ghana, 2013).

ii) Sample size

Out of the 27 existing commercial banks as at 2013, twenty (20) are selected as a sample size. These 20 represent 74% of the 27 banks which is a fair representative for good analysis (Cooper & Schindler, 2013). The following reasons support why 20 banks were selected for this study:

The banking industry is largely dominated by the four biggest banks, namely Ghana Commercial Bank (GCB), Standard Chartered Bank (SCB), Barclays Bank (BBG) and Ecobank (EBG). These banks are automatically selected because these four banks command a total market share (total deposits) of about 53% as at 2006, this declined to 39% as at 2013. GCB is the only Ghanaian bank among these topmost four banks, the other three are foreign banks. In order to get a fair share of the other banks, the researcher decided to include 16 more banks with a blend of local and foreign banks. Banks with loan loss provision above 9% of the industry average as at 2013 are automatically selected and added to the four topmost banks. Banks with loan loss provision above 9% are believed to be suffering from poor corporate governance practices with respect to loan administration. The rest were selected based on the number of years of existence in the banking industry. In summary the twenty (20) were selected based on:

- i) Their size in terms of market share (deposits).
- ii) Their loan loss provisions (non-performing loans) above industry average of 9% and
- iii) Number of years of existence

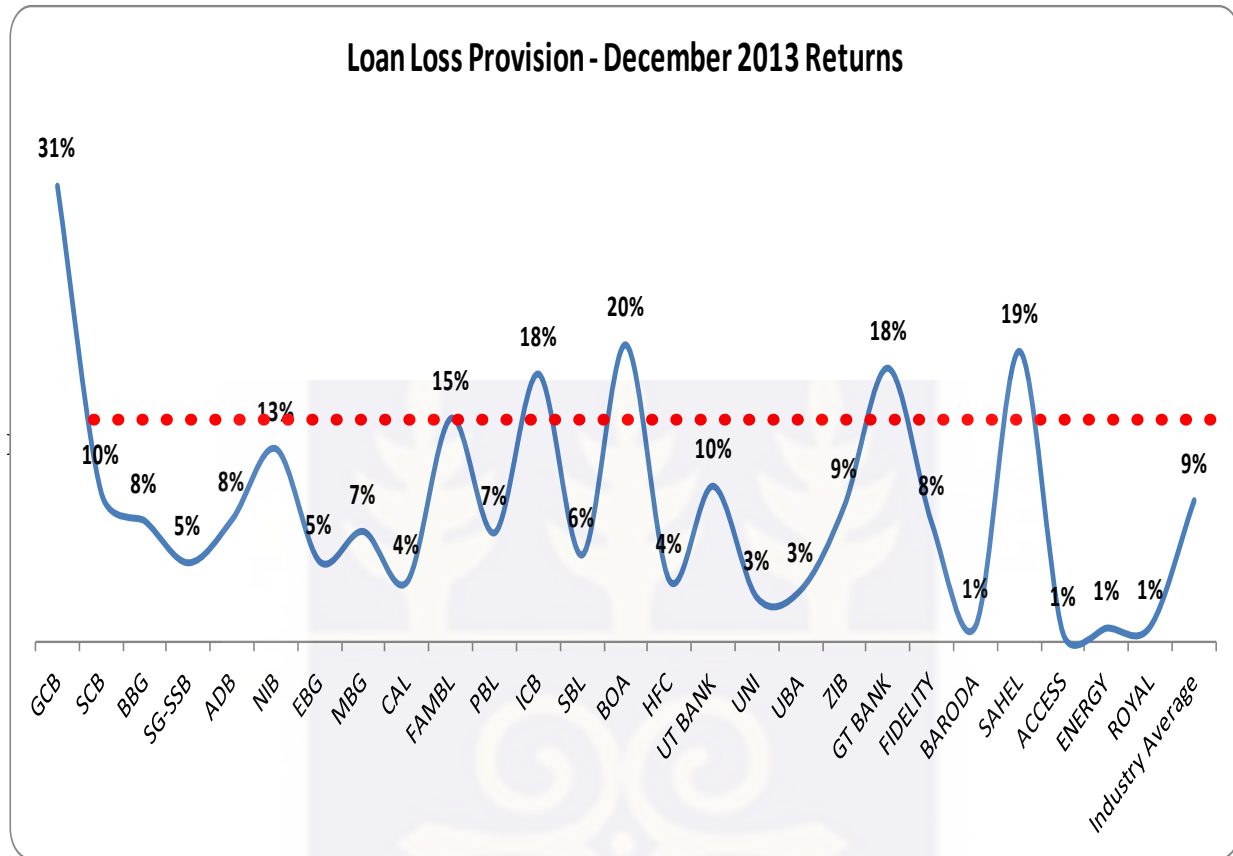


Figure 3. 1: Loan loss provision for December 2013

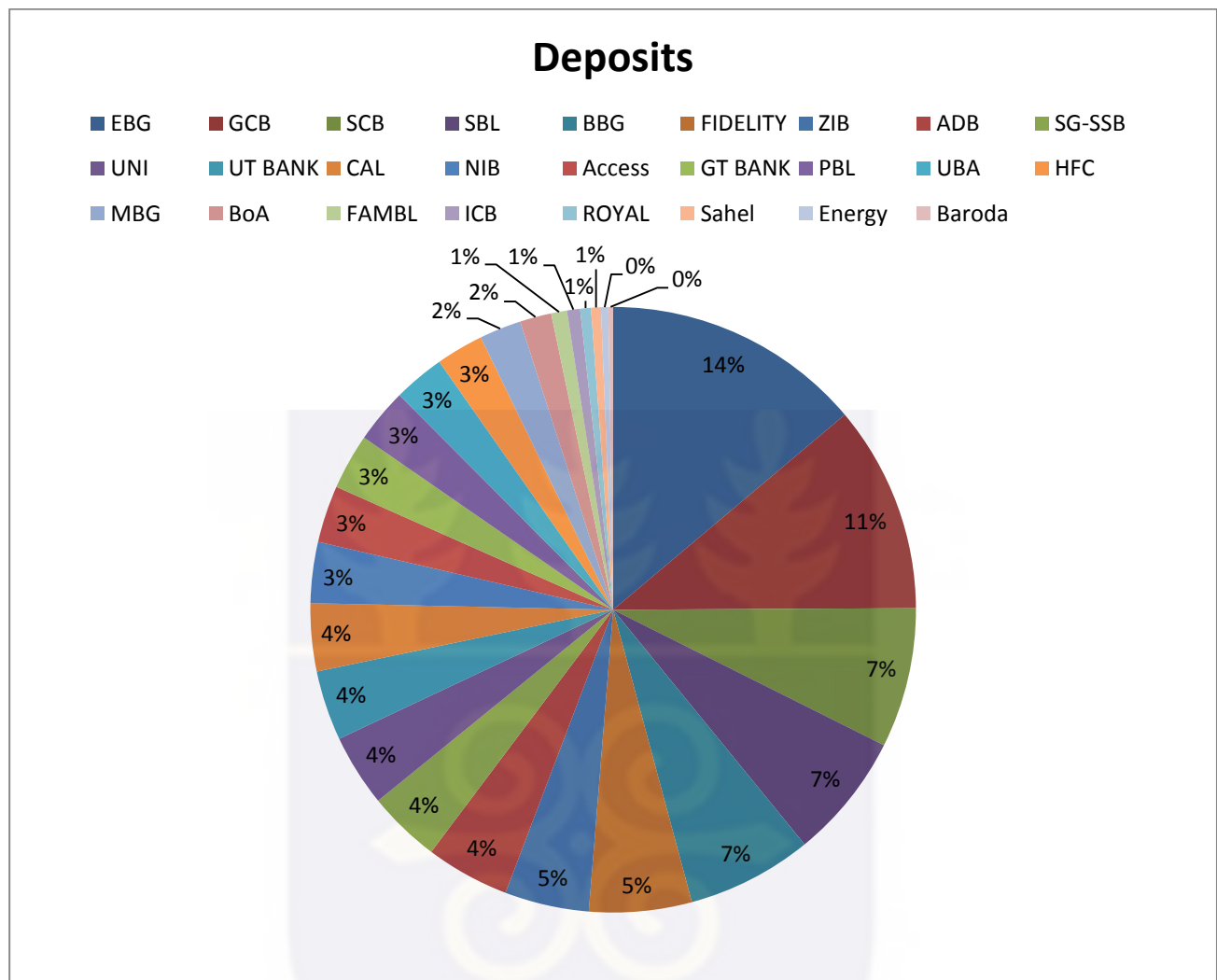


Figure 3. 2: Market Share of deposits of all banks in Ghana as at 31st December, 2013

Source: Field Survey (2014)

****Merchant Bank (MBG) is now Universal Merchant Bank (UMB)**

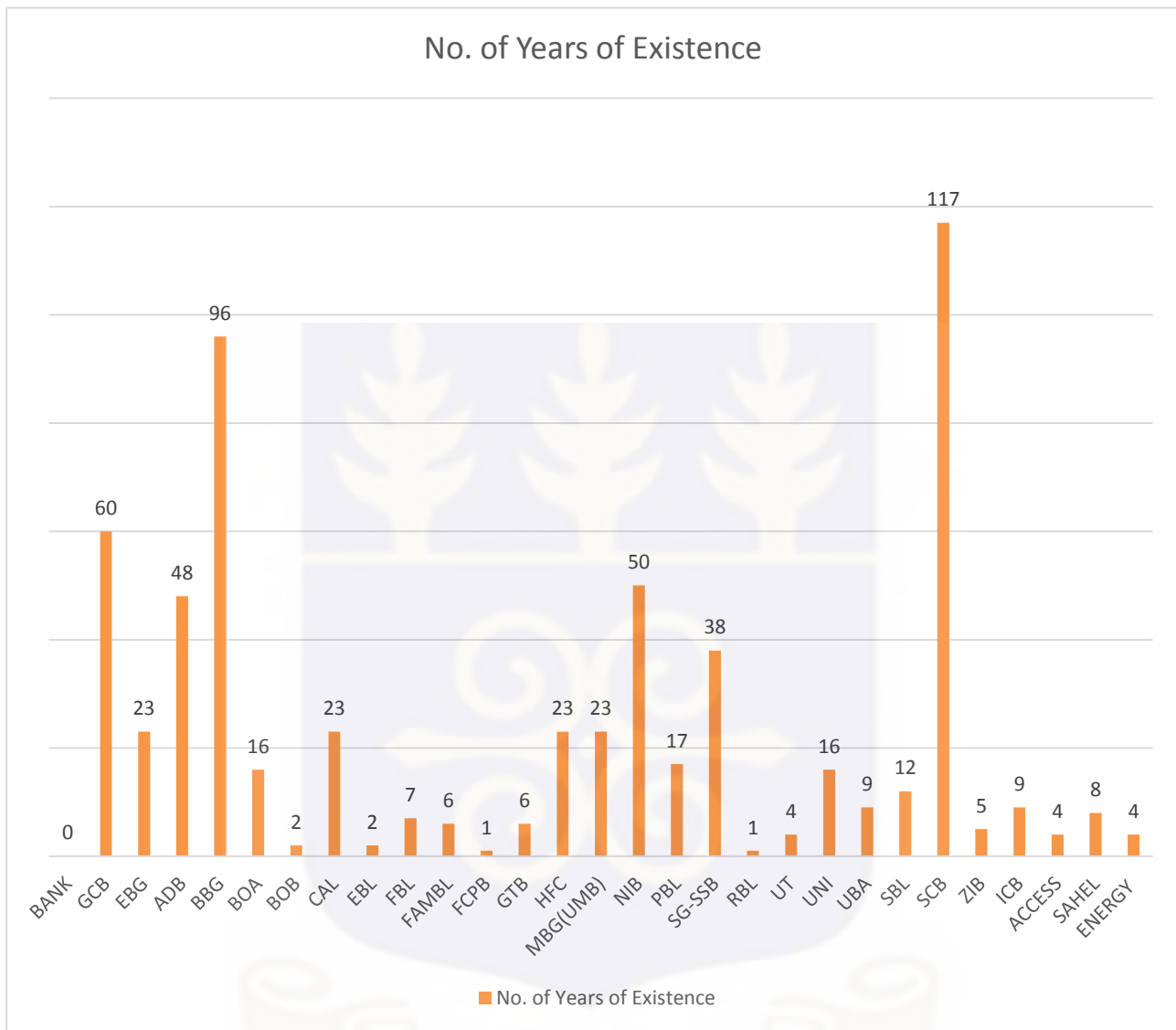


Figure 3. 3: Number of years of existences of all banks in Ghana as at 31st December, 2013

Source: Bank of Ghana (2014)

Based on the three key-points above , the following banks were selected for the analysis: Ghana Commercial Bank (GCB), Barclays Bank Ghana (BBG), Standard Chartered Bank (SCB), EcoBank Ghana (EBG), National Investment Bank (NIB), Societe General (SG-SSB),

Agricultural Development Bank (ADB), Guarantee Trust Bank (GTB), Stanbic Bank (SBL), Unique Trust Bank (UTB), Universal Merchant Bank (UMB), Zenith Bank (ZIB), Cal Bank (CAL), Bank of Africa (BOA), International Commercial Bank (ICB), First Atlantic Merchant Bank (FAMBL), Sahel-Sahara Bank (Sahel), UniBank (UNI), Home Finance Company Bank (HFC), and Prudential Bank (PBL).

3.4 Source of data

Quantitative data on loan loss provisions is used for the study and it was entirely secondary. It was obtained from the Bank of Ghana. The study uses data from 2006 to 2013 on the 20 banks (both foreign and domestic banks).

3.5 Data analysis

3.5.1 Specification of empirical model

The study utilizes a multiple regression analysis with special emphasis on a dummy variable regression to establish whether corporate governance variables or components explain the variation in non-performing loans through loan loss provisions. The quality of corporate governance is estimated as a function of the banks' corporate governance elements, which have been defined in the study as BD, CC, LU, RM, CRM, CM, CAL, LT, AC, and BG. The model is consistent with Ibrahim (2009), with little modification. The general form of the model is:

$NPL = f(CG)$, Hence

$NPL = f(BD, CC, LU, RM, CRM, CM, CAL, LT, AC, BG)$

Using the ordinary least square (OLS) structure, the function could be expressed as:

$$NPL = \beta_0 + \beta_1 BD_i + \beta_2 CC_i + \beta_3 LU_i + \beta_4 RM_i + \beta_5 CRM_i + \beta_6 CM_i + \beta_7 CAL_i + \beta_8 LT_i + \beta_9 AC_i + \beta_{10} BG_i + \mu_i$$

Where:

CG = Corporate governance

NPL = Non-performing loans

BD = Board of Directors

CC = Credit Committee

LU = Lending Units

RM = Relationship Management

CRM = Credit Risk Management

CM = Credit Monitoring

CAL = Credit Approval Limits

LT = Legal Team

AC = Audit Committee

BG = Bank of Ghana

β_0 = Constant

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6, \beta_7, \beta_8, \beta_9, \beta_{10}$ = Linear regression co-efficient

μ_i = Error terms assumed to satisfy the standard ordinary least square.

Significance level is set at 95% confidence level. This gives room for an error of 5%, which is known as the alpha (α) of 0.05 which is 5%.

3.5.2 Description of variables and measurement

3.5.2.1 Dependent variable

Non-performing loans (NPL): it looks at the quality of the loans given and how they are performing through the loan loss provisions of the bank as reported in the banks' annual reports. This serves as a measure of the performance of loans in all the banks.

3.5.2.2 Independent variables

Board of Directors (BD) is made up of the number of directors in the bank board.

Credit Committee (CC): The proportion of executive directors (executive Managers) on the board, and is calculated as the number of executive directors divided by the total number of directors.

Relationship Management (RM): The number of relationship managers in the banks in proportion to total employees.

Credit Risk Management (CRM): A dichotomous variable of credit analysis, allocation and credit control variable, assigned 1 if it is effective, and 0 if is not effective.

Credit Monitoring (CM): A binary variable of credit monitoring variable, assigned 1 if it is effective, and 0 if is not effective.

Credit Approval Limit (CAL): Rank of Credit Approval limit from 1 to 10

Legal Team (LT): A binary variable of the effectiveness of the legal team on loan administration; effective 1 and ineffective 0.

Composition of Audit Committee (AC): A dichotomous variable, assigned 1 if there are at least three non-executive directors on the audit committee, otherwise 0.

Bank of Ghana Control Measures (BG): A binary variable of Bank of Ghana measures, assigned 1 if it is effective, and 0 if is not effective.

3.6 Trend analysis

Trend analysis of individual bank from 2006 to 2013 captures loan loss provisions, deposits and loans to deposit ratio for all the twenty banks selected.

3.7 Research limitations

The research covers sample banks in the only in Ghana due to time and cost of information in undertaking the research. Also, the research focuses exclusively on commercial banks in Ghana to the detriment of other financial institutions. Other financial institutions such as savings and loans limited, credit unions, rural banks and cooperative societies who are also into loan administrations are not considered in this study. Again, the sample size is relatively small in relation to typical market-based analysis. A typical market-based research should contain at least one hundred (100) or more and the number of years of study should be more than 20 years (Mensah, 2014). But this research focuses on only 20 banks out of the 27 commercial banks in Ghana. Finally, dependence on loan performance without due regard to other relevant information from the banks may not aid the researcher to make much meaningful analysis. The core assets of the banks are loans and advances and the liabilities are the deposits.

3.8 Concluding remarks

The chapter has dealt with the issue of population and sample, model specification, variable description, measurement, justification for the choice of variables as well as a measure of economic expectation, particularly in terms of signs and measurement. A trend analysis of the loan loss provision which reflects the performance of loans in the banks. By this, the chapter has set out a good platform for the estimations and the discussion of results in chapter four.



CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION OF RESULTS

4.1 Introduction

This chapter deals with the analysis and discussion of data showing the kind of relationship that exists between the variables and concepts discussed in the previous chapters. The analysis was carried out in the arrangement of the secondary data obtained. This chapter is structured as follows: A trend analysis of loan loss of individual banks with issues such as the history of the banks, their internal capacity, market share, services, and loan advances; and a multivariate data analysis of the relationship between the performance of loans using loan loss, and corporate governance elements with Ordinary Least Squares (OLS) regression and correlation.

4.2 The trend of loan loss provision of sampled banks

The main purpose of this section is to look at the trend of the loan loss provision of the sampled banks in Ghana. But, the section starts with the history, ownership, internal capacity, market share, services rendered and the amount of loans given out by the sampled banks. These other sub-topics are to highlight the activities of each of the sampled bank based on the data gathered. The analysis of the trend in the loan loss provision is in connection with internal and external factors of the sampled banks from 2006 to 2013.

4.2.1 GCB (Ghana Commercial Bank)

- **Brief Background**

Ghana Commercial Bank Ltd, Ghana's foremost bank was established in 1953 as the Bank of the Gold Coast (Annual Financial Report, 2013).

- **Competitive Edge**

The competitive edge enjoyed by the bank includes the number of years of existence in the banking industry, its market share (total deposits) helping the bank to enjoy a large market share of deposits over the years except 2012 when Ecobank took over as the leading bank with 12.8% after Ecobank's merger with The Trust Bank (TTB), and also the support GCB enjoys from the government which other banks do not have.

- **Why GCB was selected**

GCB was selected for this analysis because of its position as one of the topmost four (4) banks in the industry for the past fifty (50) years. The loan loss provision of 31% above industry average of 9% as at 2013 was considered and then, the bank has been in the banking industry for about sixty (60) years

- **Position in the Industry**

As at 2013, GCB is the second largest bank in the industry in-terms of total assets. The bank possesses 9.3% of the total assets of the industry (Bank of Ghana, 2014).

The bank is ranked as the second most profitable bank in the industry with 13.6% of the profit before tax as at 2013 (Bank of Ghana, 2014).

- **Market share**

GCB had 639.18 million Ghana Cedis total deposits in the banking industry in 2006 but the amount increased to 2,635.52 million Ghana Cedis in 2013. The line graph below shows the trend of market share of the bank in terms of total deposits from 2006 to 2013.

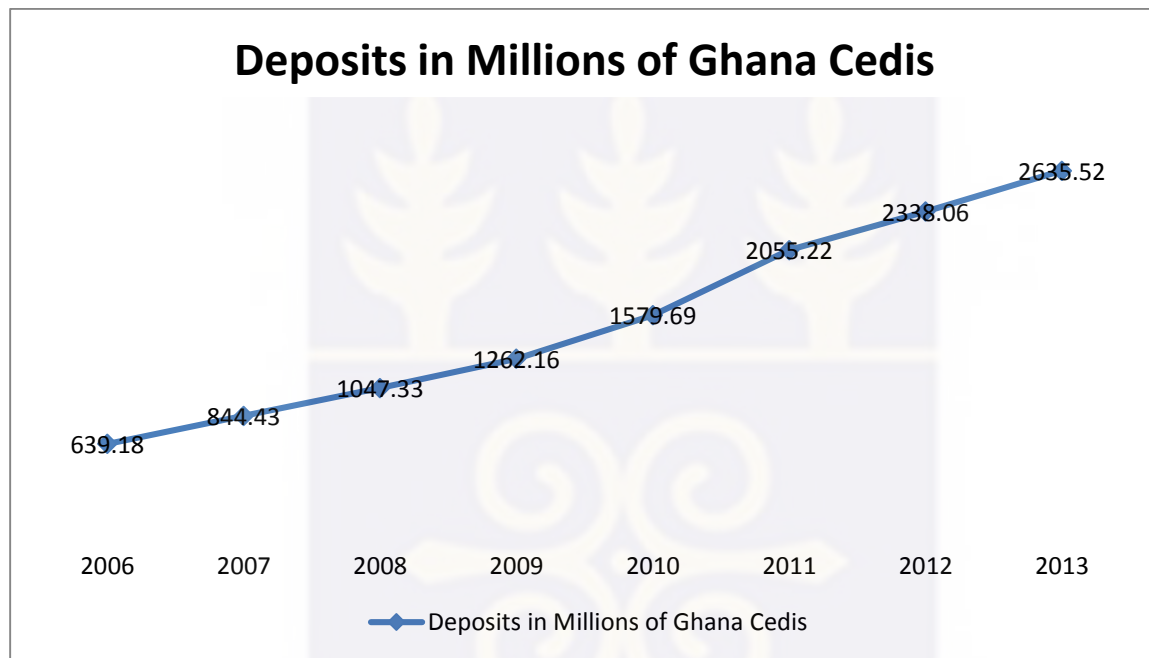


Figure 4. 1: The trend of deposits at GCB

Source: Bank of Ghana Data (2014)

From the trend GCB total deposits increased from 639.18 million Ghana Cedis in 2006 to 2,635.52 million Ghana Cedis, representing 312.33% over the eight-year (8) period of analysis. This is impressive looking at the customer base and the assets being managed by the bank.

- **Loan loss provision and loan to deposit ratio**

The loan loss provision is the provisions over net loans issued to customers. The net loans are made of the total loans and advances, less the security (collateral) taken from borrowers. The provisions are made because it is required by the central bank to make provisions on all loans issued, and also because of the prudence concept. The loan to deposit ratio offers to show the loans issued which is going out of the bank and the total deposits coming into the bank.

The line graph below shows the trend in loan to deposit ratio and loan loss provision of GCB from 2006 to 2013.

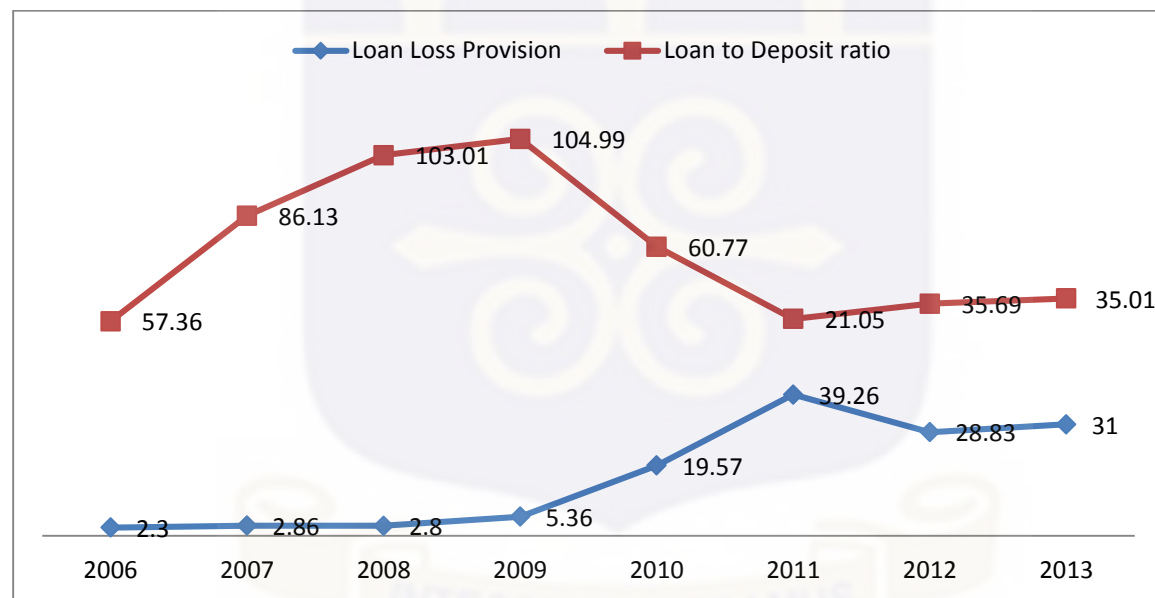


Figure 4. 2: Loan loss provision and loan to deposit ratio of GCB

Source: Bank of Ghana Data (2014)

From the diagram, the loan loss increased from 2.3% in 2006 to 39.26% in 2011 but declined in 2012 to 28.83%. In 2013 it increased again to 31% far above the industry average of 9%.

While the loan loss provision was increasing, loan to deposit ratios were also increasing. It declined after 2010 and it has enjoyed almost a constant increase in 2012 and 2013.

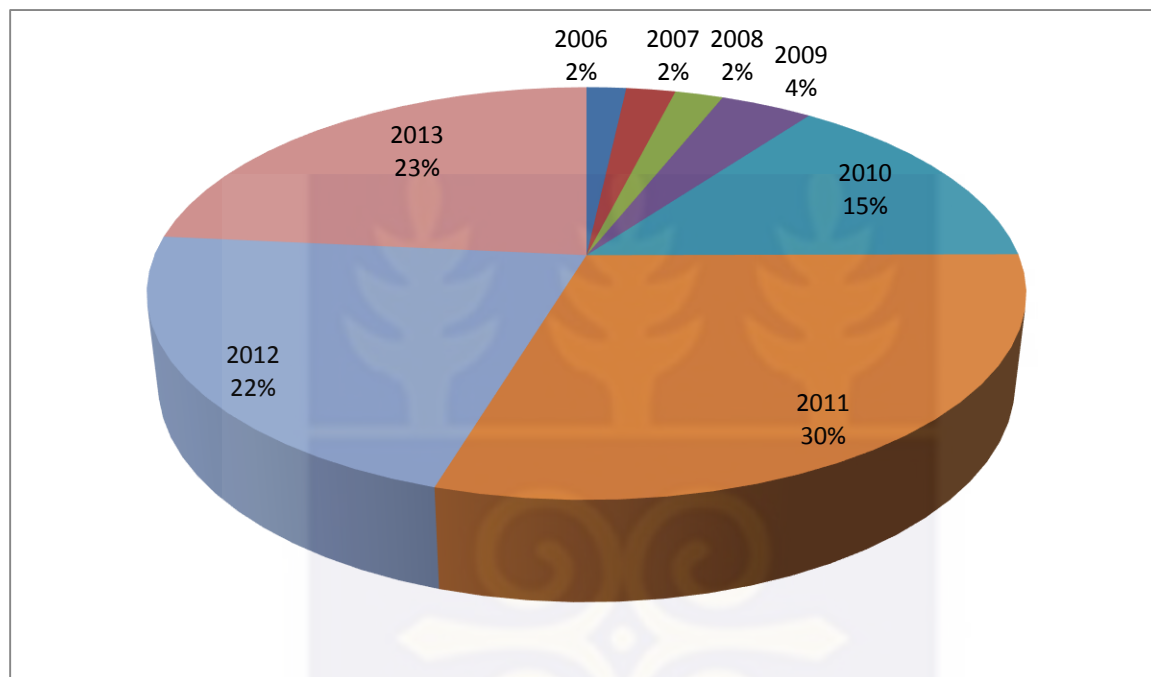


Figure 4. 3: GCB Loan Loss Percentages

Source: Bank of Ghana Data (2014)

The bar chart above shows the bank did well in managing its loans in 2006, 2007, 2008 and 2009 because they contributed only 10% of the entire loss of net assets of the bank in these four years. 2011 gave the highest loan loss percentage of 30% because this year was in the aftermath of the global financial crunch which ended in 2010. The global economic crunch affected many customers of the bank financially so they were not able to repay or honour their loan covenants

4.2.2 Barclays Bank Ghana (BBG)

- **Brief Background**

The Barclays bank of Ghana is a subsidiary of Barclays Bank PLC with the global headquarters in London, United Kingdom. It started operations in Ghana around the year 1917 (Barclays Bank, 2014).

- **Competitive Edge**

The competitive advantage the bank has in the banking industry is the number of years it has been in the banking industry, its market share (total deposits) and the support the bank gets from the parent company. The bank is also able to get a huge financial bailout from their parent company in times of economic downturns. The bank is also able to get and introduce new and competitive products from their co-subsidiaries in other countries

- **Why Barclays Bank was selected**

Barclays Bank was selected for this analysis because of its position as one of the topmost four (4) banks in the industry for the past ninety (90) years.

- **Position in the Industry**

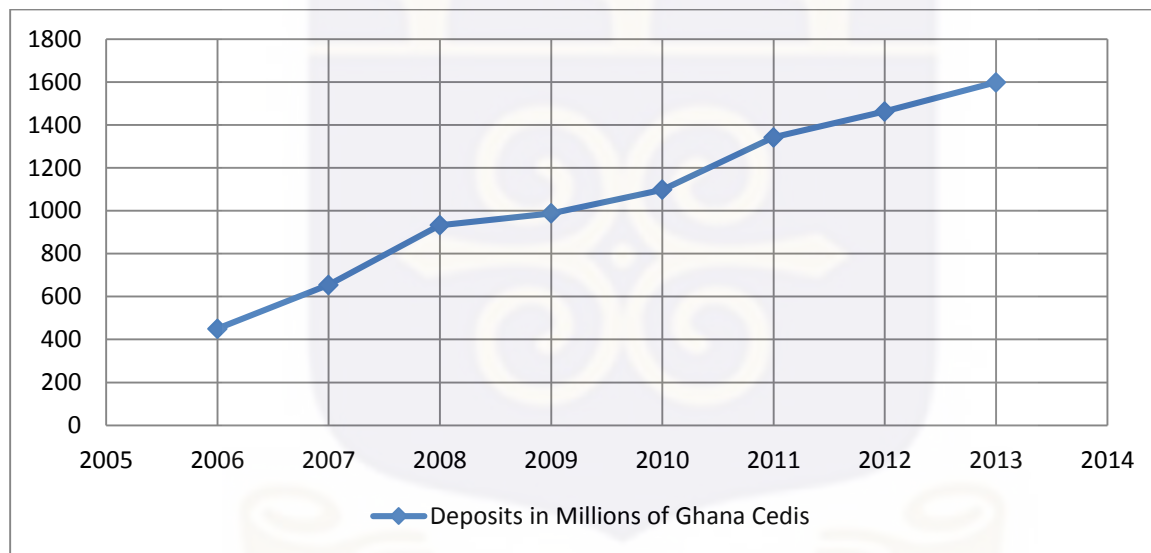
As at 2013, Barclays Bank enjoyed the position of the fifth largest bank in the industry in-terms of total assets. That is, the bank possesses 6.5% of the total assets of the industry (Bank of Ghana, 2014). The bank is ranked as the fourth most profitable bank in the industry with 9.8% of the profit before tax as at 2013 (Bank of Ghana, 2014).

- **Market share**

Barclays Bank's total deposits in the banking industry in 2006 were 450.18 million Ghana Cedis, out of the total banking industry deposits 3,440.03 million Ghana Cedis and this figure increased to 1,598 million Ghana Cedis (Bank of Ghana, 2013). Barclays bank Ghana did not ever claim a first position in terms of total deposits under the 8-year period of analysis.

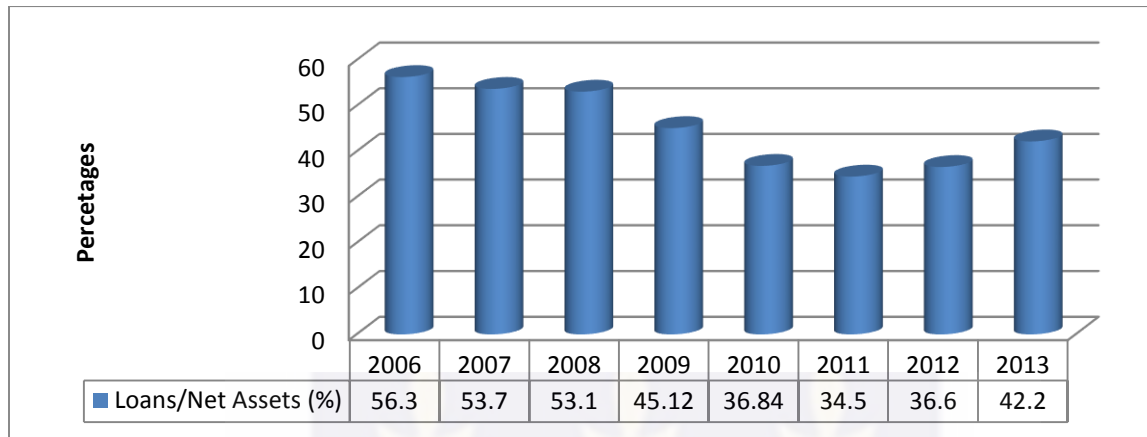
The scatter graph below shows the trend of market share of the bank in terms of total deposits from 2006 to 2013.

Figure 4. 4: The trend of deposits at BBG



Source: Bank of Ghana Data (2014)

From the trend BBG's total deposits rose from 2006 to 2008, and continued to rise becoming sharper from 2011 to 2013.

Figure 4. 5: Gross loan per Net assets Ratios of BBG

In 2006, the gross loans per net assets of Barclays Bank was 56.3% of the total assets, this means that more than half of the total assets or resources of the bank was given out as loans and advances to customers, banks and institutions. Even though it is good for the long-term investment, this dents the current survival and growth of the bank. This 56.3% may also be as a result of poor corporate governance practices of the bank which affected the bank negatively in issuing loans to customers. In 2007, the figure dipped down by 3% which was not so significant looking at the loans the bank gave out in 2006. At this figure, it can be said that the bank realised the negative effects of the huge loans they were giving out and they attempted to beat it down. It came down in 2008 and further down in 2009 of 45.12%. Through effective corporate governance processes the bank started to embark on a loan collection strategy, and issued fewer loans compared to 2006 and 2007.

Gross loan to net assets in 2011 was 34% but the figure showing how efficient the bank became in reducing the huge loan loss that they were experiencing will be explained later in the loan loss of the bank. The loans and advances figure started going up because the bank stopped its

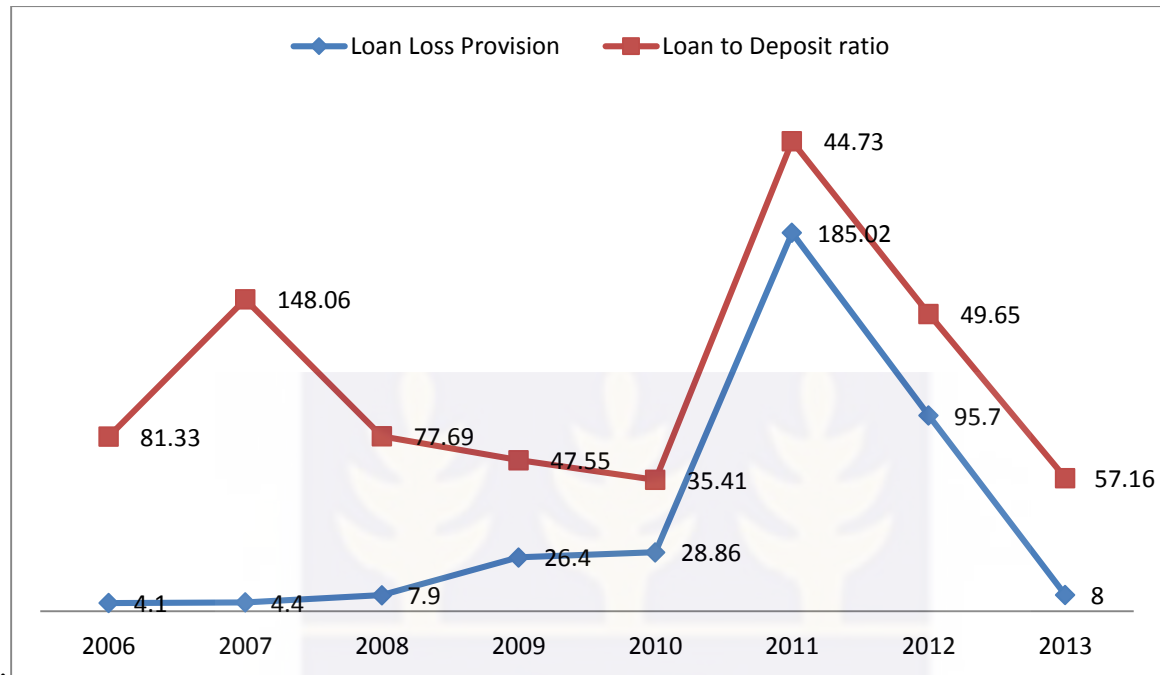
expansionary policy of opening and expanding existing ones. And as at 2013, 42% was recorded attesting to the extent of capture and increase its customer base based on the loans they were giving out.

- **Loan loss provision and loan to deposit ratio**

The loan loss provision is the provisions over net loans issued to customers. The net loans are made of the total loans and advances less the security (collateral) taken from borrowers. The provisions are made because it is required by the central bank to make provisions on all loans issued, and also because of the prudence concept.

The loan to deposit ratio offers to show the loans issued which are going out of the bank and the total deposits coming into the bank.

The line graph below shows the trend in loan to deposit ratio and the loan loss provision of Barclays Bank from 2006 to 2013.

Figure 4. 6: Loan loss provision and loan to deposit ratio of BBG

Source: Bank of Ghana Data (2014)

From the diagram, the loan loss increased from 4.1% in 2006 to 28.86% in 2010. It rose up sharply to 185.02% in 2011 and declined to 8% in 2013. At the same time, the loan loss provisions were increasing. They declined after 2010 and have enjoyed almost a constant decrease in 2012 and 2013.

4.2.3 Standard Chartered Bank (SCB)

- Brief Background**

The Standard Chartered Bank is the oldest bank in the Ghanaian banking industry established in 1896. The bank is wholly a subsidiary of Standard Chartered Bank Worldwide.

- **Competitive Edge**

The competitive edge enjoyed by the bank over its competitors stems from the number of years of experience the bank has. Also, the bank receives support, both technical and financial from its parent company. This helps the bank to do well overall.

- **Why SCB was selected**

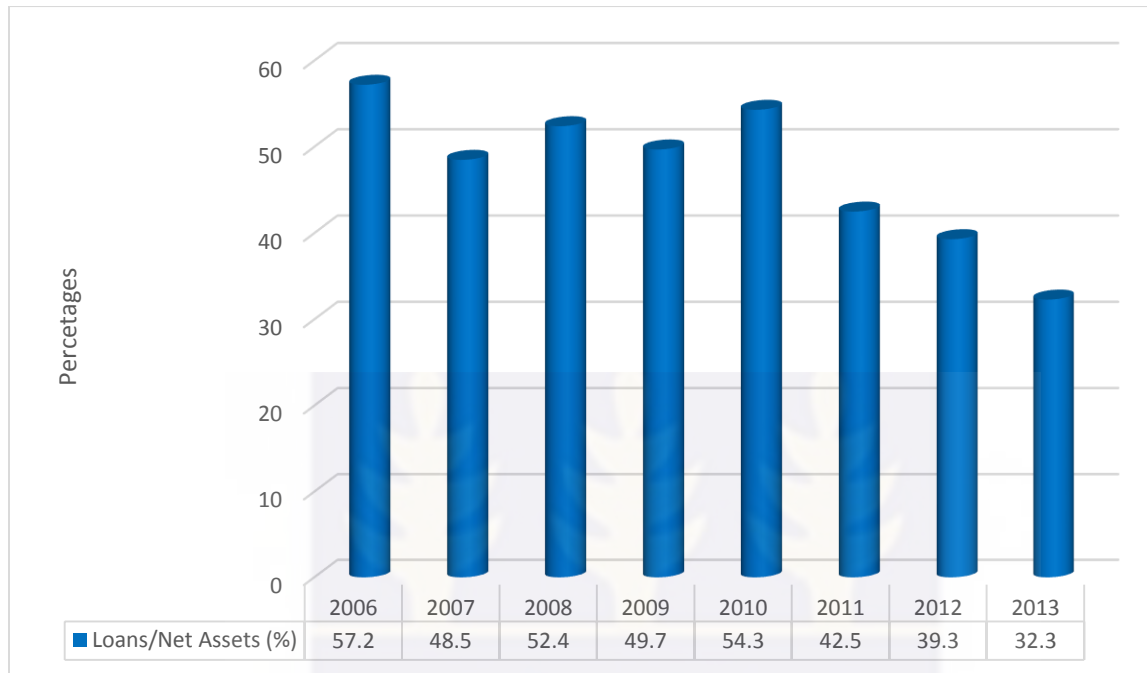
SCB was selected for this analysis because of its position as one of the topmost banks in the industry for the past hundred (100) years. The bank has the longest and best kept records on all banking transactions in Ghana.

- **Position in the Industry**

As at 2013, SCB was the third largest bank in the industry in-terms of total assets. The bank possessed 8.2% of the total assets of the industry (Bank of Ghana, 2014).

The bank is ranked as the third most profitable bank in the industry with 12.7% of the profit before tax as at 2013 (Bank of Ghana, 2014).

Standard Chartered Bank was ranked third in the Ghanaian banking industry for loans and advances made at the end of 2013. This shows that the bank recorded 6.16% of the total share of loans that were given out in the whole banking industry. The figure below shows the gross loan per total asset of the bank from 2006 to 2013.

Figure 4. 7: Gross loan per Net assets Ratios of SCB

Source: Bank of Ghana Data (2014)

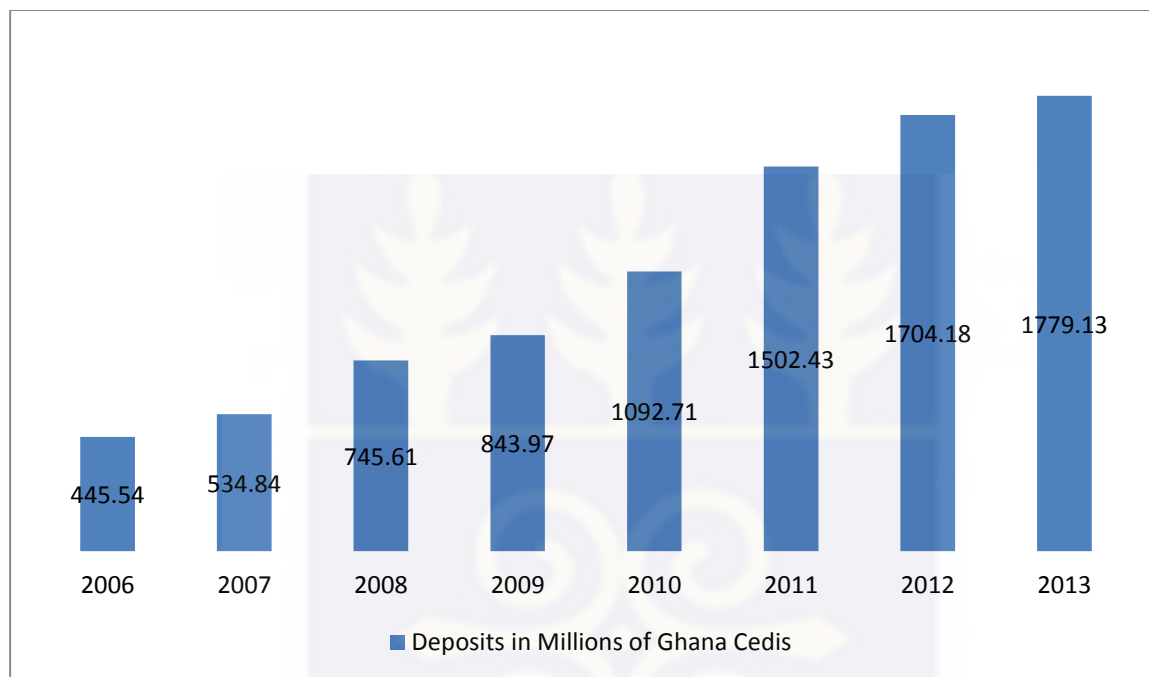
In 2006, the gross loans per net assets of the bank was 57.2% of the total assets, this means that more than half of the total assets or resources of the bank was given out as loans and advances to customers, banks and institutions. Even though it is good for the long-term investment, this dents the current survival and growth of the bank. The world economic crisis affected the bank negatively. Through effective corporate governance practices the bank started embarking on a loan collection strategy, and issued fewer loans in 2011, 2012 and 2013.

- **Market share**

SCB had a total deposit increased from 445.54 million Ghana Cedis to 1,779.13 million Ghana Cedis in 2013 (Bank of Ghana, 2014). This represents 7.5% of the total deposit in the industry.

The line graph below shows the trend of market share of the bank in terms of total net deposits from 2006 to 2013.

Figure 4. 8: The trend of deposits at SCB



Source: Bank of Ghana Data (2014)

From the trend, SCB's total deposits soared from 445.54 million Ghana Cedis in 2006 to 1,779.13 million Ghana Cedis representing 299.3% over the eight (8) year period of analysis. This is impressive looking at the customer base, the number of years the bank has been in existence and the total deposits of the bank.

- **Loan loss provision and loan to deposit ratio**

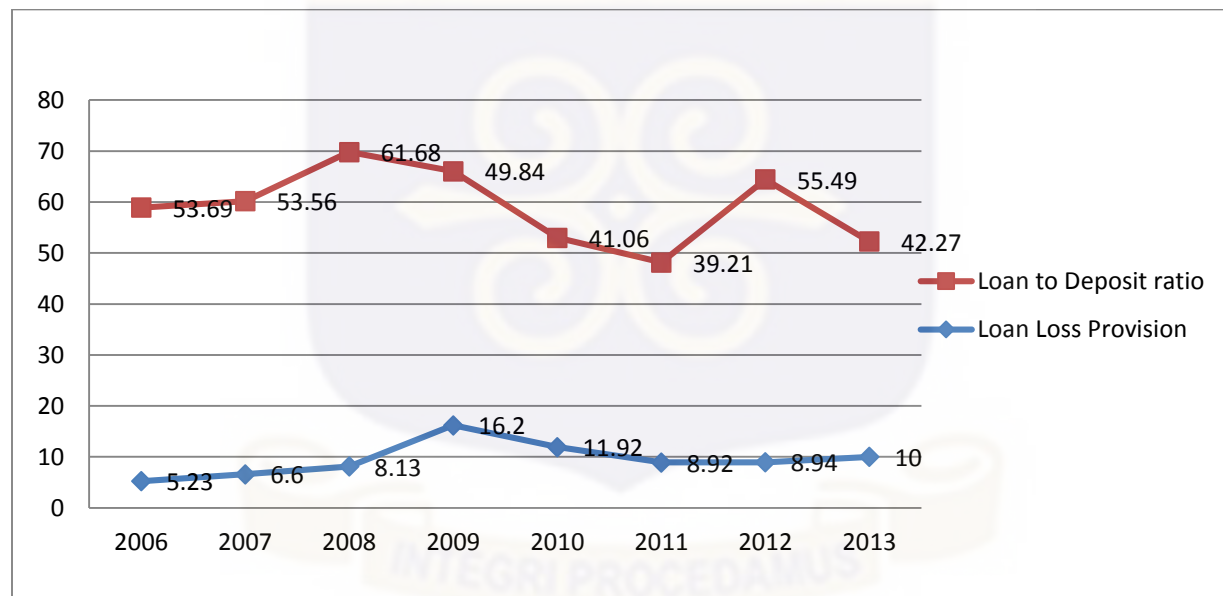
The loan loss provision is the provisions over net loans issued to customers. The net loans are made of the total loans and advances, less the security (collateral) taken from borrowers. The

provisions are made because it is required by the central bank to make provisions on all loans issued (out), and also because of the prudence concept.

The loan to deposit ratio offers to show the loans issued which are going out of the bank and the total deposits coming into the bank.

The line graph below shows the trend in loan to deposit ratio and loan loss provision of SCB from 2006 to 2013.

Figure 4. 9: Loan loss provision and loan to deposit ratio of SCB



Source: Bank of Ghana Data (2014)

From the diagram, the loan loss increased from 5.23% in 2006 to 16.2% in 2009, but declined to 10% in 2013 at 28.83%.

While the loan loss provision was increasing, loan to deposit ratios were also fluctuating and the figures involved are huge.

4.2.4 Ecobank Ghana (EBG)

- **Brief Background**

Ecobank Ghana (EBG) is 100% subsidiary of the Ecobank Group with its headquarters in Lome, Togo. It is considered as a Pan-Africa bank. It was established in Ghana in 1990.

- **Competitive Edge**

The competitive edge the bank enjoys comes from its position among the topmost banks in Ghana. From 2012 to 2013, the bank has positioned itself at the top of the banking industry. The bank has been able to get this position due to its numerous merger moves on its competitors. The quality services delivered by the bank and its fame as a Pan-African Bank have really helped the bank.

- **Why EBG was selected**

EBG was selected for this analysis because of its position as one of the topmost banks in the industry.

- **Position in the Industry**

As at 2013, EBG was the largest bank in the industry in-terms of total assets. The bank possesses 12.9% of the total assets of the industry (Bank of Ghana, 2014).

The bank is ranked as the most profitable bank in the industry with 14.8% of the profit before tax as at 2013 (Bank of Ghana, 2014).

- **Market share**

The market share of Ecobank and its position in the banking industry has been fluctuating from 2006. In 2006, it was the fourth biggest bank with a market share of 8.8%, but this position changed in 2012, when the bank became the bank with the highest market share of 12.8%. The figure increased to 13.9% in 2013.

The column graph below shows the trend of market share of the bank in terms of total deposits from 2006 to 2013.

Figure 4. 10: The trend of deposits at EBG

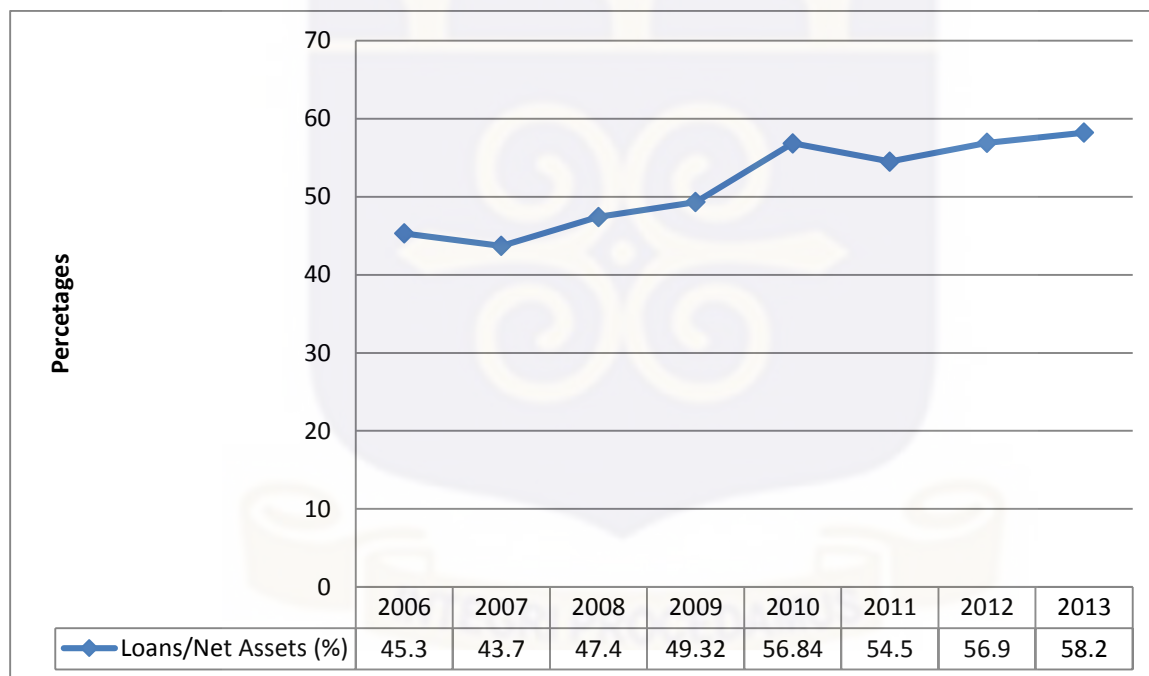


Source: Bank of Ghana Data (2014)

From the trend EBG's total deposits increased over the eight (8) year period of analysis. The increase is rapid due to good loan management, mergers and an increase in the capital base from the bank's parent company.

Currently EBG holds the first position in terms of loans and advances given to customers in the banking industry. This shows that the bank recorded 16.22% of the total share of loans that were given out in the whole banking industry. The figure below shows the gross loan per total asset of the bank from 2006 to 2013.

Figure 4. 11: Gross loan per Net assets Ratios of EBG



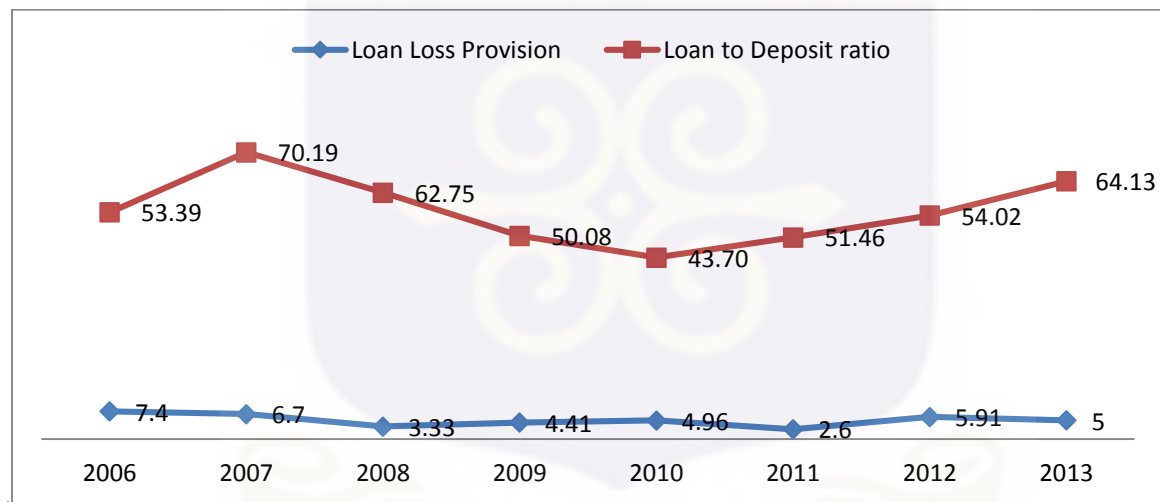
Source: Bank of Ghana Data (2014)

From 2006 to 2010, the bank recorded an increase in the loans they were giving out with respect to the total assets they have. This is due to the increasing acceptance of the bank in the Ghanaian minds and its drive to improve businesses in Ghana.

- **Loan loss provision and loan to deposit ratio**

The loan loss provision is the provisions over net loans issued to customers. The net loans are made of the total loans and advances, less the security (collateral) taken from borrowers. The provisions are made because it is required by the central bank to make provisions on all loans issued out, and also because of the prudence concept. The loan to deposit ratio offers to show the loans issued which is going out of the bank and the total deposits coming into the bank. The line graph below shows the trend in loan to deposit ratio and loan loss provision of EBG from 2006 to 2013.

Figure 4. 12: Loan loss provision and loan to deposit ratio of EBG



Source: Bank of Ghana Data (2014)

From the diagram, EBG enjoyed the lowest figures in their loan loss provision in the industry. From the diagram, it decreased from 7.4% in 2006 to 5% in 2013. This is an impressive performance. While the loan loss provision was increasing, the loan to deposit ratios were also

increasing. Both declined after 2010 and have enjoyed almost a constant increase from 2010 to 2013.

4.2.5 National Investment Bank (NIB)

- **Brief Background**

The National Investment Bank is a wholly owned public company established in 1967. It was established by the government to support local investors to expand the business avenues of Ghana.

- **Competitive Edge**

The bank until recently was the bank that was mandated to support local business to growth. This made the bank attract local investors and businesses as its customers.

- **Why NIB was selected**

NIB was selected for this analysis because of the bank's many years of existence. The bank has been in the industry for fifty (50) years. The bank also has a loan loss provision of 13% above the industry average of 9%. This also qualified the bank to be part of the analysis.

- **Position in the Industry**

As at 2013, NIB is the thirteenth largest bank in the industry in-terms of total assets. The bank possesses 3.3% of the total deposits of the industry (Bank of Ghana, 2014).

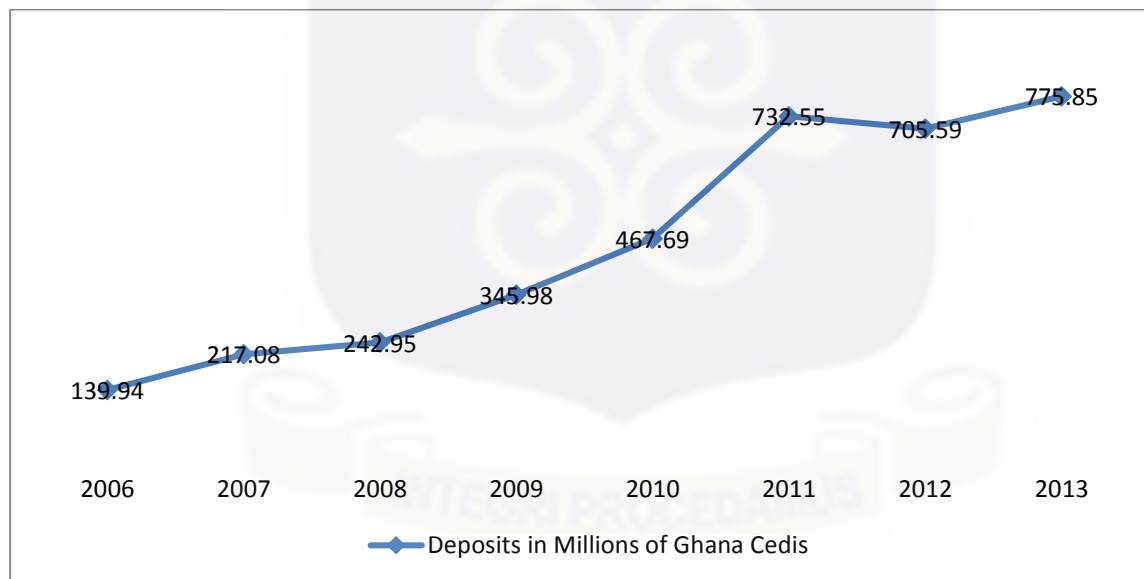
The bank is ranked as the sixteenth most profitable bank in the industry with 1.5% of the profit before tax as at 2013 (Bank of Ghana, 2014).

- **Market share**

NIB was the eighth largest bank in Ghana as at 2006 in terms of total deposits. The bank lost its position to thirteenth in 2008 and the bank has maintained that position to 2013.

The line graph below shows the trend of the market share of the bank in terms of total deposits from 2006 to 2013.

Figure 4. 13: The trend of deposits at NIB



Source: Bank of Ghana Data (2014)

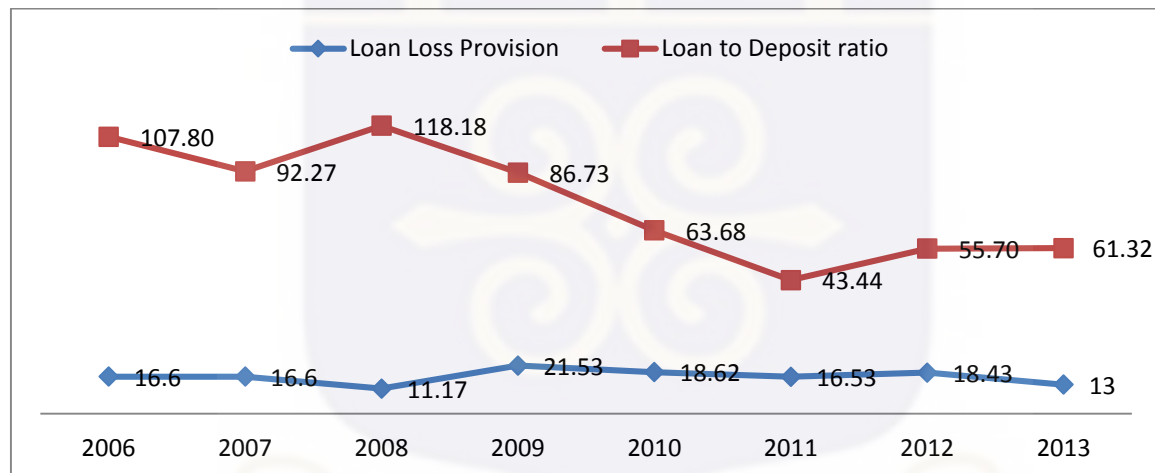
NIB's total deposits increased from 2006 to 2011, declined in 2012 and started increasing again in 2013.

- **Loan loss provision and loan to deposit ratio**

The loan loss provision is the provisions made for loans that may not be repaid, over net loans issued to customers. The net loans are made of the total loans and advances less the security (collateral) taken from borrowers. The loan to deposit ratio offers to show the loans issued which is going out of the bank and the total deposits coming into the bank.

The line graph below shows the trend in loan to deposit ratio and loan loss provision of NIB from 2006 to 2013.

Figure 4. 14: Loan loss provision and loan to deposit ratio of NIB



Source: Bank of Ghana Data (2014)

The loan loss provision of NIB has experienced constant changes in figures except in 2008 and in 2013 that recorded lower figures. The loan to deposit ratio in percentage terms increased initially in 2008 but fell afterward to 2011. It started increasing again in 2012 and 2013.

4.2.6 Societe Generale- Social Security Bank (SG-SSB)

- **Brief Background**

The bank was established in 1975. A National Redemption Council (NRC) Government Decree established this bank to cater for the pension needs of workers.

- **Competitive Edge**

The bank has governmental support in terms of resources to do business. The bank also has the support of Social Security and National Insurance Trust (SSNIT), these thus being the bank's largest customer base.

- **Why SG-SSB was selected**

This bank was selected for the analysis because of the number of years it has been in existence in the banking industry.

- **Position in the Industry**

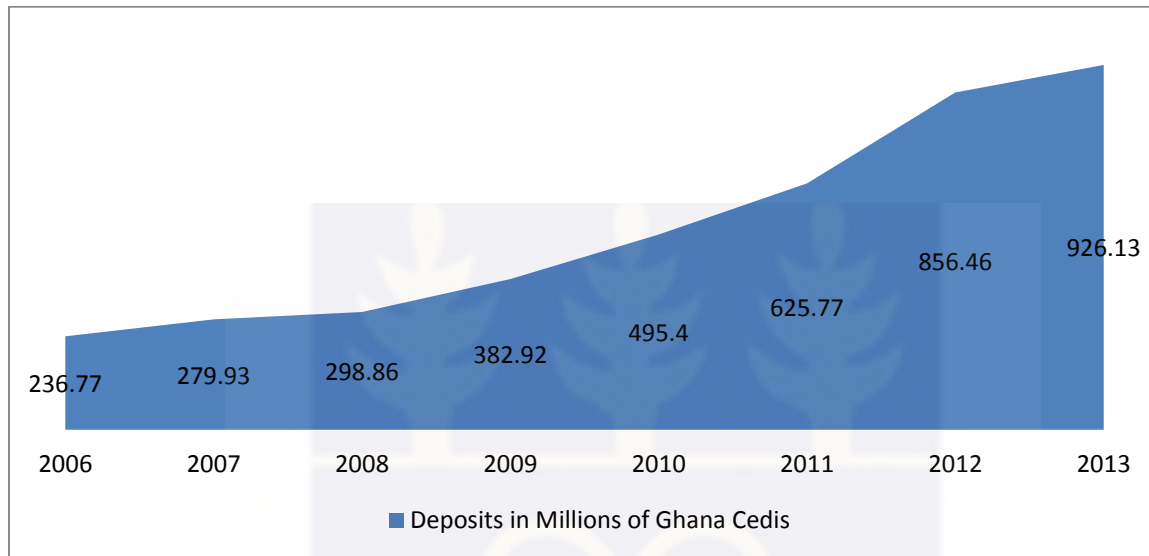
The position of the bank in the banking industry has been changing since 2006, because of the entrance of new banks. As at 2013, SG-SSB was rated as the ninth bank with a percentage of 3.9% of the total deposits of all banks. The bank is ranked as the twelfth most profitable bank in the industry with 2.6% of profit before tax as at 2013 (Bank of Ghana, 2014).

- **Market share**

SG-SSB had 6.9% of the market share in 2006. The market share decreased to 4.2% in 2008 and it came down to 3.9% as 2013.

The area graph below shows the trend of the market share of the bank in terms of total deposits from 2006 to 2013.

Figure 4. 15: The trend of deposits at SG-SSB



Source: Bank of Ghana Data (2014)

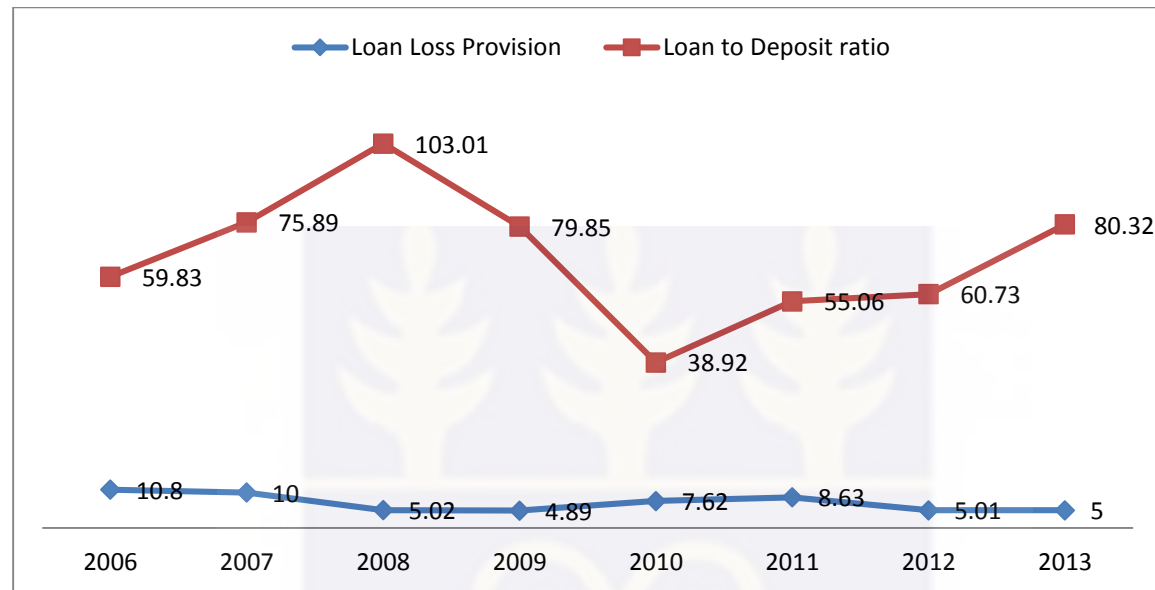
From the trend of SG-SSB total deposits, they increased from 236.77 million Ghana Cedis in 2006 to 926.13 million Ghana Cedis over the eight (8) year period of analysis. This is impressive looking at the limited customer base and the total deposits being managed by the bank.

- **Loan loss provision and loan to deposit ratio**

The loan loss provision is the provisions over net loans issued to customers. The net loans are made of the total loans and advances less the security (collateral) taken from borrowers. The provisions are made because it is required by the central bank to make provisions on all loans issued, and also because of the prudence concept. The loan to deposit ratio offers to show the loans issued which are going out of the bank and the total deposits coming into the bank.

The line graph below shows the trend in loan to deposit ratio and loan loss provision of SG-SSB from 2006 to 2013.

Figure 4. 16: Loan loss provision and loan to deposit ratio of SG-SSB



Source: Bank of Ghana Data (2014)

From the diagram, the loan to deposits increased from 59.83% in 2006 to 103.01% in 2008 but declined to 38.92% in 2010. The figure started rising again in 2011.

The loan loss provision has been increasing at a near constant rate.

4.2.7 Agricultural Development Bank (ADB)

- Brief Background**

Agricultural Development Bank (ADB) is a wholly owned Ghanaian bank which was established in 1965.

- **Competitive Edge**

The competitive edge enjoyed by the bank stems from the focus the bank has of helping farmers and agro-based industries. It is the main bank that provides almost all the banking products on agriculture. This draws a lot of customers to its fold.

- **Why ADB was selected**

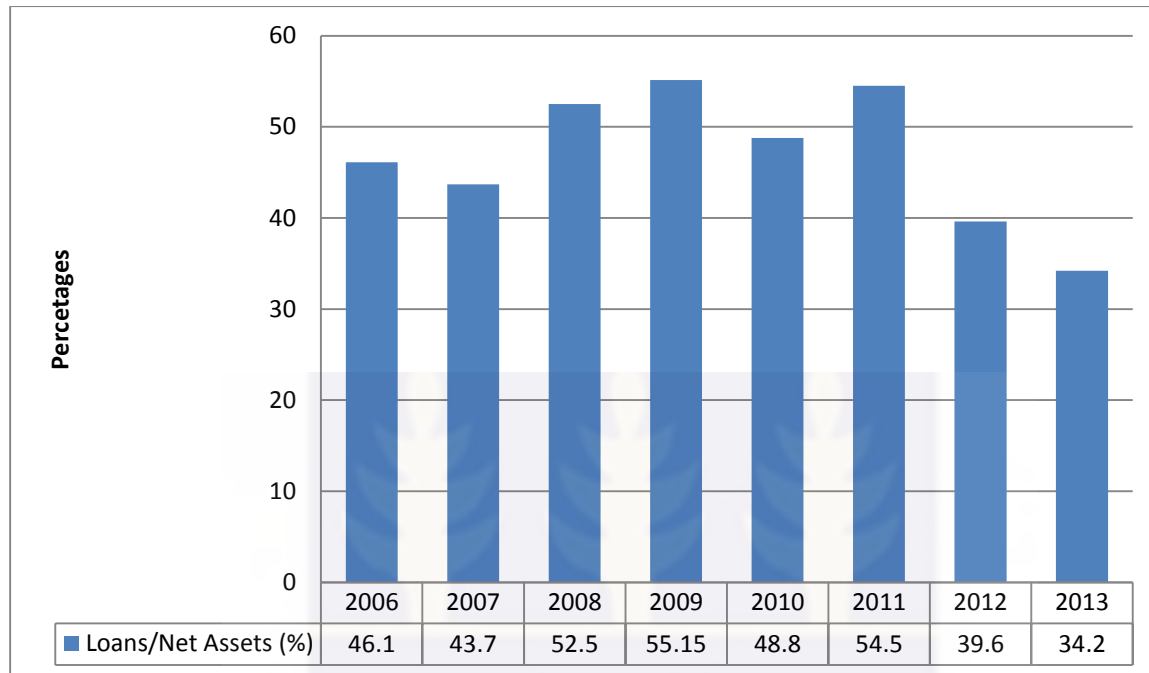
ADB was selected for this analysis because it is one of the oldest banks in Ghana.

- **Position in the Industry**

As at 2013, ADB was the fifth largest bank in the industry in terms of total assets. The bank possesses 8.0% of the total assets of the industry in 2013 (Bank of Ghana, 2014).

The bank is ranked as the second most profitable bank in the industry with 13.6% of the profits before tax as at 2013 (Bank of Ghana, 2014).

As at 2010, the bank was the largest lending bank for the agricultural sector providing 35% to the sector. The bank provides loans to customers, both bank and non-bank institutions, including individuals. The bank is ranked 9th in the Ghanaian banking industry for loans and advances made at the end of 2013. The figure below shows the gross loan per total asset of the bank from 2006 to 2013.

Figure 4. 17: Gross loan per Net assets Ratios of ADB

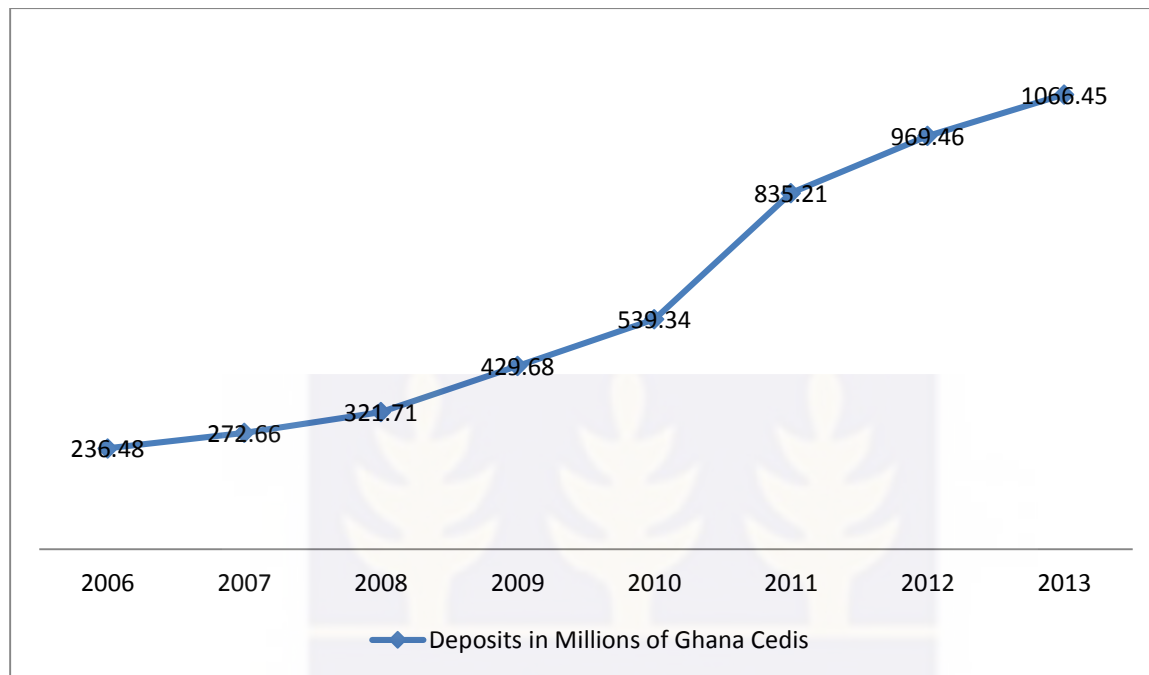
Source: Bank of Ghana Data (2014)

In 2006, the gross loans per net assets of ADB were 46.1%. This is good for the long-term investment but this dents the current survival and growth of the bank. In 2009, 55.15% of the total resources of the bank were given out as loans as a result of the economic recession and change of government.

- **Market share**

ADB had a market share of 236.48 million Ghana cedis of the total deposits in the banking industry in 2006. This made the bank the sixth largest bank in 2006. But in 2013, the bank lost its position to eighth position.

Figure 4. 18: The trend of deposits at ADB

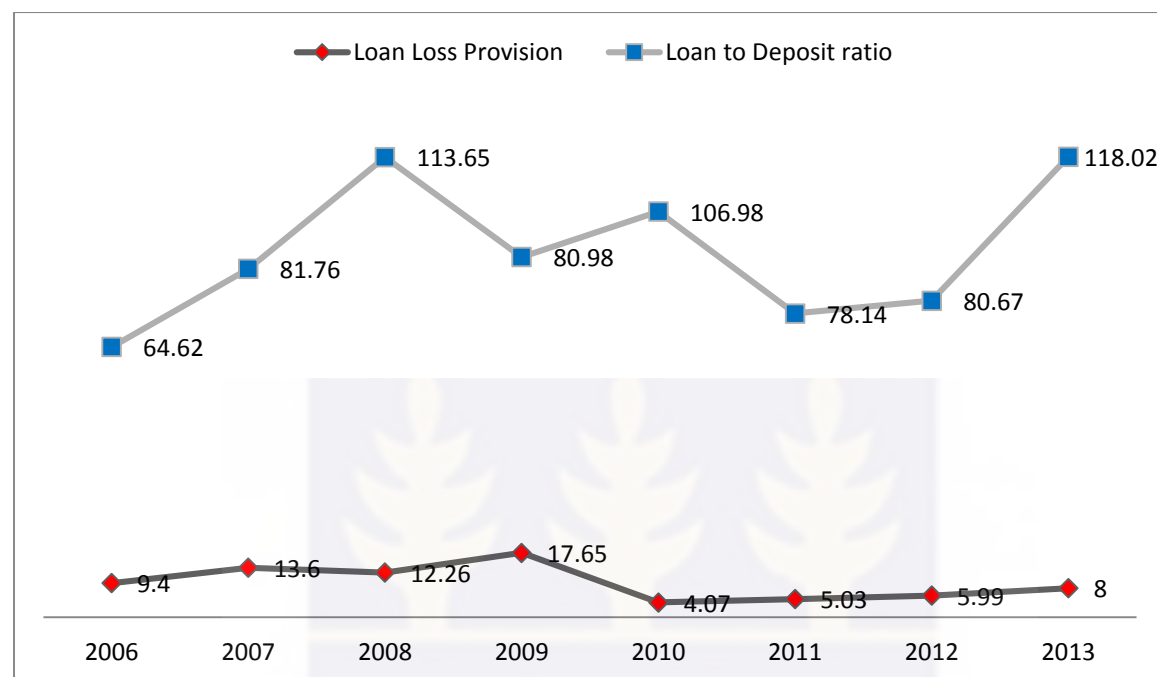


Source: Bank of Ghana Data (2014)

From the trend ADB's total deposits increased from GH 236.48 million in 2006 to GH 1066.45 million Ghana Cedis over the period of analysis.

- **Loan loss provision and loan to deposit ratio**

The line graph below shows the trend in loan to deposit ratio and loan loss provision of ADB from 2006 to 2013.

Figure 4. 19: Loan loss provision and loan to deposit ratio of ADB

Source: Bank of Ghana Data (2014)

From the diagram, the loan loss provision increased from 9.4% in 2006 to 17.65% in 2009 but declined in 2010 to 4.07%. In 2013 it increased again to 8% below the industry average of 9%.

While the loan loss provision was increasing, loan to deposit ratios were rising and falling.

4.2.8 Guaranty Trust Bank (GTB)

- **Brief Background**

GT Bank is a wholly Nigerian owned bank with branches in Ghana. The bank was established in 2006.

- **Competitive Edge**

The competitive edge enjoyed by the bank includes the branding of the bank's products and aggressive marketing techniques.

- **Why GT Bank was selected**

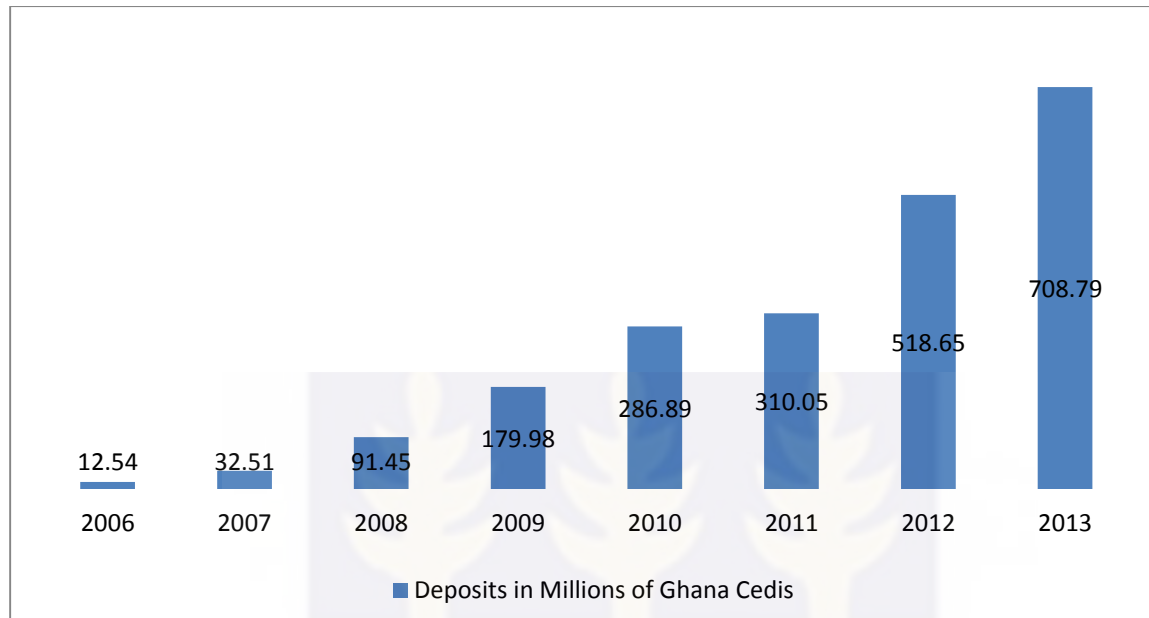
GT Bank was selected for the study because of the loan loss provision of 18% which is far above the industry's average of 9%.

- **Position in the Industry**

As at 2013, GT Bank was the seventeenth largest bank in the industry in-terms of total assets. The bank possesses 2.6% of the total assets of the industry (Bank of Ghana, 2014). The bank is ranked as the ninth most profitable bank in the industry with 7.50% of the profit before tax as at 2013 (Bank of Ghana, 2014).

- **Market share**

The market share of the GT bank as at 2013 is 3%, putting it at the fifteenth position in the banking industry. The bar graph below shows the trend of market share of the bank in terms of total deposits from 2006 to 2013.

Figure 4. 20: The trend of deposits at GT Bank

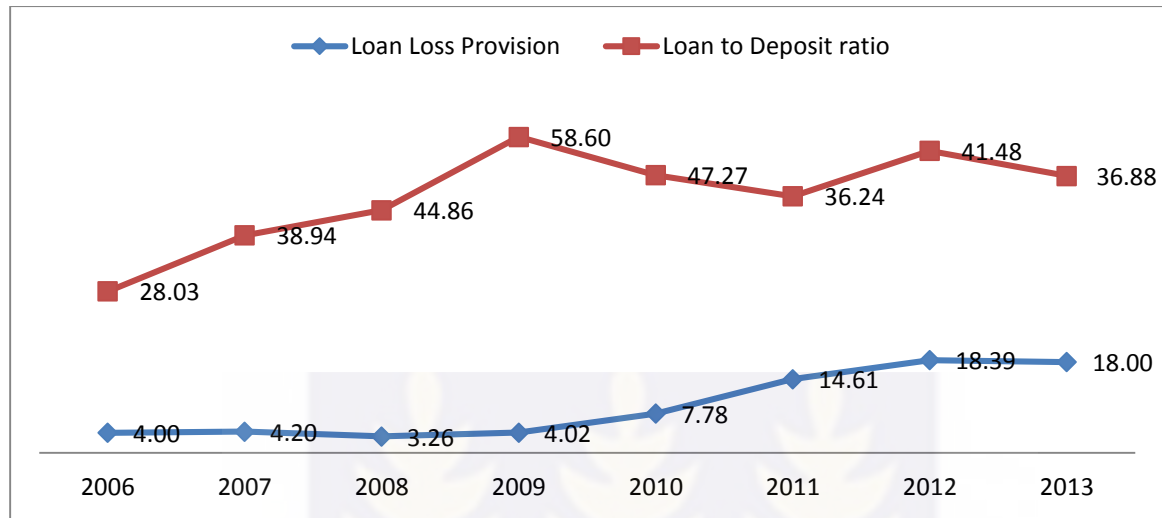
Source: Bank of Ghana Data (2014)

From the trend, GT Bank's total deposits increased from 12.54 in 2006 to 708.79 representing 5553.64% over the eight (8) period of analysis. This is impressive and its growth is the best in the entire industry.

- **Loan loss provision and loan to deposit ratio**

The loan loss provision is the provisions over net loans issued to customers. The net loans are made of the total loans and advances less the security (collateral) taken from borrowers. The provisions are made because it is required by the central bank to make provisions on all loans issued out, and also because of prudence concept.

The line graph below shows the trend in loan to deposit ratio and loan loss provision of GTB from 2006 to 2013.

Figure 4. 21: Loan loss provision and loan to deposit ratio of GT-Bank

Source: Bank of Ghana Data (2014)

From the diagram there is a wide gap or difference between the loan loss provision and loan to deposits. The gap became narrow in 2011.

4.2.9 Stanbic Bank (SBL)

- **Brief Background**

Stanbic Bank, a member of the Standard group, was established in Ghana in 2001.

- **Competitive Edge**

As a Pan-African bank, the bank supports local farmers, industries and investors. This draws a lot of customers to the bank.

- **Why SBL was selected**

SBL was selected because of its position in the banking industry. As at 2013, the bank was the fourth largest bank in terms of total deposits.

- **Position in the Industry**

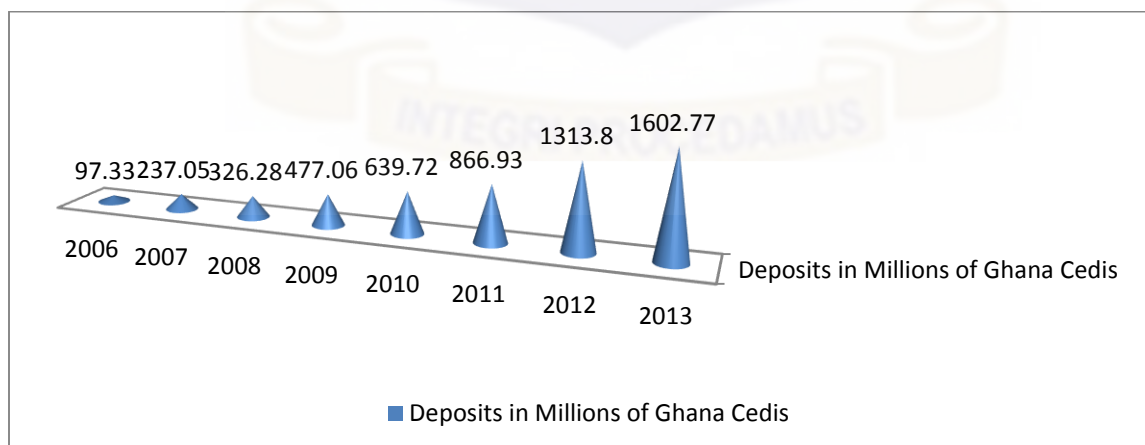
As at 2013, SBL was the fourth largest bank in the industry in-terms of total assets. The bank possesses 8.0% of the total assets of the industry (Bank of Ghana, 2014). The bank is ranked as the fifth most profitable bank in the industry with 7.3% of the profit before tax as at 2013 (Bank of Ghana, 2014).

- **Market share**

SBL had 2.8% of market share in 2006. It increased to 4.6% in 2008 and as at 2013, it was 6.7%.

The line graph below shows the trend of market share of the bank in terms of total deposits from 2006 to 2013.

Figure 4. 22: The trend of deposits at SBL



Source: Bank of Ghana Data (2014)

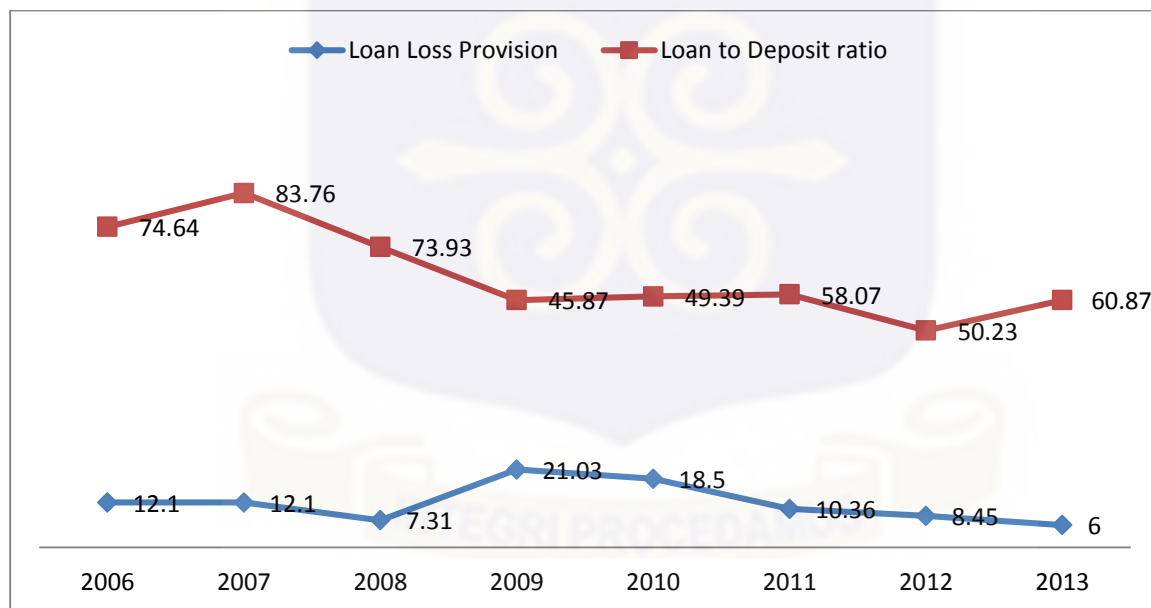
From the trend SBL total deposits exhibited progressive growth from 2006 to 2010.

- **Loan loss provision and loan to deposit ratio**

The loan loss provision is the provisions over net loans issued to customers. The net loans are made of the total loans and advances less the security (collateral) taken from borrowers. The provisions are made because it is required by the central bank to make provisions on all loans issued out, and also because of prudence concept.

The line graph below shows the trend in loan to deposit ratio and loan loss provision of SBL from 2006 to 2013.

Figure 4. 23: Loan loss provision and loan to deposit ratio of SBL



Source: Bank of Ghana Data (2014)

From the diagram, the loan loss provision increased from 12.1% in 2006 to 21% in 2009 but declined to 5% in 2013.

4.2.10 Unique Trust Bank (UTB)

- **Brief Background**

Unique Trust (UT) Bank was formerly a non-bank financial institution. It became a member of Ghana Banking Industry in 2009.

- **Competitive Edge**

The competitive advantage the bank enjoys is its branding through print and online advertising. Also, the bank, which was formerly a non-bank financial institution, is known for its effective loan management system

- **Why UT Bank was selected**

The bank was selected for the analysis because of its loan loss provision of 10% which is above the industry average of 9%

- **Position in the Industry**

As at 2013, UT Bank was the thirteenth bank in the industry in-terms of total assets. The bank possesses 3.7% of the total assets of the industry (Bank of Ghana, 2014).

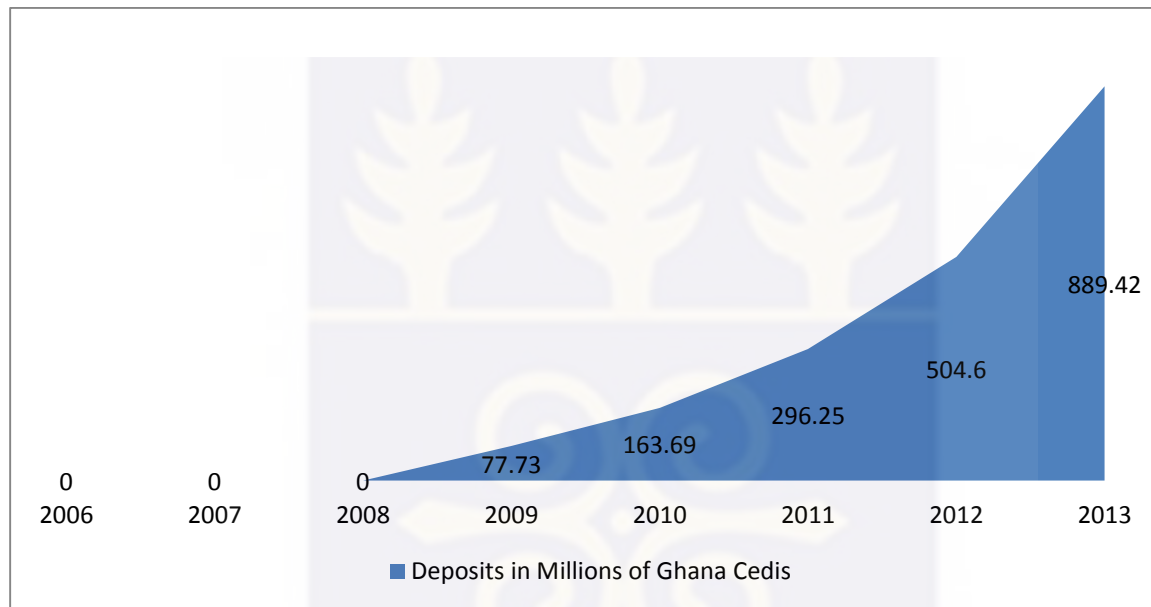
The bank is ranked as the nineteenth most profitable bank in the industry with 0.6% of the profit before tax as at 2013 (Bank of Ghana, 2014).

- **Market share**

The total deposits of UT Bank as at 2013 was 889 million Ghana Cedis, representing 3.7% of total deposits of all banks in Ghana as at 2013. This positioned the bank at the eleventh position in the banking industry in 2013. But in 2009, when the bank started operations, it attained the

twenty-third (23) position in the industry. In 2012, the bank had 2.3% of the total loans in the industry and the seventeenth position. Therefore, the growth of the bank has been impressive and tremendous in 2013. The area graph below shows the trend of market share of the bank in terms of total deposits from 2006 to 2013.

Figure 4. 24: The trend of deposits at UT Bank



Source: Bank of Ghana Data (2014)

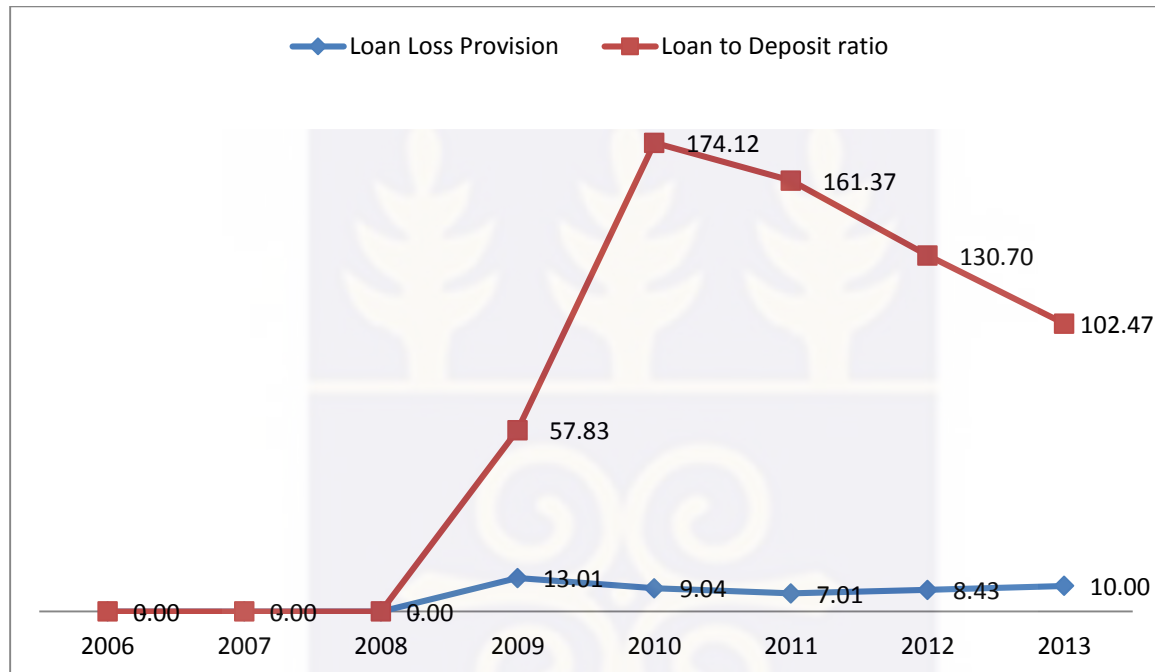
From the trend, UT Bank total deposits started increasing from 2009 because in the first three years of the analysis, the bank did not exist.

- **Loan loss provision and loan to deposit ratio**

The loan loss provision is the provisions over net loans issued to customers. The net loans are made of the total loans and advances less the security (collateral) taken from borrowers. The provisions are made because it is required by the central bank to make provisions on all loans issued out, and also because of prudence concept.

Loan to deposit ratio offers to show the loans issued which is going out of the bank and the total deposits coming into the bank. The line graph below shows the trend in loan to deposit ratio and loan loss provision of UT Bank from 2006 to 2013.

Figure 4. 25: Loan loss provision and loan to deposit ratio of UTB



Source: Bank of Ghana Data (2014)

4.2.11 Universal Merchant Bank (UMB)

- Brief Background**

Universal Merchant Bank until the later part of 2013 was known as Merchant Bank Ghana. The bank was established in 1971.

- **Competitive Edge**

The competitive edge the bank has is its special products for exporters and local business units.

The bank is able to draw many customers through their products.

- **Why UMB was selected**

UMB was selected for this analysis because of the number of years it has been in the banking industry.

- **Position in the Industry**

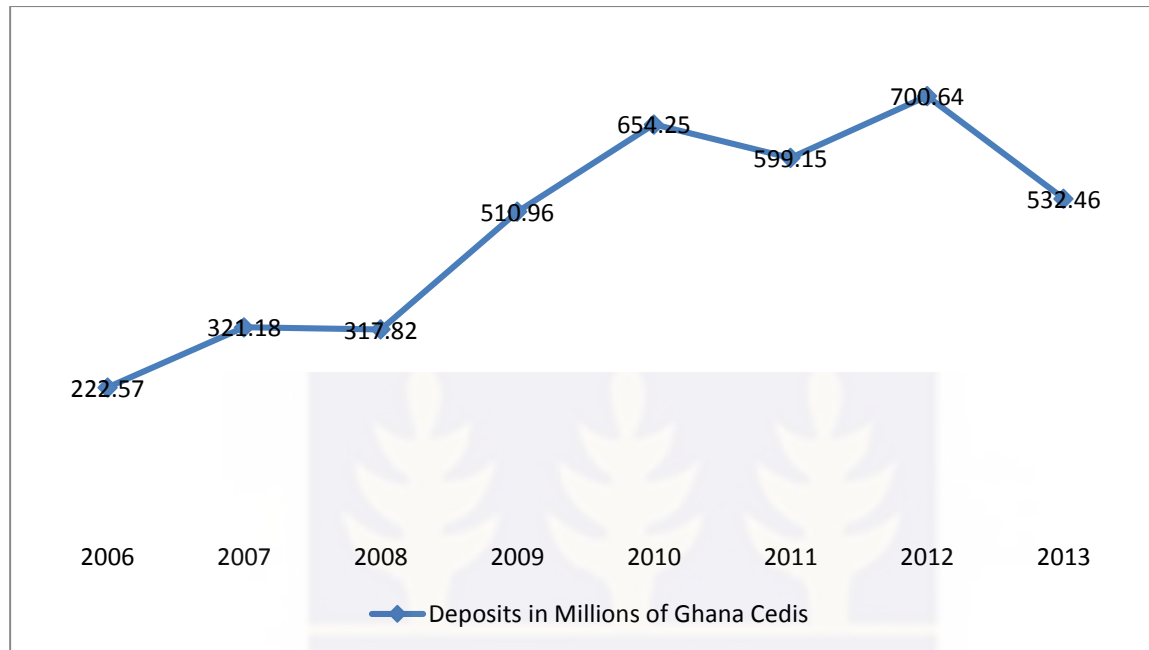
As at 2013, UMB was the nineteenth largest bank in the industry in-terms of total assets. The bank possesses 2.1% of the total assets of the industry (Bank of Ghana, 2014).

The bank is ranked as the twenty-sixth most profitable bank in the industry with -1.5% of the profit before tax as at 2013 (Bank of Ghana, 2014). This bank was putting the whole industry down because it was recording negative growth. This is one of the reasons why Merchant Bank was sold and the name was changed.

- **Market share**

The bank recorded 222.57 million Ghana Cedis deposits in 2006 and it increased to 654.25 million Ghana Cedis in 2010. It reduced in 2011 but it increased again in 2012. 2013 saw the worst results and the bank lost its position in the banking industry.

The line graph below shows the trend of the market share of the bank in terms of total deposits from 2006 to 2013.

Figure 4. 26: The trend of deposits at UMB

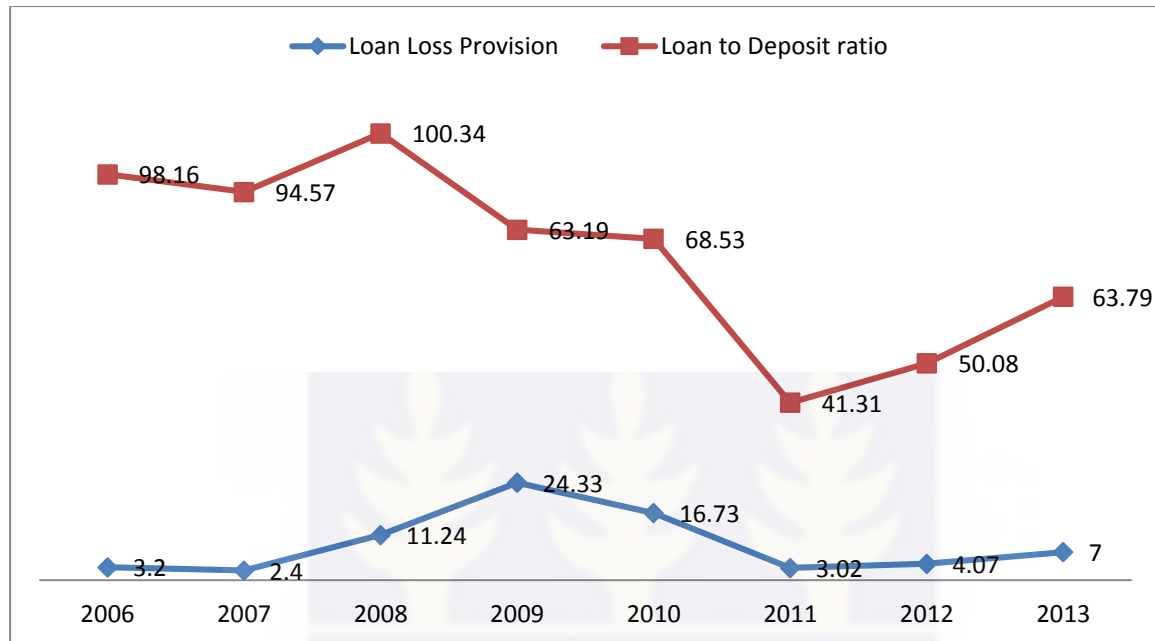
Source: Bank of Ghana Data (2014)

- **Loan loss provision and loan to deposit ratio**

The loan loss provision is the provisions over net loans issued to customers. The net loans are made of the total loans and advances less the security (collateral) taken from borrowers. The provisions are made because it is required by the central bank to make provisions on all loans issued out, and also because of prudence concept.

Loan to deposit ratio offers to show the loans issued which is going out of the bank and the total deposits coming into the bank.

The line graph below shows the trend in loan to deposit ratio and loan loss provision of UMB from 2006 to 2013.

Figure 4. 27: Loan loss provision and loan to deposit ratio of UMB

Source: Bank of Ghana Data (2014)

From the diagram, the loan loss increased from 3.2% in 2006 to 7% in 2013 but declined in 2011. The loan loss provision was increasing, loan to deposit ratios were also increasing. The inability of the bank to collect the huge amount of loans in debt led to the selling of the bank in the latter part of 2013.

4.2.12 Zenith Bank (ZIB)

- **Brief Background**

Zenith Bank Ghana Limited is a full subsidiary of Zenith Bank PLC Nigeria. It was established in Ghana in 2004.

- **Competitive Edge**

The competitive advantage the bank has is the ability to attract students, and its technological drive in banking. The bank also seems to get support from its parent company in-terms of finance and technical knowledge.

- **Why ZIB was selected**

ZIB was selected for this analysis because of the bank's position in the industry as a result of its total deposits. Also because the bank's loan loss provision which is the same as the industry average of 9%.

- **Position in the Industry**

As at 2013, ZIB was the sixth largest bank in the industry in-terms of total assets. The bank possesses 4.5% of the total assets of the industry (Bank of Ghana, 2014).

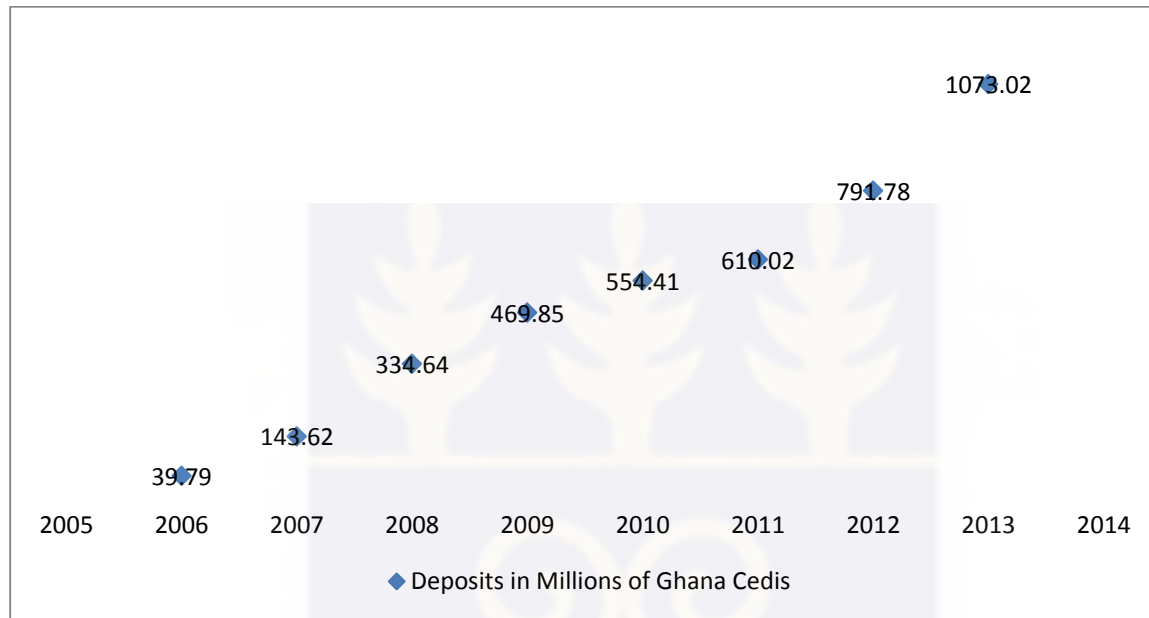
The bank is ranked as the eighth most profitable bank in the industry with 4.5% of the profit before tax as at 2013 (Bank of Ghana, 2014).

- **Market share**

The market share position of ZIB changed from tenth position in 2012 to seventh position 2013.

The line graph below shows the trend of market share of the bank in terms of total deposits from 2006 to 2013.

Figure 4. 28: The trend of deposits at ZIB



Source: Bank of Ghana Data (2014)

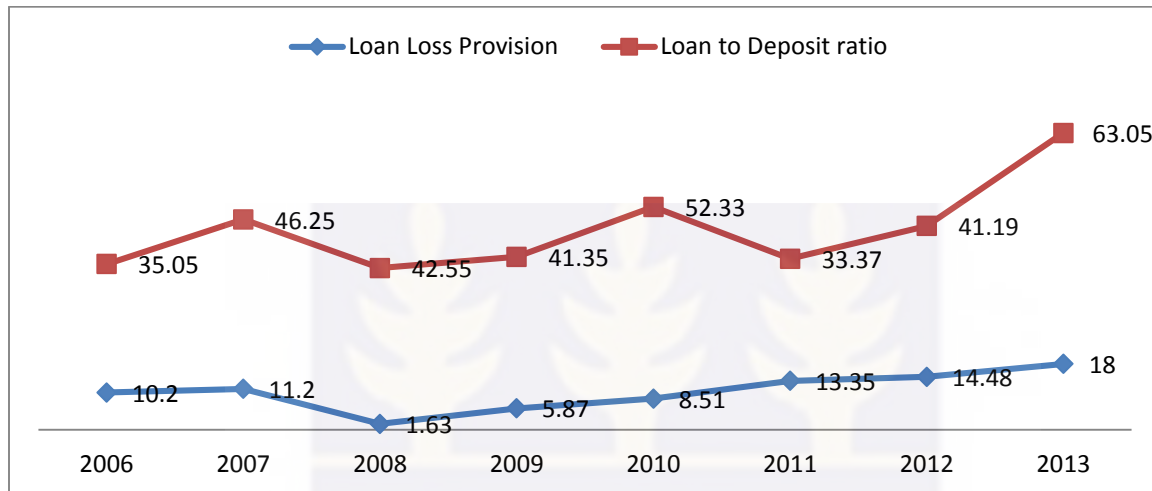
From the trend ZIB's total deposits increased from 39 million Ghana Cedis in 2006 to 676.57 million Ghana Cedis. The bank's progressive successes is pushing the bank to be part of the top five banks in only ten years of operations.

- **Loan loss provision and loan to deposit ratio**

The loan loss provision is the provisions over net loans issued to customers. The net loans are made of the total loans and advances less the security (collateral) taken from borrowers. The provisions are made because it is required by the central bank to make provisions on all loans issued out, and also because of prudence concept.

The line graph below shows the trend in loan to deposit ratio and loan loss provision of ZIB from 2006 to 2013.

Figure 4. 29: Loan loss provision and loan to deposit ratio of ZIB



Source: Bank of Ghana Data (2014)

From the diagram, the loan loss increased from 10.2% in 2006 and it reduced to 1.63% in 2008 because of effective loan management practices. The lowest loan to deposit ratio was recorded in 2011 of 33.37%. The highest was recorded in 2013 of 63.05%.

4.2.13 CAL Bank (CAL)

- **Brief Background**

CAL bank is a wholly Ghanaian owned bank which was established in 1990.

- **Competitive Edge**

The competitive edge enjoyed by the bank includes, the number of years of existence in the banking industry, its market share (total deposits) and the technological nature of the bank.

- **Why CAL bank was selected**

CAL bank was selected for this analysis because of the number of year the bank has been in existence in the banking industry and the market share of the bank.

- **Position in the Industry**

As at 2013, CAL bank was the tenth largest bank in the industry in-terms of total assets. The bank possesses 4.4% of the total assets of the industry (Bank of Ghana, 2014).

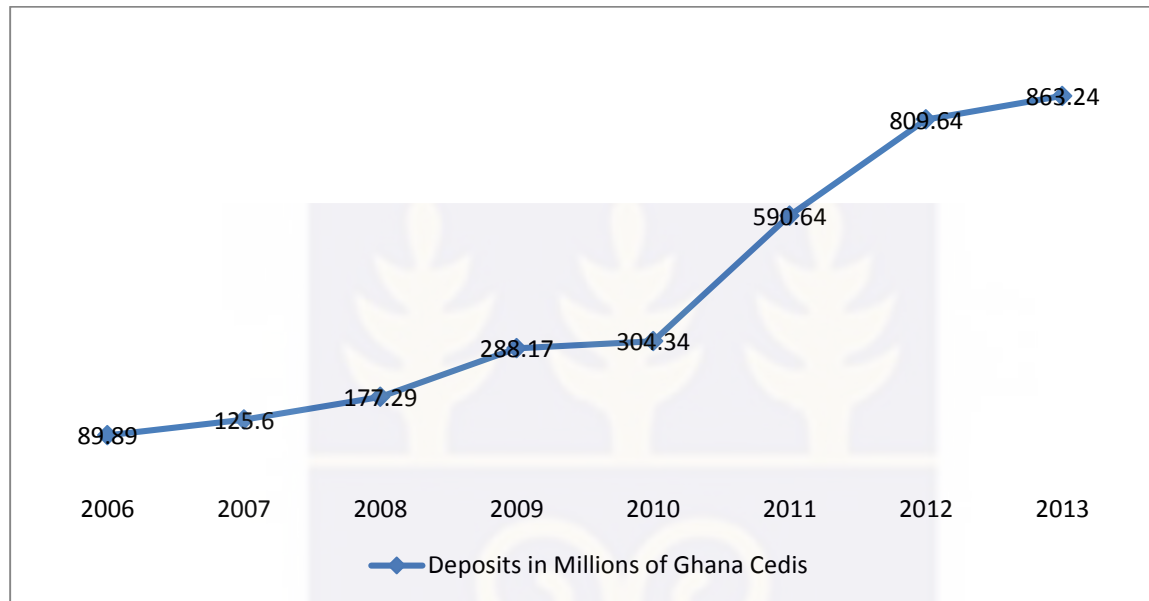
The bank is ranked as the seventh most profitable bank in the industry with 6.1% of the profit before tax as at 2013 (Bank of Ghana, 2014).

- **Market share**

The CAL bank had GH 89.89 million Ghana Cedis total deposits in the, out of the total banking industry deposits of GH 3,440.03 million Ghana Cedis as at 2006 (Bank of Ghana, 2014).

The line graph below shows the trend of market share of the bank in terms of total deposits from 2006 to 2013.

Figure 4. 30: The trend of deposits at CAL



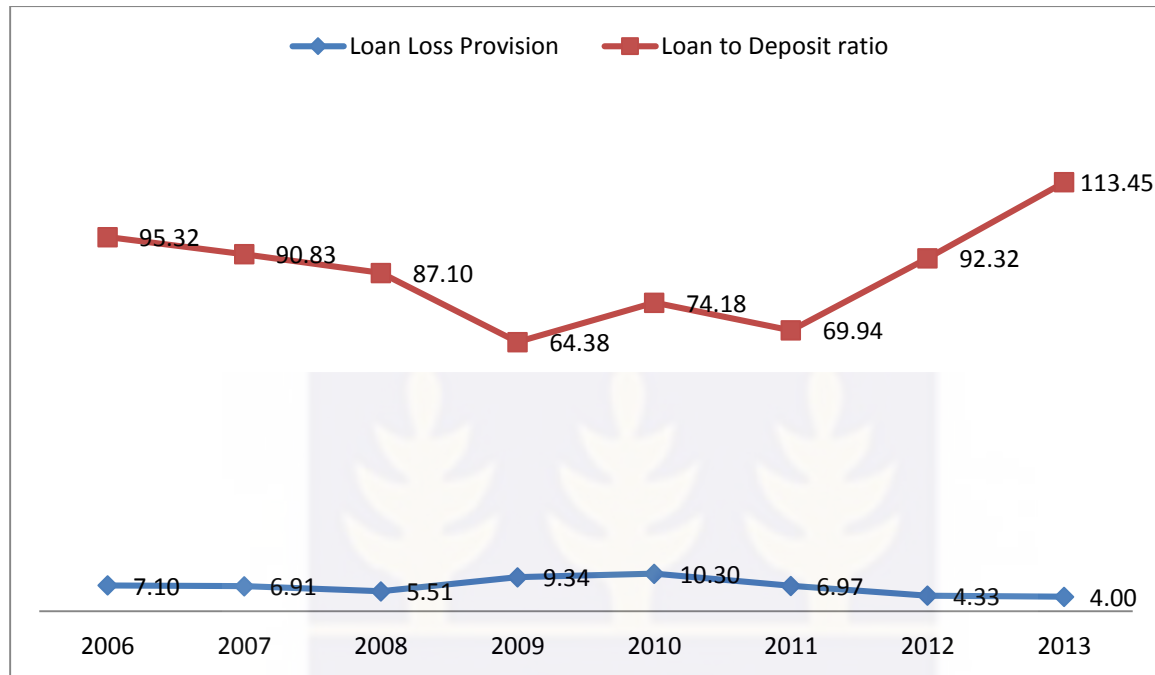
Source: Bank of Ghana Data (2014)

From the trend CAL bank total deposits increased from 2006, and maintained constant results from 2009 and 2010. These increased again in 2011 but started being constant again in 2013.

- **Loan loss provision and loan to deposit ratio**

The line graph below shows the trend in loan to deposit ratio and loan loss provision of CAL from 2006 to 2013.

Figure 4. 31: Loan loss provision and loan to deposit ratio of CAL



Source: Bank of Ghana Data (2014)

From the diagram, the loan loss provision of CAL bank was constant ranging from 4% to 10.3%.

The loan to deposits ratio was in the same range from 64.38% to 113%.

4.2.14 Bank of Africa (BOA)

- **Brief Background**

Bank of Africa, formerly Amalgamated bank, assumed full operations in Ghana in 2012.

- **Why BOA was selected**

BOA was selected for this analysis because of its loan loss provision of 20% in 2013.

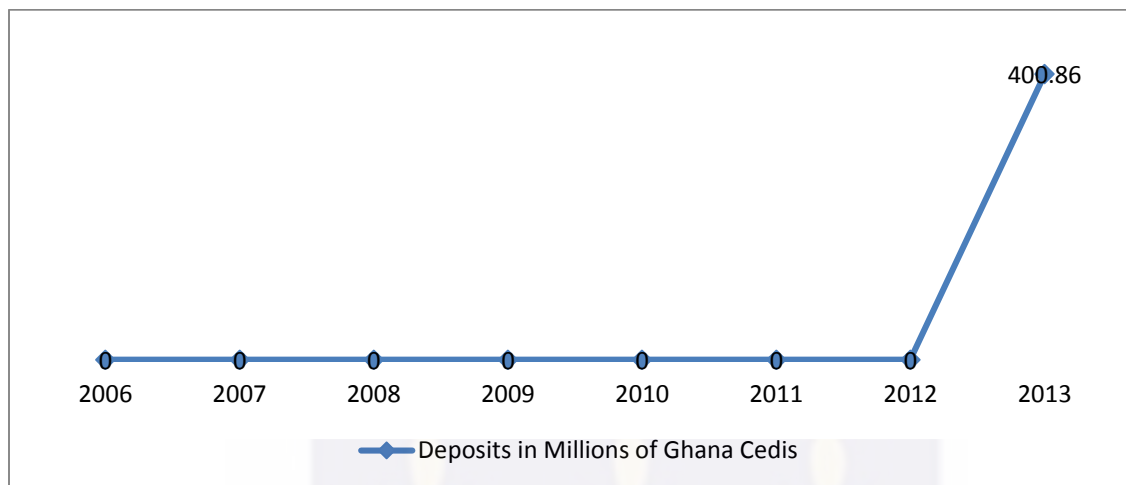
- **Position in the Industry**

As at 2013, BOA was the twentieth largest bank in the industry in-terms of total assets. The bank possesses 1.7% of the total assets of the industry (Bank of Ghana, 2014). The bank is ranked as the twenty-fifth most profitable bank in the industry with -0.1% of the profit before tax as at 2013 (Bank of Ghana, 2014).

- **Market share**

BOA had 40.86 million total deposits in the banking industry, out of the total deposit in the banking industry of 267.5 million Ghana Cedis as at 2013 (Bank of Ghana, 2014). Before 2012, the bank was not in operations. The line graph below shows the trend of market share of the bank in terms of total deposits in 2013.

Figure 4. 32: The trend of deposits at BOA

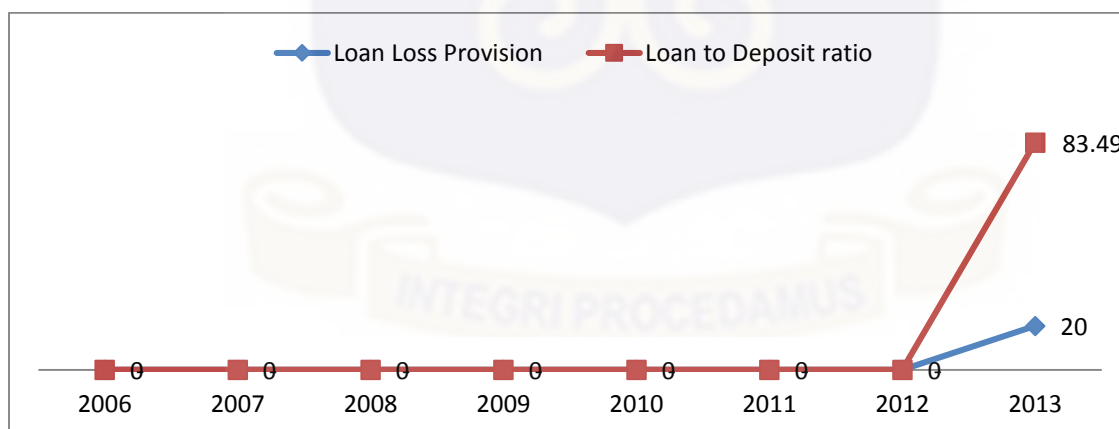


Source: Bank of Ghana Data (2014)

- **Loan loss provision and loan to deposit ratio**

The line graph below shows the trend in loan to deposit ratio and loan loss provision of BOA from 2006 to 2013.

Figure 4. 33: Loan loss provision and loan to deposit ratio of BOA



Source: Bank of Ghana Data (2014)

From the diagram, the loan loss provision of BOA was 20% in 2013. But the loan per deposits of BOA in 2013 was 83.49%.

4.2.15 International Commercial Bank (ICB)

- **Brief Background**

ICB was established in Ghana in 2004 under the banking regulations of Ghana.

- **Competitive Edge**

The competitive edge enjoyed by the bank includes the number of years of existence in the banking industry, market share (total deposits).

- **Why ICB was selected**

ICB was selected for this analysis because of its position in the industry and the loan loss provision.

- **Position in the Industry**

As at 2013, ICB was the twenty-second largest bank in the industry in-terms of total assets. The bank possesses 0.8% of the total assets of the industry (Bank of Ghana, 2014).

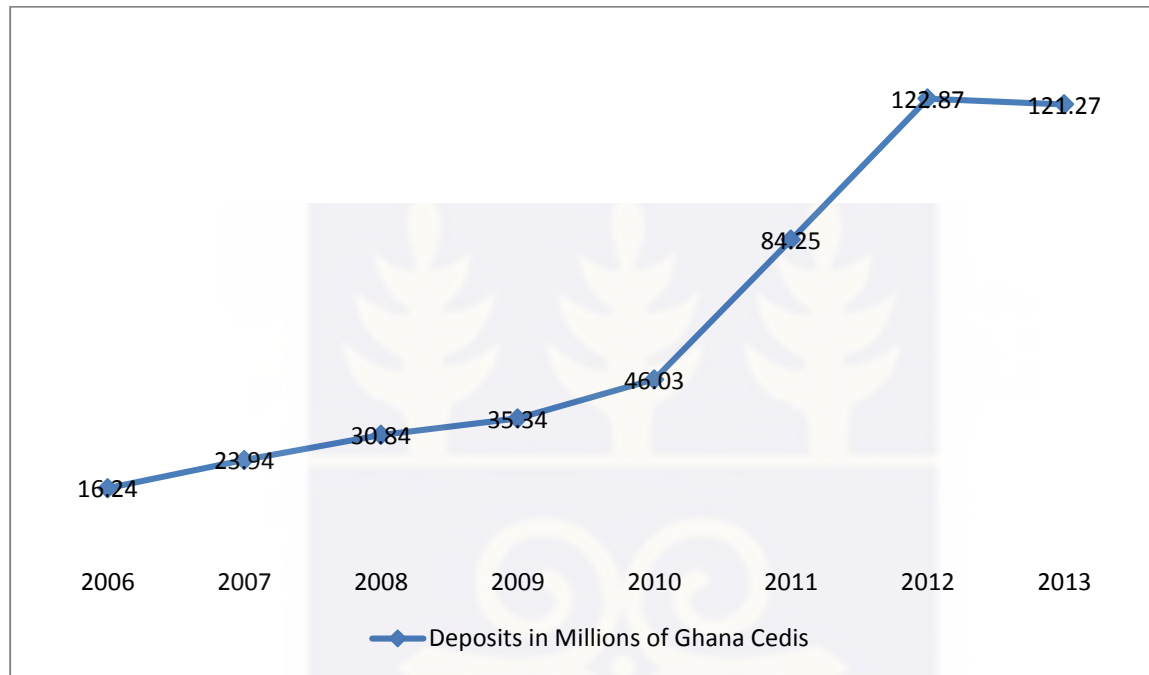
The bank is ranked as the twentieth most profitable bank in the industry with 0.6% of the profit before tax as at 2013 (Bank of Ghana, 2014).

- **Market share**

ICB had 50.85 million total deposits out of the total banking industry deposit 3,440.03 million Ghana Cedis as at 2006 (Bank of Ghana, 2014). Before 2013, the bank enjoyed the sixteenth position in the market as a result of large deposits from 2006 of 50.85 million Ghana Cedis to 2012 of 196.59 Million Ghana Cedis. The total market declined to 166.54 in 2013.

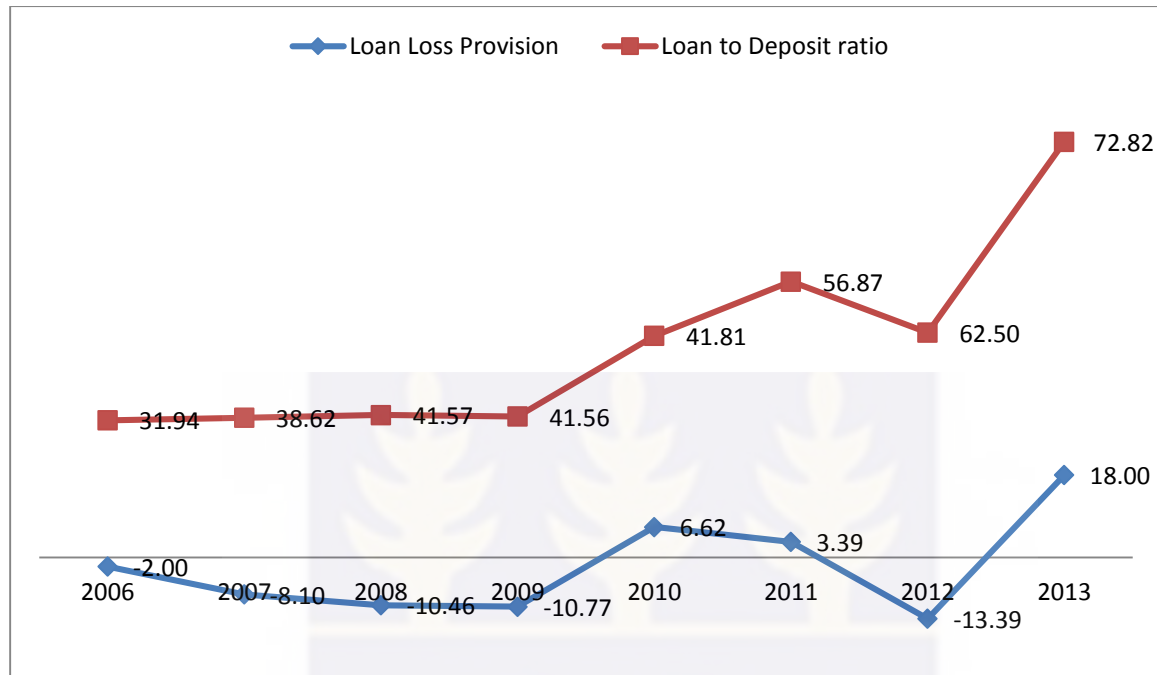
The line graph below shows the trend of market share of the bank in terms of total deposits from 2006 to 2013.

Figure 4. 34: The trend of deposits at ICB



- **Loan loss provision and loan to deposit ratio**

The line graph below shows the trend in loan to deposit ratio and loan loss provision of ICB from 2006 to 2013.

Figure 4.35: Loan loss provision and loan to deposit ratio of ICB

Source: Bank of Ghana Data (2014)

From the diagram, the loan loss increased from -2.0% in 2006 to 6.62% in 2010 but declined in 2012 to -13.3%. In 2013 increased again to 18% far above the industry average of 9%.

While the loan loss provision was increasing, loan to deposit ratios were also increasing. It declined after 2010 and it has enjoyed almost a constant increase in 2012 and 2013.

4.2.16 First Atlantic Merchant Bank (FAMBL)

- **Brief Background**

First Atlantic Merchant Bank (FAMBL) was established in Ghana in 2007.

- **Competitive Edge**

The competitive edge enjoyed by the bank includes, the number of years of existence in the banking industry, market share (total deposits) and the differentiated banking products towards the affluence in the Ghanaian society.

- **Why FAMBL was selected**

FAMBL was selected for this analysis because of its loan loss provision of 15% above the industry average of 9%.

- **Position in the Industry**

As at 2013, FAMBL is the twenty-first largest bank in the industry in-terms of total assets. The bank possesses 2.1% of the total assets of the industry (Bank of Ghana, 2014).

The bank is ranked as the twenty-third most profitable bank in the industry with 0.1% of the profit before tax as at 2013 (Bank of Ghana, 2014). This is not impressive.

- **Market share**

FAMBL had 64.98 million total deposits out of the total banking industry deposit of 3,440.03 million Ghana Cedis as at 2006 (Bank of Ghana, 2014). Before 2012, the bank enjoyed a good position but the total market declined to 200.96% in 2013.

The line graph below shows the trend of market share of the bank in terms of total deposits from 2006 to 2013.

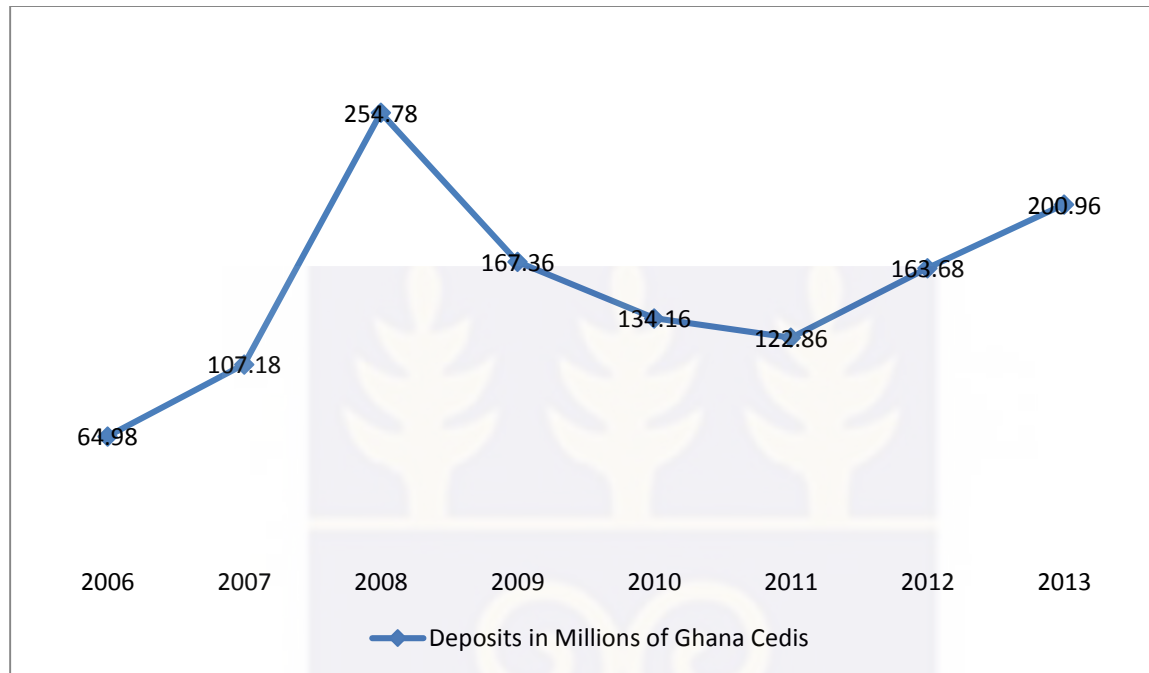


Figure 4. 36: The trend of deposits at FAMBL

Source: Bank of Ghana Data (2014)

- **Loan loss provision and loan to deposit ratio**

The line graph below shows the trend in loan to deposit ratio and loan loss provision of FAMBL from 2006 to 2013.

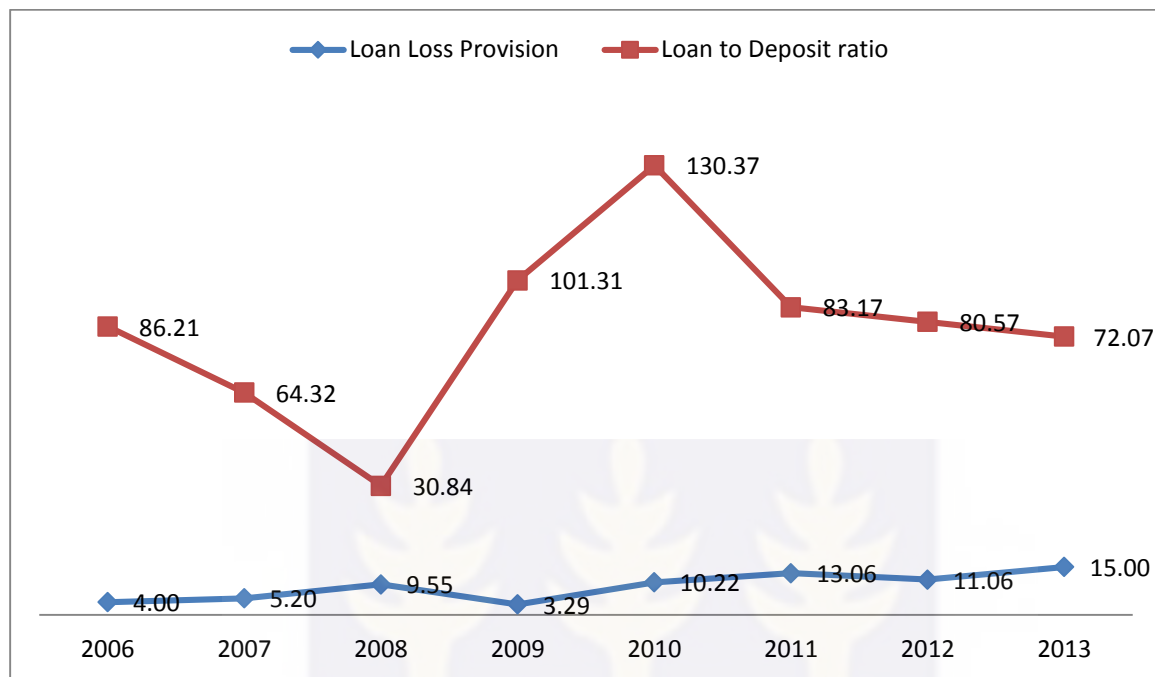


Figure 4. 37: Loan loss provision and loan to deposit ratio of FAMBL

Source: Bank of Ghana Data (2014)

From the diagram, the loan loss provision increased from 4% in 2006 to 15% in 2013 but declined in 2009 of 3.29%. While the loan loss provision was increasing, loan to deposit ratios were also increasing.

4.2.17 Sahel-Sahara Bank (Sahel)

- **Brief Background**

The Sahel-Saharan Bank was established in 2007.

- **Competitive Edge**

The competitive edge enjoyed by the bank includes the number of years of existence in the banking industry, market share (total deposits). As a new bank it is appealing to the Ghanaian customers who are tired of the treatment they have got from the old existing banks.

- **Why Sahel Bank was selected**

Sahel Bank was selected for this analysis because of its market share which is above the industry average of 9%.

- **Position in the Industry**

As at 2013, Sahel is the twenty-fifth largest bank in the industry in-terms of total assets. The bank possesses 0.6% of the total assets of the industry (Bank of Ghana, 2014).

The bank is ranked as the twenty-fourth most profitable bank in the industry with 0.1% of the profit before tax as at 2013 (Bank of Ghana, 2014).

- **Market share**

Sahel Bank had 5.06 million total deposits out of the total banking industry deposits of 7,117.61 million Ghana Cedis as at 2008 (Bank of Ghana, 2014). But the total market was 124.82 million Ghana Cedis in 2013.

The bar graph below shows the trend of market share of the bank in terms of total deposits from 2006 to 2013.

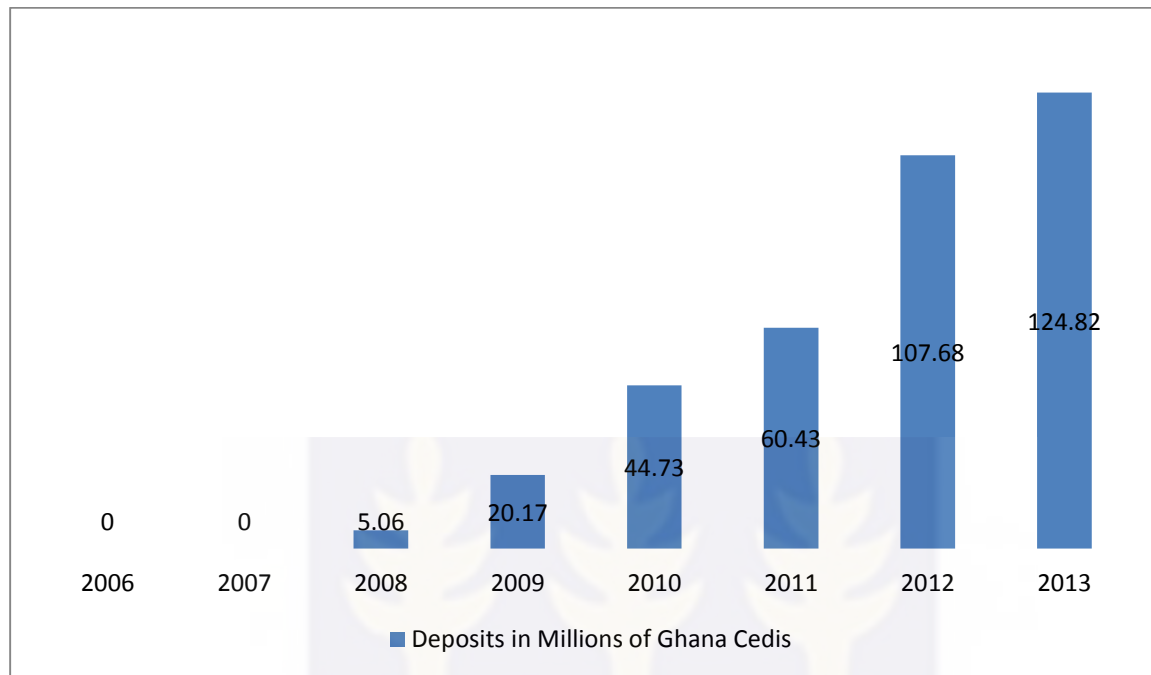


Figure 4. 38: The trend of deposits at Sahel Bank

Source: Bank of Ghana Data (2014)

- **Loan loss provision and loan to deposit ratio**

The line graph below shows the trend in loan to deposit ratio and loan loss provision of Sahel from 2006 to 2013.

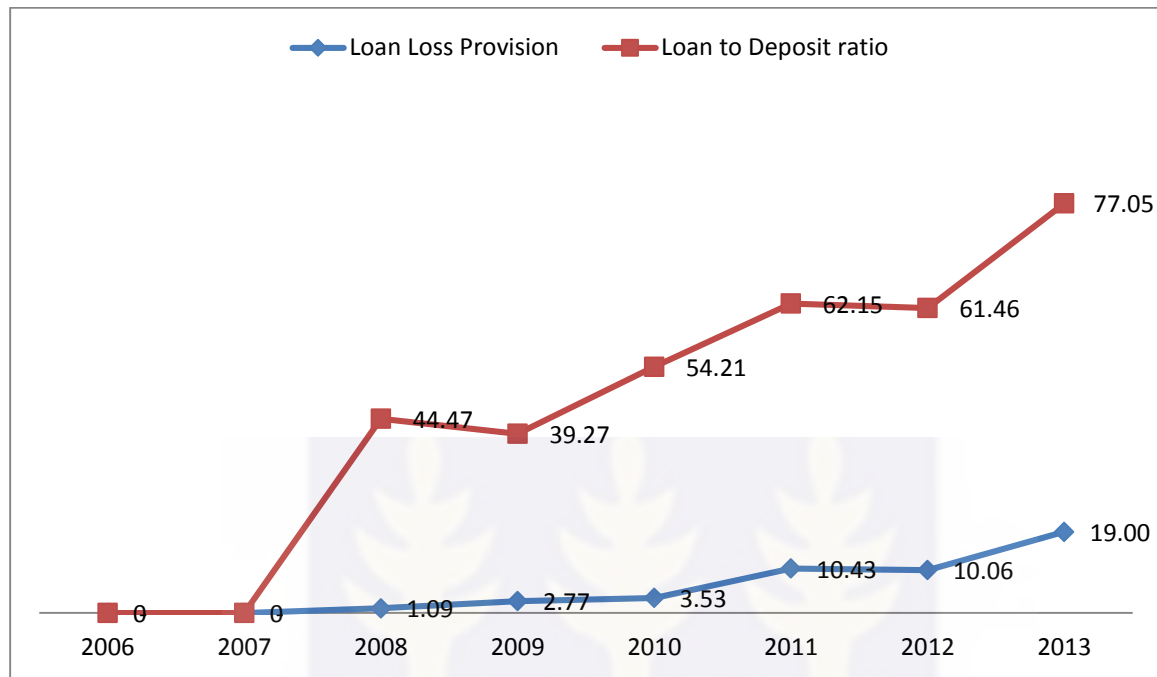


Figure 4. 39: Loan loss provision and loan to deposit ratio of Sahel Bank

Source: Bank of Ghana Data (2014)

From the diagram, the loan loss increased from 1.09% in 2008 to 19.00% in 2013 but declined in 2012 to 10.06%. The loan to deposits was increasing from 2007 to 2011 but declined in 2012.

4.2.18 UniBank (UNI)

- **Brief Background**

UniBank is a bank established by a former Governor of the Bank of Ghana, Dr. Kwabena Duffour, in 1997

- **Competitive Edge**

The competitive edge enjoyed by the bank includes the number of years of existence in the banking industry, market share (total deposits) and the technical support the bank receives from its founder.

- **Why UNIBANK was selected**

UNIBANK was selected for this analysis because of its position as one of the topmost banks in the industry.

- **Position in the Industry**

As at 2013, UNIBANK was the twelfth largest bank in the industry in-terms of total assets. The bank possesses 3.6% of the total assets of the industry (Bank of Ghana, 2014).

The bank is ranked as the fifteenth most profitable bank in the industry with 13.6% of the profit before tax as at 2013 (Bank of Ghana, 2014).

- **Market share**

UNIBANK had 25.72 million Ghana Cedis deposits out of the total banking industry deposits of 3,440.03 million Ghana cedis in 2006 (Bank of Ghana, 2014). Before 2012, the bank enjoyed an

enviable position in the market as a result of large deposits from 2006, but it increased at a diminishing rate towards 2013.

The line graph below shows the trend of the market share of the bank in terms of total deposits from 2006 to 2013.

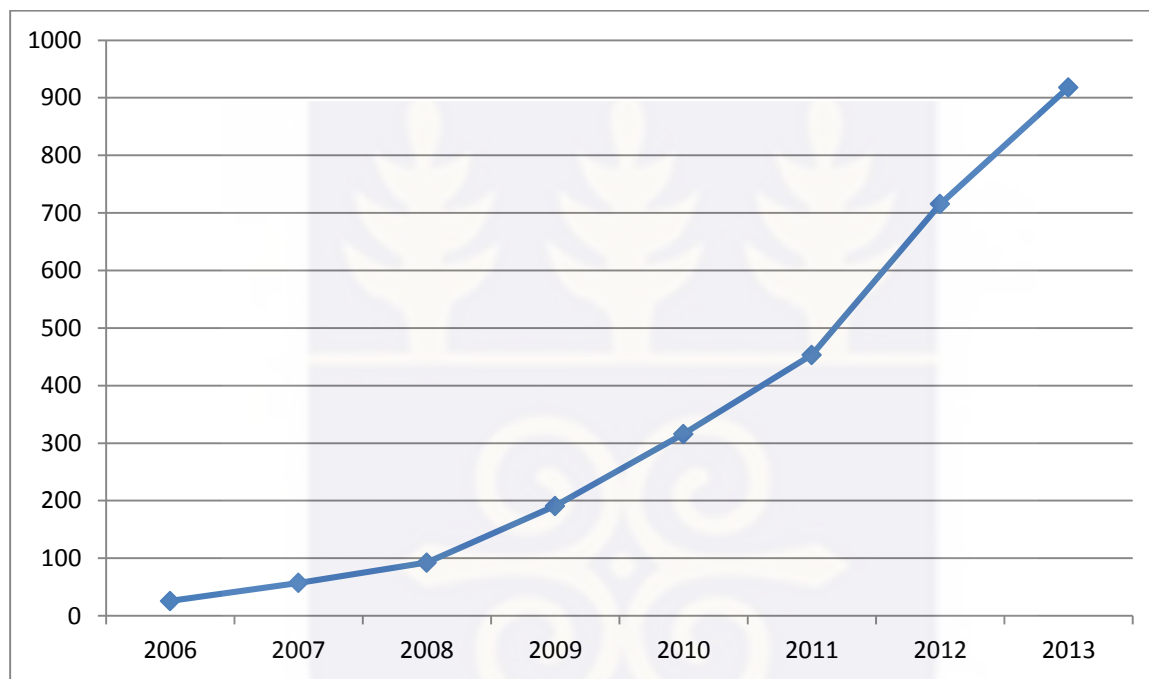


Figure 4. 40: The trend of deposits at UNIBANK

Source: Bank of Ghana Data (2014)

- **Loan loss provision and loan to deposit ratio**

The line graph below shows the trend in loan to deposit ratio and loan loss provision of UNI from 2006 to 2013.

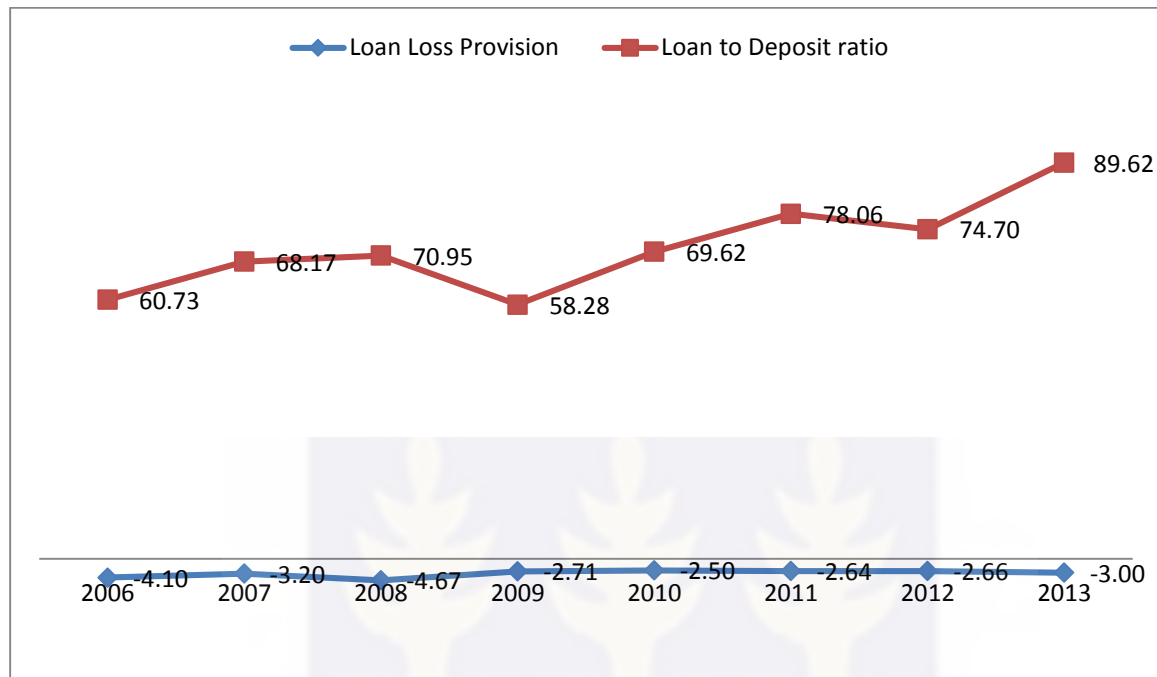


Figure 4. 41: Loan loss provision and loan to deposit ratio of UNIBANK

Source: Bank of Ghana Data (2014)

From the diagram, the loan loss increased from -4.67% in 2008 to -3.00% in 2013 but declined in 2010 to 2.50%. While the loan to deposits ratio rose from 2006 to 2013.

4.2.19 HFC Bank (HFC)

- **Brief Background**

Home Finance Company (HFC) bank was established in 1990.

- **Competitive Edge**

The competitive edge enjoyed by the bank includes the number of years of existence in the banking industry, the market share (total deposits) and the banking products on housing.

- **Why HFC Bank was selected**

- HFC was selected for this analysis because of its position as one of the topmost banks in the industry and the number of years of existence.

- **Position in the Industry**

As at 2013, HFC Bank was the sixteenth largest bank in the industry in-terms of total assets. The bank possesses 2.7% of the total assets of the industry (Bank of Ghana, 2014).

The bank is ranked as the thirteenth most profitable bank in the industry with 2.5% of the profit before tax as at 2013 (Bank of Ghana, 2014).

- **Market share**

The HFC bank's market share was 44.63 million Ghana Cedis deposits out of the total banking industry deposit of 3,440.03 million Ghana Cedis as at 2006 (Bank of Ghana, 2014). Before 2013, the bank had a relatively moderate growth in deposit from 44.63 million Ghana Cedis in 2006 to 357.81 million Ghana Cedis in 2012. But this figure increased by over 68% to 603.69 million Ghana Cedis in 2013.

The area graph below shows the trend of market share of the bank in terms of total deposits from 2006 to 2013.

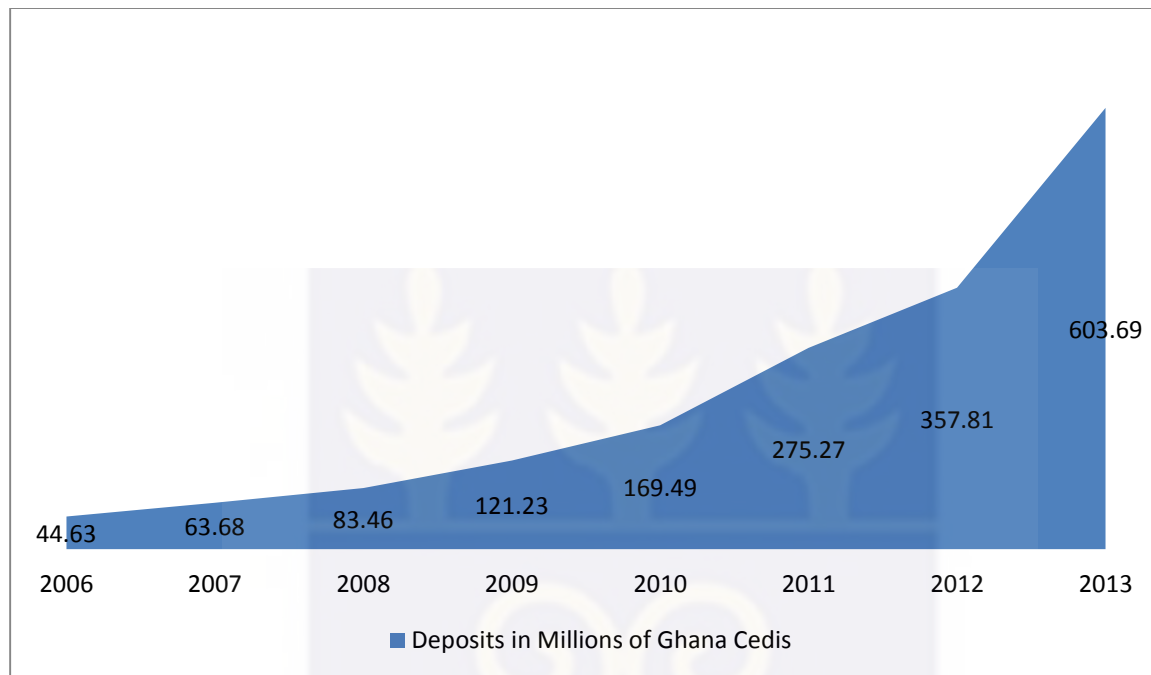


Figure 4. 42: The trend of deposits at HFC bank

Source: Bank of Ghana Data (2014)

- **Loan loss provision and loan to deposit ratio**

The loan loss provision is the provision over net loans issued to customers. The net loans are made of the total loans and advances less the security (collateral) taken from borrowers. The provisions are made because it is required by the central bank to make provisions on all loans issued out, and also because of prudence concept.

Loan to deposit ratio offers to show the loans issued which is going out of the bank and the total deposits coming into the bank.

The line graph below shows the trend in loan to deposit ratio and loan loss provision of HFC from 2006 to 2013.

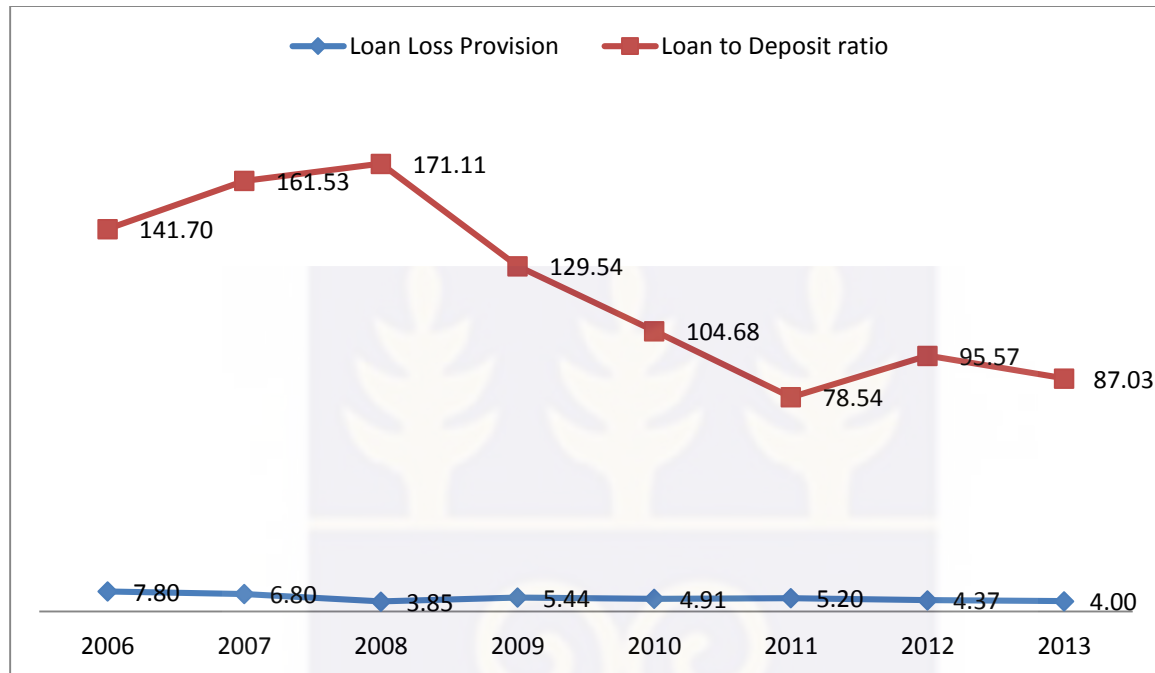


Figure 4. 43: Loan loss provision and loan to deposit ratio of HFC Bank

Source: Bank of Ghana Data (2014)

From the diagram, the loan loss provision of the bank increased from 7.8% in 2006 to 4.00% in 2013.

The loan to deposits ratio increased from to 2006 to 2013 but it is not impressive looking the number of years it has been in the banking industry.

4.2.20 Prudential Bank (PBL)

- **Brief Background**

PBL is a Ghanaian bank. It was established by a former Governor of Bank of Ghana, Dr. J.S. Addo.

- **Competitive Edge**

The competitive advantage enjoyed by the bank includes the number of years of existence in the banking industry and market share (total deposits).

- **Why PBL was selected**

PBL was selected for this analysis because of its position as one of the topmost banks in the industry.

- **Position in the Industry**

As at 2013, PBL was the eighteenth largest bank in the industry in-terms of total assets. The bank possesses 2.3% of the total assets of the industry (Bank of Ghana, 2014).

The bank is ranked as the seventeenth most profitable bank in the industry with 6% of the profit before tax as at 2013 (Bank of Ghana, 2014).

- **Market share**

PBL had GH¢104.62 million total deposits out of the total banking industry deposit of 3,440.03 million Ghana Cedis as at 2006 (Bank of Ghana, 2014). But the total market share increased to 693.13 million Ghana Cedis in 2013.

The line graph below shows the trend of market share of the bank in terms of total deposits from 2006 to 2013.

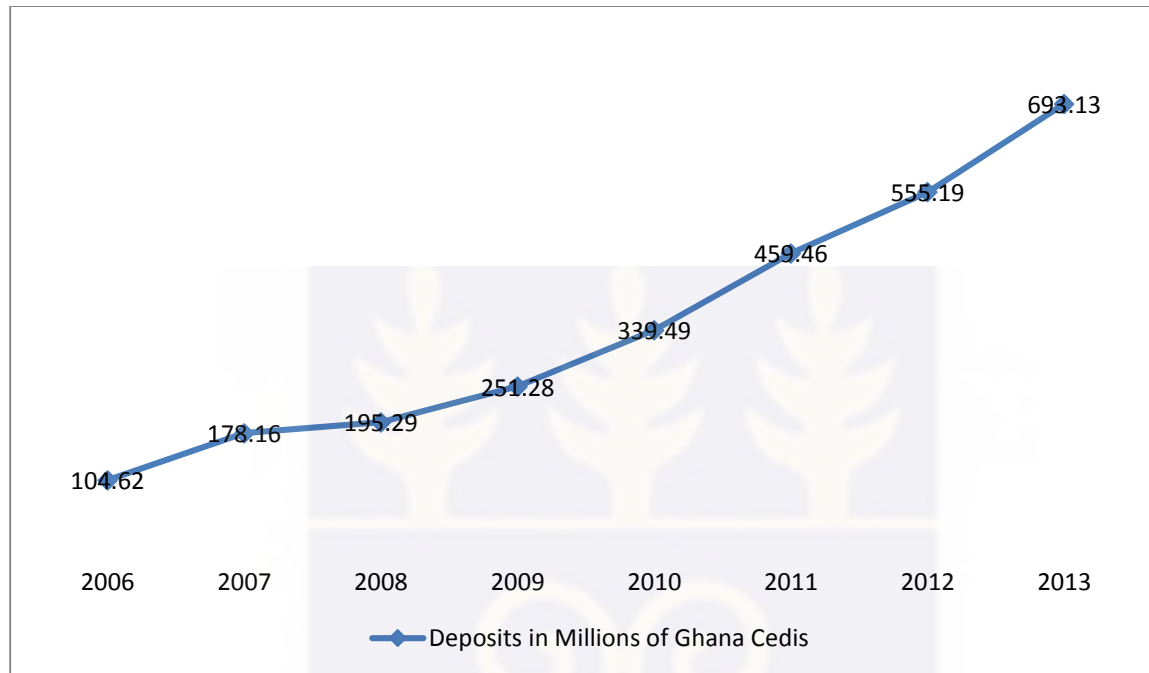


Figure 4. 44: The trend of deposits at PBL

Source: Bank of Ghana Data (2014)

From the trend PBL total deposits increased over the eight (8) year period of analysis. This is impressive looking at the customer base and the assets being managed by the bank.

- **Loan loss provision and loan to deposit ratio**

The line graph below shows the trend in loan to deposit ratio and loan loss provision of PBL from 2006 to 2013.

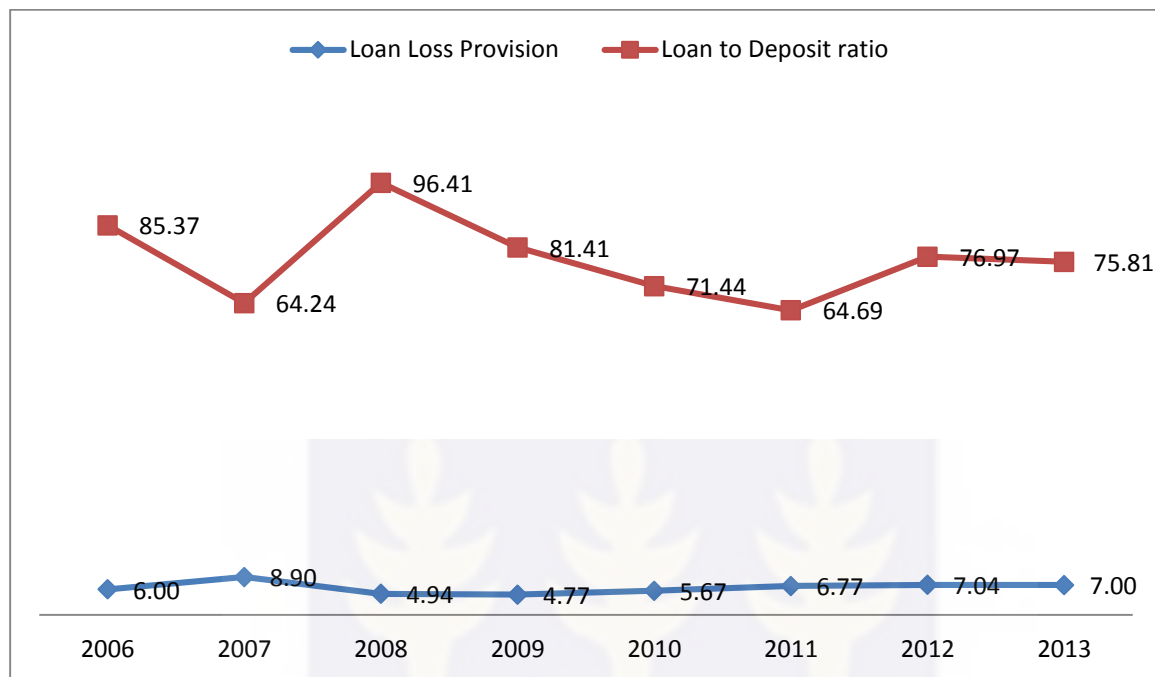


Figure 4. 45: Loan loss provision and loan to deposit ratio of PBL

Source: Bank of Ghana Data (2014)

From the diagram, the loan loss increased from 6% in 2006 to 7% in 2013 but declined in 2008 of 4.94. In 2013 it increased to 7%, far below the industry average of 9%. The loan to deposits ratio increased over the period of analysis.

4.3 Relationship between corporate governance practices and loan loss provision

This section of the analysis looks at the relationship between the corporate governance practices on loan administration and the non-performing loans (loan loss provision).

It looks at the relationship from two multivariate data analysis techniques: linear regression and correlation and the interpretations from their results based on the model developed in chapter three.

4.3.1 Multivariate data analysis

The data obtained for analysis are as seen in the Appendix attached. Multiple regression analyses were carried out using Windows 7 Excel data analysis. The required expectation is that corporate governance should have a POSITIVE relationship with the level of non-performing loans (Loan Loss Provision) of the selected banks in Ghana. The result is as seen in table 2 below:

Table 4. 1: Regression on the relationship between corporate governance and loan loss provision (Non-Performing Loans)

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	(20.74)	14.83	(1.40)	0.20	(54.29)	12.80	(54.29)	12.80
BD	0.29	0.46	0.64	0.54	(0.75)	1.33	(0.75)	1.33
CC	0.49	1.21	0.40	0.70	(2.25)	3.23	(2.25)	3.23
LU	0.12	0.75	0.17	0.87	(1.58)	1.82	(1.58)	1.82
RM	1.34	0.66	2.04	0.07	(0.14)	2.83	(0.14)	2.83
CRM	(0.28)	0.87	(0.33)	0.75	(2.26)	1.69	(2.26)	1.69
CM	1.35	0.75	1.81	0.10	(0.34)	3.04	(0.34)	3.04
CAL	(0.01)	0.75	(0.01)	0.99	(1.71)	1.69	(1.71)	1.69
LT	(0.25)	0.71	(0.36)	0.73	(1.86)	1.35	(1.86)	1.35
AC	(0.49)	0.55	(0.90)	0.39	(1.74)	0.75	(1.74)	0.75
BG	0.82	0.87	0.94	0.37	(1.16)	2.79	(1.16)	2.79

**Significance
F**

0.163488

Regression Statistics

Multiple R 0.827627

R Square 0.684966

Adjusted R Square 0.334929

Standard Error 6.962999

Observations 20

The estimated Reg. model; $NPL = -20.74 + 0.29BD + 0.49CC + 0.12LU + 1.34RM - 0.28CRM + 1.35CM - 0.01CAL - 0.25LT - 0.49AC + 0.82BG$

The variables CRM, CAL, LT and AC show a negative relationship with the level of non-performing loans consistent with the established assumption. The remaining variables; BD, CC, LU, RM, CM and BG have shown a positive relationship to the contrary.

From the result in the Table above, the coefficient of BD is 0.29 and this means that BD is positively related to the NPL of the banks selected. However, the 'p' value of 0.54 with the probability clearly shows that BD has no significant relationship with NPL. Similarly, from the result, the RM coefficient of 1.34 is positively related to NPL. However, RM's has a t-statistic of 0.29 with the p-value of 0.07. This means that BC has no significant relationship with NPL (Loan Loss provision) of the banks.

Also, from the results, the p-value of all the other independent variables is greater than 0.05, defeating the required statement.

Also from Table 2 above, the composition of CRM, which has the coefficient of -0.28 , shows an inverse relationship with dependent variable (NPL). However, the t-statistic value of CRM of -0.33 with the p-value of 0.75 means that the relationship is not statistically significant. In the same vein, AC which has the coefficient of -0.49 shows that there is an inverse relationship between AC and NPL. However, with a t-statistic value of -0.90 with the probability of 0.39 it means that the relationship between AC and NPL is not statistically significant. CRM, LT, AC, CM and BG are dummy variables and they will work or not when the conditions attached in chapter 3 are met.

The overall model, as measured by the F-statistic of 0.16, which is statistically not significant indicates that the Corporate Governance in the Ghanaian banking sector, taking all the independent variables into consideration, has a significant impact on the NPL of banks in Ghana. The R^2 of 0.68 means that only 68% of the total variation in a dependent variable (NPL) is explained by all the independent variables. This is a strong fit, as it shows that a large percentage (more than 51%) can be explained by the Corporate Governance variables of BD, CM, AC, RM, CC and the other independent variables. Also, the adjusted R^2 shows 0.33, which is low.

From the table, the influence of Bank of Ghana (the banking sector regulator) is prominent in the analysis, and the general administration of loans in the industry. That means that whatever policies the Bank of Ghana makes, has direct effects on the loan administration systems of all banks in Ghana. The Bank of Ghana (BG) has a coefficient of 0.82 and a p-value of 0.37, which shows the influence the central bank has in loans administration.

4.3.2 Correlation

The correlation result shows a weak relationship between non-performing and corporate governance elements. That means that the corporate governance elements are weak to ensure that quality loans are given and managed in the already issued ones

Table 4. 2: Correlation between the Non-Performing Loans (Loan Loss Provision) and corporate governance elements in 20 selected banks in Ghana

	<i>NPL</i>	<i>BD</i>	<i>CC</i>	<i>LU</i>	<i>RM</i>	<i>CRM</i>	<i>CM</i>	<i>CAL</i>	<i>LT</i>	<i>AC</i>	<i>BG</i>
NPL	1.00										
BD	0.36	1.00									
CC	(0.15)	(0.20)	1.00								
LU	0.34	0.45	(0.21)	1.00							
RM	0.67	0.22	(0.14)	0.39	1.00						
CRM	(0.01)	0.03	0.19	(0.04)	(0.11)	1.00					
CM	0.50	0.18	(0.08)	(0.07)	0.27	0.34	1.00				
CAL	(0.14)	(0.01)	(0.36)	(0.15)	(0.37)	0.34	0.26	1.00			
LT	0.03	0.11	(0.00)	(0.41)	0.17	(0.06)	0.23	0.11	1.00		
AC	0.04	0.43	0.03	0.23	0.21	0.26	0.13	(0.05)	0.24	1.00	
BG	0.18	0.41	(0.33)	0.27	(0.01)	0.05	(0.10)	0.16	(0.10)	0.18	1.00

From the above table, RM and CM are strongly related to NPL, confirming the results in the regression analysis. CC, CRM and CAL have a weak impact on the control of non-performing loans.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The previous chapters concentrated on the introductory aspects of the study which dealt with the background of the study, the problem statement, objectives and justification of the study, the scope and limitation of the study. The previous chapters also reviewed the relevant literature on the study; the methodology and the profile of the study area were also clearly espoused. Finally, the data gathered through secondary data were also analysed, which brought to bear the possible solutions to the questions raised at the introductory chapter.

This chapter summarizes the findings analysed from the data gathered in Chapter Four. It also discusses the researcher's recommendations and the conclusion to the study.

5.2 Summary of findings

5.2.1 The trend of loan loss provision of sampled banks

- From the analysis, the banking industry used to be dominated by three banks: namely Ghana Commercial Bank, Barclays Bank and Standard Chartered Bank. These banks have been in the banking industry for more than sixty (60) years now. These banks were the topmost banks until Ecobank came in 2008, when the bank made a lot of acquisitions and mergers. Currently, the bank is the biggest bank in Ghana with a deposit of 13.9% of the total deposits in the entire bank in 2013.

- The competitive advantages the banks enjoy depend on so many things: their products, their experiences in the banking industry, their financial supports from their parent companies and the government, and the technological tools used by the banks.
- The market share positions of the banks saw changes which affected the existing and old banks. The market share of GCB, BBG and SCB dipped. All the banks show a deposit trend of increase, except MBG (UMB) that saw a negative growth in total deposits in 2012 and 2013.
- The loan loss provisions of the banks achieved a constant growth; eleven banks go away from the industry average as at 2013.

5.2.2 Summary from the relationship between corporate governance practices and loan loss provision

It is expected that non-performing loans should decrease if Corporate Governance is effective. However, from the above analysis, it was discovered that all the explanatory variables are statistically significant. This simply means, they have a significant impact on non-performing loans of commercial banks in Ghana. A likely explanation of this could be the way things are being done in the Ghanaian Banking Sector, for instance, the way committees of the banks are being constituted. This affects the way the committee discharges its functions. Members of the audit committee in banks are mixed, that is both finance and non- finance members constitute the committee. The risk management of most banks is ineffective or non-existent in many banks.

The findings of this study suggest that effective Corporate Governance practices helps in providing solution to the problem of non-performing loans, a phenomenon that has been the

undoing of commercial banks in Ghana for many decades now. A thorough analysis of the banks from 2006 to 2013 attests to this fact. The reason for sacking credit managers and the change of the position of key managers of banks by the top of all the banks in this analysis confirms the findings of this study; that the banks' officials were removed or changed to other areas of management due to the high level of non-performing loans which are attributable to poor corporate governance practices, lax credit administration processes, and the absence or non-adherence to the banks' credit management practices. The finding of the study confirms the position of Nworji et al (2011) that the consistent increase in the figure of non-performing loans of commercial banks in recent times has raised questions on the consistency and effectiveness of corporate governance practices in the banking sector.

5.3 Conclusion and Recommendations

This study finds that corporate governance variables of board of directors, credit committees, lending units, relationship management, credit monitoring and the Bank of Ghana have a significant impact on non-performing loans of commercial banks. Hence, the study concludes that, these corporate governance variables (BD, CC, LU, RM, CM and BG) can be relied upon to solve the problem of non-performing loans of Ghanaian banks. Consequently, the study recommends that emphasis should not only be on these explanatory variables but on other corporate governance variables, such as; insider abuse, transparency, disclosure and accountability in line with loan management. Also the oversight and monitoring functions of the

Bank of Ghana should be strengthened to ensure adherence to rules and principles guiding the approval and monitoring of loans and advances.

Further studies are strongly recommended to be done to know how other corporate governance elements impact on loan management and performance in Ghanaian Banks.



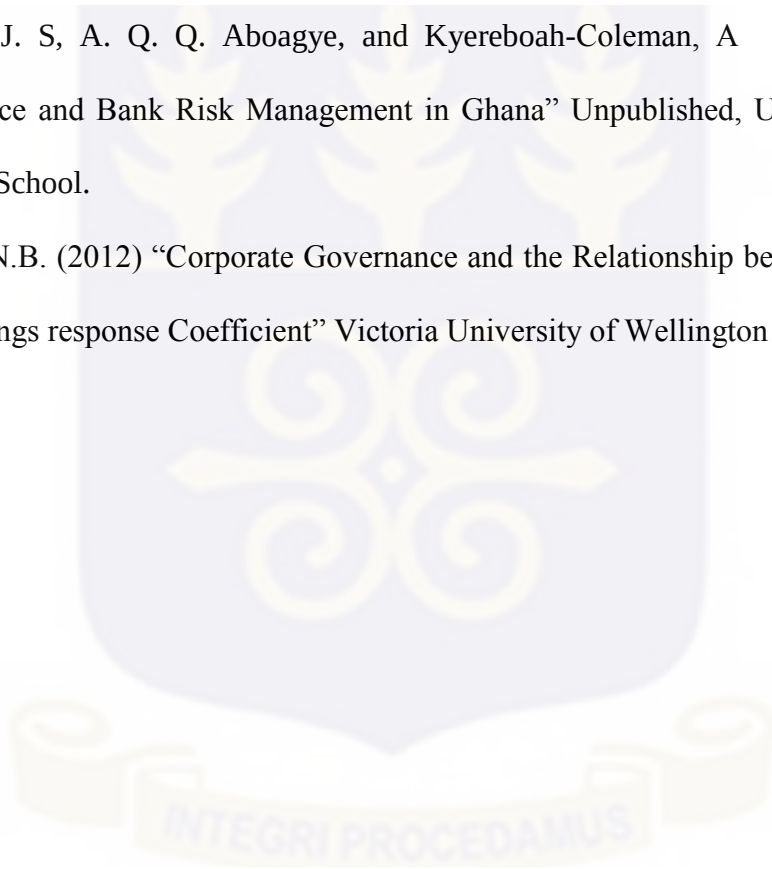
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APPENDICES

Appendix 1: Table of Deposits of Banks in Ghana as at 2013

RANKING BY TOTAL DEPOSITS			
	BANKS	Year 2013	%
1	EBG	3,305	13.9%
2	GCB	2,636	11.1%
3	SCB	1,779	7.5%
4	SBL	1,603	6.7%
5	BBG	1,598	6.7%
6	FIDELITY	1,305	5.5%
7	ZIB	1,073	4.5%
8	ADB	1,066	4.5%
9	SG-SSB	926	3.9%
10	UNI	918	3.9%
11	UT BANK	889	3.7%
12	CAL	863	3.6%
13	NIB	776	3.3%
14	Access	727	3.0%
15	GT BANK	709	3.0%
16	PBL	693	2.9%
17	UBA	652	2.7%
18	HFC	604	2.5%
19	MBG	532	2.2%
20	BoA	401	1.7%
21	FAMBL	201	0.8%
22	ICB	167	0.7%
23	ROYAL	137	0.6%
24	Sahel	125	0.5%
25	Energy	93	0.4%
26	Baroda	61	0.3%
	TOTAL	23,839	100.0%

Appendix 2: Year of Establishment & Number of Years of Existence of All Banks in Ghana as at 2013

BANK	Year Established	Years of Existence
GCB	1953	60
EBG	1990	23
ADB	1965	48
BBG	1917	96
BOA	1997	16
BOB	2011	2
CAL	1990	23
EBL	2011	2
FBL	2006	7
FAMBL	2007	6
FCPB	2012	1
GTB	2007	6
HFC	1990	23
MBG(UMB)	1990	23
NIB	1963	50
PBL	1996	17
SG-SSB	1975	38
RBL	2012	1
UT	2009	4
UNI	1997	16
UBA	2004	9
SBL	2001	12
SCB	1896	117
ZIB	2008	5
ICB	2004	9
ACCESS	2009	4
SAHEL	2005	8
ENERGY	2009	4

Appendix 3: Data for the Trend Analysis of the 20 selected Banks**Source: Bank of Ghana (2014)**

		Deposits							
	Banks	2006	2007	2008	2009	2010	2011	2012	2013
1	GCB	639.18	844.43	1,047.33	1,262.16	1,579.69	2,055.22	2,338.06	2,635.52
2	SCB	445.54	534.84	745.61	843.97	1,092.71	1,502.43	1,704.18	1,779.13
3	BBG	450.18	654.78	932.86	987.84	1,098.27	1,341.65	1,462.70	1,598.31
4	EBG	304.14	407.80	634.57	899.48	1,123.06	1,624.31	2,530.45	3,304.88
5	GT Bank	12.54	32.51	91.45	179.98	286.89	310.05	518.65	708.97
6	PBL	104.62	178.16	195.29	251.28	339.49	459.46	555.19	693.13
7	SG-SSB	236.77	279.93	298.86	382.92	495.40	625.77	856.46	926.13
8	UNI	25.72	57.33	92.43	190.83	316.10	453.64	715.57	918.06
9	UT Bank	0.00	0.00	0.00	77.73	163.69	296.25	504.60	889.42
10	FAMBL	64.98	107.18	254.78	167.36	134.16	122.86	163.68	200.96
11	Sahel	0.00	0.00	5.06	20.17	44.73	60.43	107.68	124.82
12	CAL	89.89	125.60	177.29	288.17	304.34	590.64	809.60	863.24
13	MBG	222.57	321.18	317.82	510.96	654.25	599.15	700.64	532.46
14	HFC	43.63	63.68	83.46	121.23	169.49	275.27	357.81	603.69
15	SBL	97.33	237.05	326.28	477.06	639.72	866.93	1,313.80	1,602.77
16	NIB	139.94	217.08	242.95	345.98	467.69	732.55	705.59	775.85
17	ADB	236.48	272.66	321.71	429.68	539.34	835.21	969.46	1,066.45
18	ZIB	39.79	143.62	334.64	469.85	554.41	610.02	791.78	1,073.02
19	BOA	0.00	0.00	0.00	0.00	0.00	0.00	0.00	400.86
20	ICB	50.85	61.99	74.19	85.04	110.09	148.14	196.59	166.54

		Advances							
	Banks	2006	2007	2008	2009	2010	2011	2012	2013
1	GCB	366.60	727.29	1,078.88	1,325.12	960.03	432.69	834.36	922.73
2	SCB	239.20	286.45	459.90	420.63	448.69	589.14	945.59	1,114.02
3	BBG	366.11	645.90	724.75	469.67	388.88	600.13	726.22	913.60
4	EBG	162.37	286.25	398.22	450.45	490.83	835.93	1,367.04	2,119.30
5	GT Bank	3.52	12.66	41.02	105.47	135.62	112.36	215.12	261.47
6	PBL	89.31	114.45	188.28	204.56	242.54	297.23	427.33	525.48
7	SG-SSB	141.65	212.44	273.50	305.77	192.83	344.55	520.10	743.85
8	UNI	15.62	39.08	65.58	111.22	220.07	353.96	534.51	822.78
9	UT Bank	0.00	0.00	0.00	44.95	285.02	478.05	659.50	911.38
10	FAMBL	56.02	68.94	78.57	169.55	174.91	102.18	131.88	144.83
11	Sahel	0.00	0.00	2.25	7.92	24.25	37.56	66.18	96.18
12	CAL	85.68	114.08	154.42	185.53	225.75	413.10	747.39	979.33

13	MBG	218.47	303.75	318.91	322.86	448.35	247.50	350.85	339.66
14	HFC	63.24	102.86	142.81	157.04	177.43	216.20	341.97	525.42
15	SBL	72.64	198.55	241.23	218.85	315.95	503.45	659.88	975.58
16	NIB	150.87	200.30	287.12	300.06	297.83	318.19	393.04	475.74
17	ADB	152.82	222.93	365.63	347.96	576.99	652.62	782.03	915.66
18	ZIB	13.98	66.43	142.38	194.28	290.15	203.57	326.15	676.57
19	BOA	0.00	0.00	0.00	0.00	0.00	0.00	0.00	334.66
20	ICB	16.24	23.94	30.84	35.34	46.03	84.25	122.87	121.27



Trend of Loan Loss Provision (LLP) Ratios for Sampled Banks								
Banks	2006	2007	2008	2009	2010	2011	2012	2013
GCB	2.3	2.86	2.8	5.36	19.57	39.26	28.83	31
SCB	5.23	6.6	8.13	16.2	11.92	8.92	8.94	10
SG-SSB	10.8	10	5.02	4.89	7.62	8.63	5.01	5
BBG	4.1	4.4	7.9	26.4	28.86	18.02	5.7	8
ADB	9.4	13.6	12.26	17.65	4.07	5.03	5.99	8
NIB	16.6	16.6	11.17	21.53	18.62	16.53	18.43	13
EBG	7.4	6.7	3.33	4.41	4.96	2.6	5.91	5
UMB	3.2	2.4	11.24	24.33	16.73	3.02	4.07	7
ZIB	10.2	11.2	1.63	5.87	8.51	13.35	14.48	18
SBL	12.1	12.1	7.31	21.03	18.5	10.36	8.45	6
FAMBL	4	5.2	9.55	3.29	10.22	13.06	11.06	15
PBL	6	8.9	4.94	4.77	5.67	6.77	7.04	7
ICB	-2	-8.1	-10.46	-10.77	6.62	3.39	-13.39	18
BOA	8	9	3.76	5.07	5.09	20.58	20.3	20
UTB	0	0	0	13.01	9.04	7.01	8.43	10
HFC	7.8	6.8	3.85	5.44	4.91	5.2	4.37	4
GTB	4	4.2	3.26	4.02	7.78	14.61	18.39	18
Sahel	4.2	3.1	1.09	2.77	3.53	10.43	10.06	19
CAL	7.1	6.91	5.51	9.34	10.3	6.97	4.33	4
UNI	-4.1	-3.2	-4.67	-2.71	-2.5	-2.64	-2.66	-3