

UNIVERSITY OF GHANA

**BANK FAILURE IN GHANA: WHAT ACCOUNTED FOR THE
COLLAPSE OF UNIBANK?**

BY

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DECLARATION

I, Elijah Benson, hereby declare that this research work is my original work and has not been presented in this University or any other university for any academic award. All references used in the work have been duly acknowledged.

I bear sole responsibility for any shortcomings in this work.

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DATE

CERTIFICATION

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

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.....
DATE

DEDICATION

This study is dedicated to God Almighty for the strength and grace to see me through the entire research. I also dedicate this work to my wife, Mrs. Ruth Nana Ama Benson, for her love and unending support throughout the entire course.

ACKNOWLEDGEMENT

My gratitude, first and foremost, goes to God Almighty for providing me with strength, good health and knowledge throughout this project.

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ABSTRACT

The continued and sustained growth of any economy is dependent on a strong and robust financial sector. The Bank of Ghana in a bid to reform and ensure stability of the sector, withdrew the licenses of nine banks in Ghana, one of which was uniBank Ghana Limited. This study aims at finding the reasons why uniBank failed from the perspective of former staff. The study gathered qualitative data through interviews and quantitative data from annual reports of the bank. The study found over ambitious expansion drive, investment in none core banking actives such as media, financial misreporting and the institutionalisation of business promotion as the main method of deposit mobilisation. Based on the findings, the study recommended that Bank of Ghana should be more proactive in dealing with failed banks and should also involve the Ghana Association of Bankers in a peer mechanism to correct the imbalances in the banking sector. For the universal banks, they should not give interest rates that they cannot sustain. Universal Banks should stay in their core banking business and only invest in other business that they have expertise. In addition, expansion should be done in moderation and family members of shareholders should not be engaged in the core management of the banks. It is further recommended that this study should be replicated on all the other eight universal banks that were collapsed in 2017/2018 financial year.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Banks throughout the world perform a very important financial function in the economy, since they mobilise savings for productive investments and facilitate the circulation of capital from dormant to productive sectors of the economy. The growth of an economy is a function of an effective and stable banking system that mobilises excess liquidity for investment (Yeboah-Mensah, 2015, Tettey, 2017). The relationship between the banking system and rapid economic growth is seen more in the light of banks providing loans to businesses (SMEs) through accumulation of savings. Therefore, factors like poor management of banks (bank factors), Non-performing loans (NPLs), and environmental economic factors (economic shocks) could affect the smooth functioning of banks in a country (Yeboah-Mensah, 2015, Tettey, 2017). If banks are not able to perform these monetary transmission functions, the entire economy suffers through liquidity challenges, hindering financial institutions' ability to make available depositors' funds when needed (Amuakwa-Mensah and Boakye-Adjei, 2015).

The Central Bank of Ghana (BoG) is mandated to ensure the smooth running of the banking system. Over the years, Bank of Ghana has taken pride in enforcing stricter regulation and supervision. In this regard, the BoG formulated the Banks and Specialised Deposit Taking Institutions Act, Act 930 in 2016, which empowers it to be more aggressive in dealing with deviations in the sector. The BoG, aside instituting regulations, undertook a clean-up of the financial sector. This saw the number of universal banks drop from 30 at the beginning of 2018 to

the current 23, as at the end of December 2018. These 23 universal banks were able to meet the minimum capitalisation requirement of GHS 400 million by the end of December 2018 (BoG, MPC reports, 2018).

In 2016, BoG conducted an Asset Quality Review (AQR) exercise, which revealed several challenges that had bedevilled the banking sector in Ghana. These challenges are insufficient capital, increasing levels of Non-Performing Loans (NPLs) owing to poor liquidity and credit risk management, as well as fragile corporate governance structures. The AQR exercise also revealed that most of the indigenous banks in Ghana were vulnerable to these challenges, especially insolvency. In a bid to prevent the total collapse of the financial sector, Bank of Ghana had to liquidate two banks (Capital Bank and UT Bank) in August 2017, and a year later, seven other banks were declared insolvent and combined to form Consolidated Bank Ghana (CBG), after several attempts to resuscitate these ailing banks failed. In total, BoG has, within two years, withdrawn the licences of nine indigenous banks.

One of the seven collapsed banks was uniBank Ghana Limited. The bank was one of the five banks that were initially consolidated into the Consolidated Bank Ghana (CBG) on first of August 2018. The other members of the Consolidated Bank were the Sovereign Bank, Beige Bank, the Royal Bank and the Construction Bank. However, on the 4th of January 2019, Heritage Bank and Premium Bank were added to CBG to increase the number to seven.

Financially, uniBank over the years has performed creditable. According to their 2016 annual report, the bank raised its total assets by 50%, worth GHS 5,743 million relative to the previous

year. Net loans and advances, profit after tax and all other indicators of financial soundness were reported to be doing very well. The report also added that uniBank was the third (3rd) biggest bank in terms of total assets at the end of 2016. It was therefore surprising to find it among the liquidated banks. This study therefore tries to answer the question “what accounted for the collapse of uniBank and for that matter the collapse of banks in Ghana?”

1.2 Problem Statement

Notwithstanding the fact that loans are a bank’s main income source and constitutes majority of its assets, it is also a very unsafe area, as far as the banking industry is concerned. One of the main reasons given by the BoG in addressing why uniBank and the other eight (8) banks collapsed in Ghana was the issue of non-performing loans (NPLs). This could be attributed to the fact that banks in Ghana and other parts of the world make most of their profits from interest charged on loans (Interest income). The recovery of loans is always a challenge, not only to the individual universal banks, but also to the BoG as a regulator (Barr and Siems, 1994).

In a speech published by BoG on the establishment of the Consolidated Bank, it was revealed that an Administrator (KPMG) appointed for uniBank found it to be beyond repairs. It also indicated that uniBank was part of the list of banks that the updated AQR in 2016 found to be heavily undercapitalised. According to BOG (2018), the bank’s shareholders and affiliated organisations had absorbed a whopping amount of GHS 5.3 billion which formed seventy-five percent (75%) of the total assets of the bank. In conclusion, insufficient capital, sky rocketing non-performing loans (NPLs) and weak corporate governance were the main reasons given by BoG for the collapse of uniBank. Beyond these regulatory reasons, what are the other reasons for the collapse of the bank?

This present study seeks to find answers for the question raised above, hence fill the gap in the literature on bank failure.

1.3 Objectives

In order to determine the actual causes for the collapse of uniBank and for that matter, the banks in Ghana, the following objectives were formulated:

- To delineate some constraints of uniBank from 2011-2016
- To identify the key specific factors that triggered the collapse of uniBank

1.4 Research Questions

To achieve the major and specific aims of this work, the following research questions were asked:

- To what extent is the external environment influencing the closure of uniBank?
- What was the constraint faced by uniBank before its closure?
- What are the general reasons for the closure of uniBank?
- Are the reasons for the closure of uniBank limited to only BoG's reasons?

1.5 Significance of Study

The examination of loans and advances is a prominent issue given the degree of impact it has on the management and operations of financial institutions. This study is significant as it deals with the non-regulatory factors that were responsible for the collapse of uniBank as well as the challenges in the banking industry.

This work also intends to enable the existing universal banks, BoG and the government to realise the extent to which NPLs and other factors contributed to the collapse of banks in Ghana. This will therefore bring to light the need to develop stringent measures that will enhance the financial sector to avoid further collapses in the future. For almost three (3) years, the banking sector in Ghana faced numerous challenges leading to the collapse of nine (9) banks with NPLs being a key determinant (BoG 2016). This study seeks to enable the existing banks create more value for their shareholders, employees, the government and the society in which they operate, by offering suggestions as to how to deal with the non-regulatory factors responsible for banks' liquidation. The study is also relevant for academic purposes and forms the basis for future research. In addition, it will contribute to literature on the causes of banks' failure.

1.6 Research Limitation

The research was designed to investigate the factors responsible for the collapse of nine universal banks in Ghana using uniBank as a case study. uniBank was chosen because it was the biggest local bank that supported most parts of the Ghanaian economy with affordable banking products through a diverse branch network of Fifty-Four (54) branches, among the nine liquidated banks. However, a small sample size of five former employees in Accra limits the generalisation of the study.

Apart from the limited time in conducting the research, the responses of the respondents (uniBank staff) is seven months in lag. That is, it has been seven months since uniBank was liquidated and the information that is given may not be precise. To ensure accurate information, the interview sessions were conducted twice for each respondent at his or her convenient time. Also, because

the case study bank has just been liquidated and the owners have dragged the BoG to court, former staff may be careful on the answers they will provide.

Apart from the difficulties faced in accessing the respondents for the interview, it was challenging to mention the main objective of the study to former employees of uniBank. The researcher took a polite approach in order to conduct one-hour in-depth interview with a former staff who had enjoy working with the bank. It was even more difficult asking directly the role the former staff played in the collapse of uniBank. The participants were involved in the study in order to find a middle way between transparency and the desire to get enough information from the respondents.

Finally, the findings of this study are consistent with the general causal factors that lead to the collapse of banks in Ghana as noted by the Bank of Ghana (BoG), and other academic studies. The study therefore offers an experimental reference for assessing what drove uniBank, for that matter universal banks, into liquidation in Ghana.

1.7 Organisation of the Study

This work is organised into five main chapters of which Chapter One covered the general introduction, the background, problem statement, objectives and limitations of the research. Chapter Two consists of literature review, which involved a theoretical framework and empirical analyses. The next chapter, Chapter Three explains the research methodology, data sources, and analytical approaches and methods used for the work. Chapters Four presents the discussions on the findings of the study. The final chapter is Chapter five, where the summary of the findings, recommendations and conclusion are presented.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews existing literature on the evolution of Ghana's Banking industry and crisis, non-performing loans, and other factors that led to the closure of the banks in Ghana. It also explains some few terminologies in the literature in order to get a better understanding of the topic, as well as develop an appropriate methodology for the study. It again reviews major research works on the reasons for the closure of the banks. The chapter concludes by summarising the major findings in the literature and shows how the current study is different from the existing research works in terms of methodology and scope.

2.2 Ghana's Banking Regulatory History and Crisis

The banking sector, which is regulated by the central bank, has come a long way from the 1980s to the present crisis in 2018. In the eighties, there was a banking crisis, which swept through developing countries, particularly Ghana. There were many reasons advanced for this and about 30% of the reasons had to do with NPLs within the private sector of the economy. The crisis was so disastrous to the extent that World Bank requested for reforms leading to the passage of many laws in Ghana. For instance, the Banking Law, 1989 (PNDC L225) and Bank of Ghana Act, 2002 (Act 612) were formulated based on this directive from the World Bank. Subsequently, the Banking Act 2004 Act (673) replaced the earlier PNDC Law 225 and was later amended to the Banking (Amendment) Act 2007, Act 738. These amendments were aimed at cleaning up and

streamlining the sector. It also stipulated the process for acquisition of license, the amount of capital required, the liquidity, control and ownership structure, lending regulations and audit of accounts. The capital adequacy ratio (CAR) was also moved up from 6% to 10% for all banks in Ghana. The law was further amended to confer more powers on the central bank, and to expand its role in regulating the financial sector to ensure sanity and soundness. To further strengthen the regulator and improve upon its supervisory role, the Parliament of Ghana passed the Banks and Specialised Deposit-Taking Institutions Act in 2016. The Act 2016 (Act 930) gives the central bank its current powers and provides more protection for depositors' funds in a regulated manner. It was this Act which Bank of Ghana used to liquidate the nine defunct banks by revoking their licenses to prevent the total collapse of the financial sector.

2.3 Non –Performing Loans (NPLs)

Banks give loans to clients expecting an interest income as the loan is being serviced. However, in an event when no interest earnings follow the giving out of loans, it is termed as NPLs (Amuakwa-Mensah and Boakye-Adjei, 2015). NPLs are also termed as bad loans or bad debts as opposed to a good one, which travels its full length as required by a credit contract. It is for this reason that Berger and De Young (1997) emphasised that NPLs are delinquent loans. To expand the description further, and without any technicalities, NPLs are loans that are unsettled, not only in interest but also in principal for the span of the loan contract in disagreement to the conditions stipulated in the agreement. If a loan after some time (usually 90 days) is no more accumulating interest as well as principal, it is described as a bad loan or NPL (Amuakwa-Mensah and Boakye-Adjei, 2015).

2.4 Determinants of Non-Performing Loans (NPLs) as a Reason for Closure of Banks

The determinants of NPLs are divided into three main lines. The macroeconomic determinants, the bank related issues and reasons related to crisis in credit management. The combined reactions between these determinants and NPLs lead to the cyclical business model that explains the role of the environment in determining the economic shocks in the financial sub sector of the economy (Amuakwa-Mensah and Boakye-Adjei, 2015). Obviously, the disturbances in these factors will change a given economic business model. The strength of an individual to accept a loan condition and to service it completely depends, largely, on the economic performance of the country as a whole. Macroeconomic shocks, interest on capital and the profitability of businesses in general, could adversely account for NPLs and therefore serve as determinants of NPLs. Beneficiary of credit funds will struggle to pay their loans when prices are generally high and consumers cannot afford their goods and services. This will lead to low sales, which will make it difficult for them to service their loans. The result will consequently lead to high NPLs in those institutions.

NPLs are challenging, and could be a silent poison to the progress of a bank (Bexley & Nenninger, 2012). If a facility is underperforming, there is a high probability that it will not be serviced unless it returns to normal levels as dictated by the loan contract. In that case, the loan can travel its full length and will be predicted to be paid in full. The NPL will revert to normalcy but the duration of the loan will be distorted and has to be restructured for an individual with a different set of rules. This will however affect the cash flows of the bank, which will subsequently deplete the liquidity level of the bank (Kellen, 2007). Once the banks cannot meet depositors' demand, the regulator will declare the institution as insolvent and hence lead to the withdrawal of its license. In some cases, it could lead to panic withdrawal and subsequently to the collapse of the bank.

2.5 Empirical Reasons for Bank Closures

Makinen and Solanko (2018) paraphrase Mamonov, (2018) by alluding to the fact that scientific reviews of abortive banks have frequently exposed grave errors in accounting data leading to substantial estimates of concealed bad capital. In several examples, reasons for bank closures also involved proof of money-laundering or other illegal transactions.

One way of looking at it, is that, banks that are closed down normally do not recognise, sharply, the level of bad loans (NPL) in their books. More so, liquidated banks mostly have lesser capital ratios than existing banks (Makinen and Solanko, 2018).

In an attempt to determine the causes of bank failures in Kenya, Cheserek (2007) conducted a study using data within a five-year period from 2000 to 2005. The findings indicate that capital adequacy, asset quality and total assets are the most important factors that contribute to bank closures. It was however determined that bank closures have no important relationship with profit after tax, total loans, total equity and return on assets.

Alhassan et al, (2014) found out that the quality of bank assets in Ghana is dependent on rising NPLs, loan book, market size, real exchange rate, and GDP growth in the country. After reviewing a wide range of literature, Alhassan et al, (2014) arrived at a conclusion that there are few studies or literature on bank related determinants of asset quality in developing countries. Most of the studies were concentrated on Europe, America and Asia. It is understandable that majority of the bank specific factors are limited in literature in developing countries because there are no stringent regulations in developing countries as compared to developed countries. Even though the study of

Alhassan et al. (2014) focused on bank specific factors in Ghana, the present study is different, in that it goes beyond the bank specific factors to non-regulatory factors, which are coming from the staff perspective of the reasons for the closure of banks in Ghana.

Another important research relevant to this study was the one conducted by Babanskiy (2012) in Russia. The master thesis topic was “Determinants of bank failures. The case of Russia”. It examines the Russian banking sector in two periods: during economic boom and during the financial crisis. The major aim of Babanskiy’s research was to determine the most important factors dictating bank failure in Russia. The sample size was 1,000 financial organisations in Russia gathered within the period from 2004 to 2007. The data was analysed using regression in a probit and logit model. In the study, Babanskiy concluded that bank defaults are based on profitability, liquidity and capital financial ratios. The sample size was very large for good inference to be made. However, it did not look at the ordinary staff point of view for the reasons for the closure of the banks in Russia.

In addition, a study conducted by Makinen and Solanko (2018) in Russia confirmed two fact: that the withdrawal of bank license is positively correlated with the changes in CAMEL factors (that is, capital adequacy, quality of assets, quality of management, earnings, liquidity and sensitivity to market risks). Also, in the long run, it is only liquidity that is the most significant determinant of bank closure. Their study extracted financial data from banks’ balance sheets to determine the factors responsible for the withdrawal of banks’ license from July 2013 to July 2017 in Russia. Again, they used regression analysis for a large monthly data which comprised 31,000 banks observation of which 290 (35%) had their license withdrawn. Their study was very robust to the

core as it used a large sample size but failed to examine the managerial factors such as corporate governance issues.

Earlier in 2000, Borovikova examined the macroeconomic factors, bank specific factors as well as the political climate in determining the closure of banks in Belarusian banking sector. Borovikova used the “split-population survival time model” to analyse the factors from 41 banks of which 36% of them were liquidated as compared to 35% of banks that were liquidated in Russia from 2013 to 2017. In a regression analysis, it was revealed that specific bank issues such as profitability, loans and processes, and efficiency of running a bank are directly linked to the chances of a bank’s closure but not so important in determining how long the bank will survive. On the opposite side of the coin, macroeconomic and political factors were found not be significant in bank closures. The survival of these banks may however be affected by macroeconomic shocks. It was therefore recommended that political-macroeconomic stability could stabilise banks and prevent them from collapsing.

In terms of methodology, Kellen’s (2007) paper is very relevant to this present research. Kellen (2007) conducted the study to determine the response of Kenya National Bank to the challenges of NPLs. The research work, which used the survey method, argued that there were external features that determine NPLs. According to Kellen (2007), the six exterior determinants of NPLs are:

- 1) Recession of the economy,
- 2) Meddling of government on disbursing and recovery of loans,
- 3) The effect of inflation,

- 4) Inadequate supervision by the central bank,
- 5) Poor government monetary policies, and
- 6) Poor reaction of the law.

Subsequently, several other studies confirmed these factors. The only variation is the significant levels of each of the general factors. The internal factors on the other hand consist of inadequate management, high credit risk appetite, weak structures for appraisal of loans, weak structures in accounting for non-performing loans, irresponsible offering of loans, absence of well-defined credit policy procedures and expanded credit products. The problems attributed to NPLs were highlighted as liquidity problems, low profitability, bad public image, and problems with debt collection. Liquidity was found to be the single most influential problem of NPLs in Kenyan National Bank.

2.6 Summary of Literature Review

There is substantive literature on non-performing loans as one of the reasons why banks are collapsing. The reasons for bank closures are grouped into three, namely, bank specific factors, regulatory reasons, and environmental issues. The bank specific challenges are listed below:

- Poor governance
- Poor credit management and analysis
- Poor recovery structures
- Irregular or unclear transactions

The regulatory factors on the other hand are summarised as follows: capital adequacy ratio, other financial ratios, misreporting and breach of prudential limits, liquidity challenges, poor supervision and inadequate laws for regulation.

The environmental factors responsible for bank closures are GDP, inflation, exchange rate, political influence, and economic shocks because of recessions. The present research concentrates on the bank specific factors from the point of former staff of uniBank to determine the reasons for the liquidation.

On the methodology in the literature, majority of the literature adopt the regression analysis either using logit or tobit models or simple regression analysis to analyse the factors that are responsible for the liquidation. If the regressed factors are significantly and positively related to the closure of the banks, the hypothesis is accepted, otherwise rejected. The present study, however, departs from the majority of the literature to use simple descriptive analysis to analyse qualitative data from the former uniBank staff to determine the reasons for the liquidation of uniBank.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Area

This work focuses on the Greater Accra region of Ghana because the case study bank, uniBank, had majority of its branches in the capital. About two third of uniBank's 54 branches were in Accra. More so, the researcher lives in Accra and therefore for easy access to the respondents, Greater Accra region was selected. The management of all the 54 branches was executed by their head office in Accra and therefore it will be easy to interview the ex-staff of the bank in Accra.

Accra is a cosmopolitan capital of Ghana, the central and business hub with all the administrative headquarters of Government ministries and departments. uniBank's branches in this capital were found in numerous business bustling markets such as Makola Market, Makola Shopping Mall and Okaishie Market. The other market centres in Accra where uniBank branches were located include Kantamanto Market (Second hand goods Market), the Agbogbloshie Market (foodstuff market), Mallam Atta Market (Food Staff) and the Timber Market.

3.2 Research Approach

The two main research approaches are qualitative and quantitative. However, a mixture of this two gives rise to a third approach.

The main aim of this work is to examine the causes of bank closure using uniBank as a case study. The study is particularly interesting because it concentrates on bank specific causes of closures as narrated by former staff. This therefore makes the study qualitative and explanatory in nature. It establishes the relationship between bank closure and its determinants. Even though this research work is qualitative, secondary data, which is quantitative on NPLs of uniBank for five years, is collected to augment it. Due to this, the mix method of both quantitative and qualitative is used for this work.

3.4 Population

For this study, the target population comprised all erstwhile uniBank staff who are based in Accra.

3.5 Sample and Sampling Technique

A sample refers to persons or corporate institutions nominated from a recognised population in order to generalise the results for the entire population. Because it is quite impossible to cover the whole population, a sample is normally chosen due to the constraint of time and resources. For this reason, this work chose a total sample of 5 key ex-staff of uniBank in Accra. The multi-stage sampling which employs both probabilistic (simple random) and non-probabilistic (quota and convenience) sampling method was used. The purposive sampling method is used to select former branch managers, credit managers and heads of various departments from the head office staff. In all, ten (10) ex branches were selected at random to cut across the length and breadth of Accra and a total of five (5) individuals with the following positions were interviewed.

1. Branch manager/Head of finance
2. Credit officer/Head of Credit
3. Operations manager/Head of operations

4. SME relationship manager
5. Corporate SME manager

3.6 Sources of Data

Although the main source of data for this research is primary in nature, the study employs secondary data too. The primary data is obtained using a questionnaire to conduct an interview from 60 respondents across the branches. The research mainly uses structured interview guide to obtain an in-depth information from the key ex-staff of uniBank. The secondary data on the other hand, is obtained from BoG reports, uniBank annual reports from 2011 to 2016, and other financial reports. Journals and other articles on the subject constitute the literature for the study.

3.7 Research Tool

Even though this work is descriptive in nature, it converts descriptive statistics to quantitative approach with tables and charts. This makes the research work unique as most of the traditional studies on determinants on bank closures concentrate on regulatory factors and macroeconomic factors using mostly regression analysis. The study assembled its data with the help of structured, both open-ended and close-ended interview guide. The first part of the interview guide deals with demographic characteristics of respondents while the second part constitutes the research questions. The questions focus on the main causes of uniBank's closure, apart from the regulatory reasons given by BoG and how these factors are inter-related.

CHAPTER FOUR

ANALYSIS AND DISCUSSION OF RESULTS

4.1 Political, Social and Legal Environment

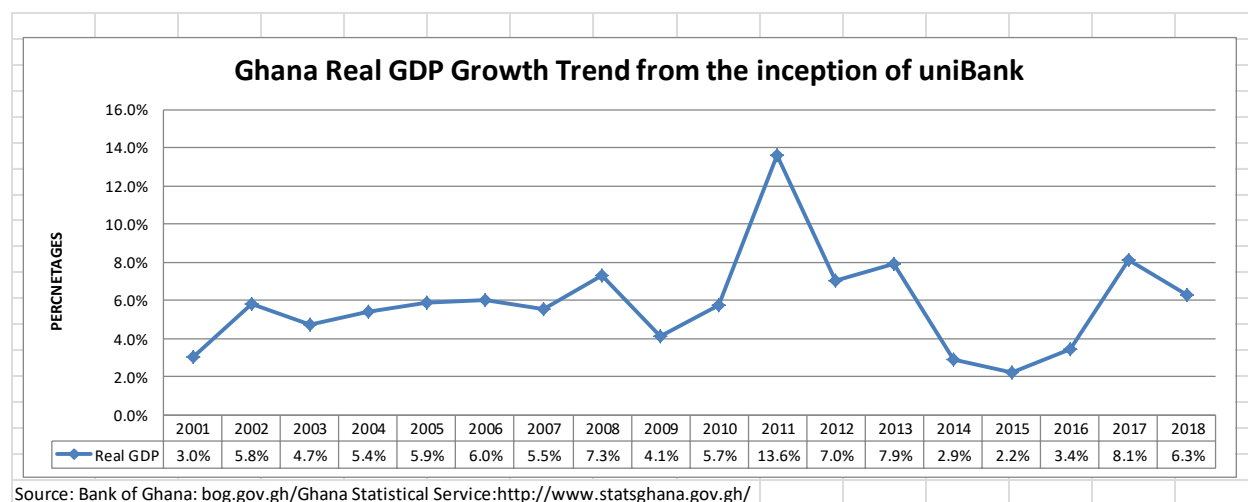
Ghana has undergone tremendous political transformation since the formation of uniBank in 2001. The political structure and process has been that of stability and maturing democracy. The bank witnessed four peaceful elections since its inception. The political pendulum has been oscillating from the two major political parties in the country. The two major parties are New Patriotic Party (NPP) and the National Democratic Congress (NDC). The peaceful political environment leads to the influx of banks from countries like Nigeria, India and South Africa. The sector also witnessed the development of regulatory regime from successive governments. Several laws and acts were promulgated to strengthen the sector. Some of these laws are the Anti-Money Laundering Act, 2008 (Act 749), the Borrowers and Lenders Act, 2008 (Act 773) and the Non-Bank Financial Institutions Act, 2008 (Act774). However, these laws could not give the BoG the power to bite until 2016 when the PND government passed the “Specialised deposit taking institution act” Act (930). This act empowers the BoG to sanction and close down any bank that is insolvent.

Socially, the 1992 constitution encourages integration of multicultural diversity and inhibits undue power concentration in one ethnic group or religion. The freedom of expression enjoined in Ghana’s constitution gave rise to a strong free media that engage in constructive criticism, and open discussion of national issues. The political stability supported a population growth rate of 2.5 % per annum (Ghana Statistical bulletin 2017). The country was also widely polarised to the extent that some banks were branded to one party or the other from the inception of uniBank.

4.2 Economic Analysis

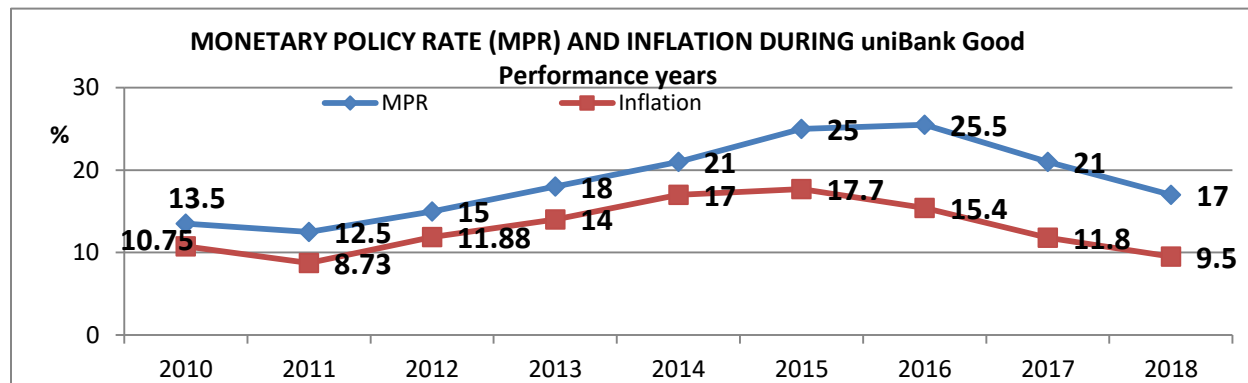
Ghana economic growth was progressively strengthened and sturdy from 2001 through to 2011, when the country discovered oil in commercial quantities. The economic growth jumped from single digits to double digits (Figure 4.1). The discovery of oil moved the fundamentals of Ghana’s economy from exporting of gold, bauxite, cocoa, timber, etc to an oil producing country, even though in small quantities as compared to Nigeria in the Sub region. Then the economic declined to as low as GDP of 2.2% partly due to high budget deficit and world economic disorders to the extent that IMF had to bail the country in 2015.

Figure 4.1 Ghana Real GDP growth Trend



This period also witnessed a high interest rate triggered by high inflation and high Monetary Policy Rate (MPR). Inflation had escalated from 8.73% in 2011 to 17.7% in 2015 (Figure 4.2). At that time, excessive borrowing not only in the domestic market but also in the international market crowded out businesses and saw Ghana Cedi depreciated heavily against the major international currencies. Banks were therefore concentrating on government securities as sure secure investment portfolio.

Figure 4.2. Monetary Policy Rate and Inflation trend in Ghana



Source: Bank of Ghana: www.bog.org.gh.

4.3 Technological Environment

Technology started changing the face of banking in Ghana from manual to digital by the introduction of mobile money payment and transfers; people started paying for goods and services using their mobile phone instead of paying cash or cheque. The period (2001-2016) also saw the introduction of Automatic Teller Machines (ATM) and internet Banking. The use of internet banking facility has made banking less stressful as customers of most banks in the country now use the internet for their transactions. However, this internet banking backed by strong ICT came with huge cost to banks' operations. uniBank was not left out of this heavy investment in technology as the company spent about GHS 2 million in system upgrade in 2015.

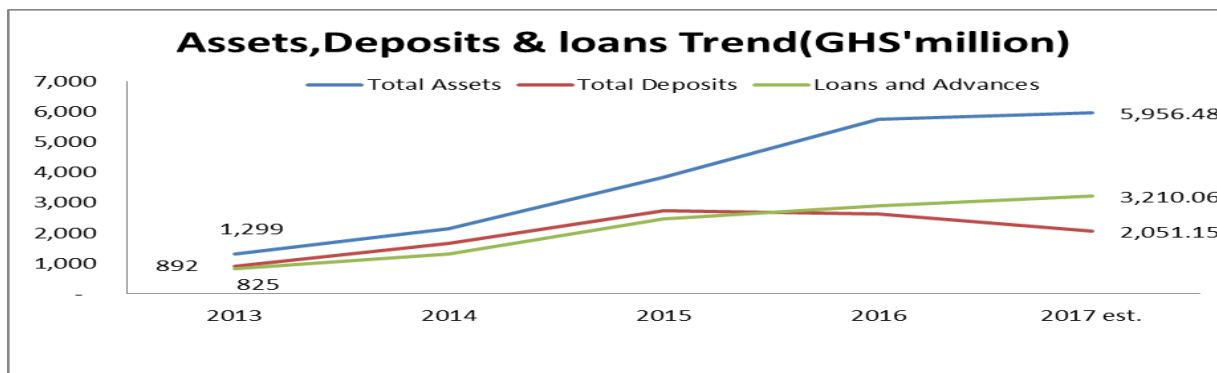
4.3.1 uniBank from 2011-2017 and identified Constraint

The last published audited annual report of unibank was that of 2016. According to the 2016 annual reports, an eleven (11)-member board and ten (10) executive management members governed the bank. From 2014-2016, it undertook major branch expansion and heavy investment in IT infrastructure. In 2016 alone, the bank added 15 branches to its branch network across the country. It updated its touted banking software- T24R15 – provided by 'Temenos' which was part of a

larger paperless uniBank strategy. Apart from increasing its branch network to 54 with fully furnished ATMs and modern technology at the time of its liquidation, it was also the proud sponsor of the senior nation football team, Black Stars. (uniBank Annual reports, 2016). What is clear from the above narrative is that the bank was over spending to hide the liquidity challenges it was facing. It was also to paint a good picture to the public that all is well with the company. The strategy worked well because it prevented panic withdrawal from the bank.

However, the financial performance of uniBank was somewhat interesting and revealing. Figures 4.3 and 4.4 show that while most of the financial performance indicators were all positive, profit before tax experienced a sharp decline, indicating that something was not right from its inception. In addition, the disparity between loans and deposits were widening after 2016 (Figure 4.3).

Figure 4.3 Assets, Deposits and Loans Trend Analysis

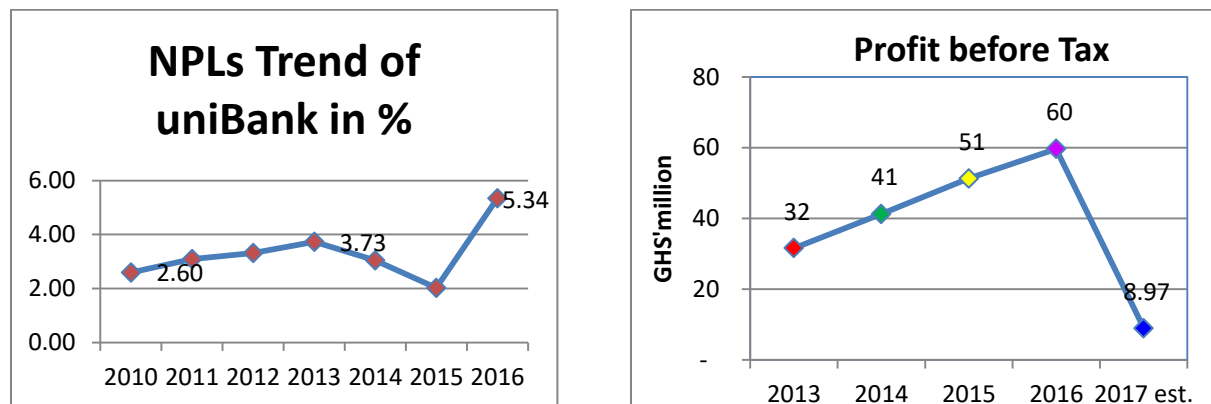


Source: Estimated from uniBank Annual Reports 2016

Another revelation from this trend analysis is that whilst the loans and advance to customers were increasing astronomically from 892million to 3.2 billion, the rate of non-performing loans was also increasing in the same manner. The rate of non-performing loans increases significantly from 2.6% to 5.3% at the end of 2017. More so, the profit before tax was growing steadily from GHS

32 million to GHS 60 million and all of sudden dropped to GHS 8.9 million in the 2017 estimates (Figure 4.4 and appendix ii).

Figure 4.4 Non-Performing Loans (NPLs) and Profit before Tax



Source: Estimated from uniBank annual reports 2016

What is however certain is the fact that uniBank 2016 annual reports highlighted some few constraints that was facing the company. One of which was inefficiency in operation as a result of which the Bank was going paperless and spending as much as two million Ghana cedis (GHS 2.0million) on its main banking software.

4.4 Factors responsible for uniBank closure from the former staff point of view.

4.4.1 Demographic Characteristics of respondents

On gender, 20% of the sample was females. However, respondents indicated that the institution had about 30% of the staff strength being females and that majority of the females were cashiers. The age group on the other hand were evenly distributed from 10 to 40%. Majority of the respondent were found within the age group of 46-60. Further questioning also indicated that about 60% of the executives were “poached” from other traditional banks. This explains why the bank was initially offering traditional banking products such as savings and current account only, whilst

others in the market were offering hybrid of these products. Other interesting characteristics of the respondent were their educational level. A total of ninety percent (90%) of the respondents had masters and first degrees. It was however indicated that majority of the staff obtained their second degree whilst in full employment with uniBank. In the same light, seventy percent of respondent worked with uniBank for more than ten (10) years (Table 4.1).

Table 4.1 Characteristics of Respondents

DEMOGRAPHIC CHARACTERISTICS OF INTERVIEW RESPONDENTS		
	Frequency	Percentage
GENDER		
Female	2	20
Male	8	80
TOTALS	10	100
AGE GROUP		
Less than 25	1	10
25-35	3	30
36-45	2	20
46-60	4	40
TOTALS	10	100
EDUCATION		
SSS/Diploma/ Certificate	0	0
First Degree	3	30
Masters	6	60
Doctorate	1	10
TOTALS	10	100
HOW LONG RESPONDENTS WORKED IN UNIBANK		
Less than 1 year	0	0
1-5 years	1	10
6-10 years	2	20
Above 10 years	7	70
TOTALS	10	100

Source: Field Data 2019

4.4.2 Analysis of Internal factors

The internal factors relate to the operation strategies and managerial constraints that contributed to the collapse of uniBank. The emerged internal factors that were largely responsible for the collapsed of uniBank included over ambitious expansion drive, policy of business promotion as an incentive for fixed deposit mobilisation, breach of Bank of Ghana’s rules and guidelines with impunity, investing in real estates and other non-core banking activities.

4.5.1 Over ambitious expansion drive

One of the constraints identified by respondents was the over ambitious to expand the bank beyond normal growth trends. A strategy that was termed as “quantum leap strategy” compelled uniBank to engaged in attracting high cost of funds in an unsustainable manner. The universal banks in Ghana generally pay low interest rate on deposits and high interest rate on loans. The difference becomes their margin of profit. Some of the profit from these transactions is invested in expansion of physical structures. The rate of expansion was therefore supposed to be equal to the profit made in a year. If not, shareholders had to pump in more capital to engage in expansion. However, in the case of uniBank, it was accepting deposits at higher interest rate than the rate at which it was given out loans. This led to losses and inefficiencies associated with high cost of operation in dealing with SMEs. The cost of operation of the bank became expensive. Within the last four years of its operation from 2014 to 2017, it opened 54 branches across nine regions in Ghana. This gives an average of 13.5 branches in a year. It became unsustainable for an indigenous bank to generate heavy sums of money for this kind of expansion. It was also clear from the interview that the cost of putting up uniBank branch was relatively higher than the average cost of putting up a branch in the industry. The reason for this was that the contractors were affiliated to the owners of the bank and therefore staff could not question bills submitted to the bank for payments.

4.5.2 Policy of business promotion as an incentive for fixed deposit mobilisation

Related to the unsustainable expansion was the practice of engaging in frivolous business promotions to stay above competition and to cover the heavy expenditure. This business promotion ranges from offering monetary rewards to both customers and staff who bring fixed deposit to the bank. It also involved the running of marketing promotions with heavy amounts and gifts,

including expensive cars just to attract customers on monthly basis. Because the bank needed physical cash to put up physical structures, it was compelled to accept funds without cost benefit analysis. It was therefore offering between 0.35% to 10% as facilitation fees on amount placed as stated in KPMG's report on uniBank. The overall effect of this practice was that, in some cases, uniBank ended up paying as much as 24% interest rate on fixed deposits as compare to Bank of Ghana maximum rate of 17% then. This practice put undue pressure on the bank finances. It was not surprising that one respondent intimated that the slogan was always “deposit mobilisation drives”.

4.5.3 Breach of the Bank of Ghana's rules and guidelines with impunity

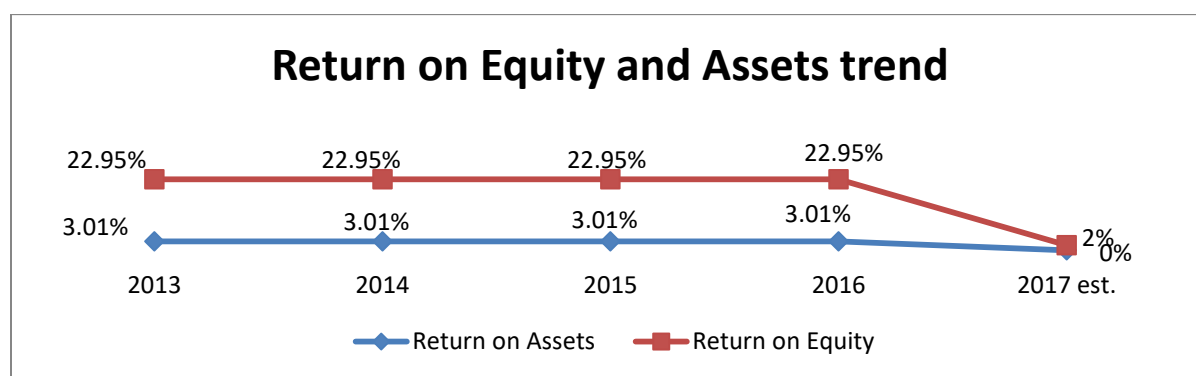
Another internal factor identified was the failure of the central bank as the regulator of the banking industry to sanction uniBank. Rather, Bank of Ghana supported uniBank to come out of its liquidity challenges. Reports of BoG indicate that uniBank had liquidity shortfalls for two years to the extent that it received liquidity support to the tune of GHS 2.2 billion from the central bank. All the interviewees independently confirmed that there was a time when Bank of Ghana (BoG) ordered uniBank to halt branch expansion. Even though this directive was not obliged, Bank of Ghana did not sanction uniBank. Thus, in spite of the order from the central bank, uniBank went ahead to open Kasoa, Cape coast and Winneba branches, all in central region of Ghana in 2014.

4.5.4 Investing in real estate and other non-core banking activities

The most popular investment drives by uniBank were treasury bills and real estate as well as engaging in acquiring fixed assets such as Lands, TV and Radio stations which were not its core business. These investments required heavy capital outlay which could not be supported by the high interest been paid to customers and staff. The return on investment was therefore dwindling

and the pressure to pay high interest on the fixed deposits was high as they matured within three years. To make matters worse, these businesses were affiliated to political parties or family members who acquired loans from the same banks at lower interest rate, without regards for proper loan appraisals. This was a logical conclusion to the constant rate of returns on both assets and equity trends experienced by uniBank, prior to its closure (Figure 4.5 and Appendix ii).

Figure 4.5 Return on Equity and Assets trend



Source: Drive from uniBank Annual reports 2016

4.5.5 Related party transaction that were fictitious

Even though two fifth of the respondent mentioned this cause, it is still a factor worth discussing. In addition, it is one of the factors that was corroborated by BoG on the notice for the closure. Most of the transactions were related to the owners of the bank and that “this was a known secret in the bank” as stated by one respondent. Family members, including children of the shareholders of the bank, and some members of the board were all related to one family. It was also very difficult for none family credit staff to question and understand the nature of certain transactions.

4.5.6 Misreporting of financial situation to the regulator

When respondents were asked: “In your opinion what is the single cause of uniBank closure? It was conclusive in explaining that the managers of the bank did not reveal the real financial health to anybody. According to some respondents, “Staff were made to understand that the bank was very rich and can pay the entire bank’s staff in Ghana for one year. The liquidity challenges that the bank was facing was just a strategy to invite more shareholders and that, the bank-controlled majority of the shares in most of the state banks such Agriculture Development Bank (ADB)”.

One wonders how staff could believe such stories. The justification was that the founder of uniBank had worked as a governor of Bank of Ghana and a finance minister for at least four years. To buttress this point, one respondent mentioned that on a number of occasions, Ghana Revenue Authorities (GRA) had to fine the bank for wrong reporting. Respondents could not however give the amount of the fines that were supposedly imposed on the bank by GRA.

4.7. External Factors

On external factors that may have contributed towards the collapsed of the institution, the respondents only mentioned factors such as inflation, depreciation of the cedi and a balance political relationship with all the major political parties in Ghana. Beyond listing the external factors, the only factor that was clearly stated was the fact that many contractors owed uniBank.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The research was motivated by Bank of Ghana's announcement of taking over the operation of uniBank and finally withdrawing the license of nine indigenous banks in August 2018. The main aim of the research was to determine the causes of these closures using uniBank as a case study and listening to the former staff point of view. A sample of ten former staff was purposeful selected for an in-depth interview to get a qualitative data for the study. The factors were categorised into internal and external. The major findings and conclusions are summarised in this chapter.

5.2 Major findings and Conclusions

The pest analysis of the banking industry and uniBank in particular indicated that the macro environment was suitable for banking operation. There was also political stability with successive governments oscillating between the two main parties in the country. There was also social cohesion and all the major religions of the world Islam and Christianity and traditional religion living in harmony. A social vibrant media that keep the government in check enhanced the political stability. Ghana experienced its worse energy crisis, lower economic growth, high inflation and depreciating of the Cedi after the oil discovery in 2011. The banking sector was also bedevilled with high interest rates on loans leading to high non-performing loans. This was partly due to the fact that successive governments did not pay contractors in the country, leading to legacy financial debts.

On the reasons for the failure of uniBank, and for that matter the other nine financial institutions, former staff of uniBank indicated that bank specific factors play the major role. However, the trend

analysis of uniBank financials also reveals some financial infractions that were signs of a distress organisation. Both returns on investment and returns on equity were constant for most part of the 16 years that the bank existed.

The major internal factors responsible for the failure of uniBank were ambitious expansion, “Business” promotion for fixed deposit mobilisation, breach of bank of Ghana regulations, investing in real physical properties, fixed deposits, related political party transactions, and above all, misreporting of financial state of the bank.

The excessive manner in which investors and customers’ funds were invested in extensive branch expansion, without adequate returns, was highly risky. This investment drive puts the bank in perpetual liquidity short falls.

Additionally, the disregard for Bank of Ghana’s guidelines and directives led to the breach of all regulatory requirements, including Capital Adequacy Ratio (CAR), which should not be less than 10%. For the bank to exist under this circumstance, it had to engage in unauthorised business transactions.

Another factor responsible for the collapse of uniBank was the fact that the bank engaged in offering gifts and other monetary rewards (“Business Promotion”); not only for on boarding customers but also for highly costly deposits. This reckless transaction attracted deposit at high cost to the bank and rendered the bank’s operations inefficient. This confirmed the report of Bank

of Ghana that, poor cooperate governance was one of the factors responsible for the failure of uniBank.

To compound the liquidity situation of the bank, uniBank was investing in none core banking activities such as real estate and media (Radio and Television) which were capital intensive and could be supported by depositors' funds.

The fourth internal factor that was responsible for the collapsed of the bank was its related political party transactions. Both loans and major bank business contracts were given to family members and political party members who are associated with the bank and its major shareholder. In the case of the loans, recovery became very difficult if not impossible. No wonder, the non-performing loans (NPLs) were always on the rise. On contracts of the bank, staff of the bank could not do "value for money audit" before contracts were awarded, and this led to high cost of operations that could not be sustained.

The final factor, which was rated high, was the fact that the bank was not reporting real financial state to both the regulators and tax authorities. This made it very difficult if not impossible for the regulators to pin point what was wrong with the bank. Therefore, after giving uniBank a liquidity support to the tune of GHS 2.2 billion within two years, Bank of Ghana decided to withdraw the license of uniBank.

5.3 Recommendations

Based on the findings, we make the following recommendations, first to the central Bank and all Universal Banks in Ghana to tackle the issue of collapsing Universal Banks and its attendant problems.

Bank of Ghana should be more proactive in detecting a sinking bank early enough for prescriptive purposes. This is because uniBank was over pampered by continuous bail out from the central bank. These bail outs were provided by Bank of Ghana for two years.

Bank of Ghana's initiative in developing corporate governance guidelines is in the right direction; however, it should come out with stringent compliance strategies to ensure that these guidelines are not flouted with impunity. This is because the study found out that in some cases, Bank of Ghana directed uniBank to stop opening branches, but uniBank did not comply to the directive.

In addition, Bank of Ghana should progressively empower the Ghana Association of Bankers to peer-regulate its members to complement the effort of the Supervision Department of BoG. This will ensure that the universal banks self-check their own activities to prevent reckless expenditures that may eventually lead to higher liquidity requirement. This will also help minimise excessive borrowing in the interbank market.

To ensure that the financials that banks publish quarterly and annually are accurate, Bank of Ghana should conduct surprise checks on the banks that are over ambitious in expansion and promotional marketing campaigns.

For universal Banks, they have to balance expansion development with caution not to jeopardise the earning of the institution. Expansion should not necessarily be on physical branches. The strategy should be to find the right mix of technology and branches. This is because in the case of uniBank, the over ambition of creating new branches was the root cause of its failure.

Universal Banks should make it punishable by summary dismissal of both internal and external auditors of the bank who end up producing wrong financial figures. The liability of wrong reporting should rest on Board of directors who should crack the whip.

Universal Banks for the sake of competition should not deviate from core banking transactional businesses to areas where they do not have technical competence. Businesses like estate and lands should be done with the outermost care and with all the risk management and with a separate entity that has the technical competence. This is because, the woes of uniBank was partly due to heavy investment in real estate and media.

Shareholders of universal banks should make it a policy not to allow family members to work in the organisation as heads of sensitive department and directors. This will give managers the free hand to take managerial decisions.

5.4 Recommendation for further studies

Based on the limitations of this study, it is recommended that a further research on all the other eight universal Banks that were closed down by Bank of Ghana in 2018 should be conducted in order to confirm and generalise the findings in this research.

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APPENDIX 1

INTERVIEW GUIDE

BANK FAILURE IN GHANA: WHAT ACCOUNTED FOR THE COLLAPSE OF UNIBANK?

Please, I am conducting a research aimed at assessing the determinants of bank closure using uniBank as a case study. The research is purely for academic purposes and the information provided will be treated with utmost confidentiality. Therefore, I humbly request you to spare some time for us to have a discussion on the following questions.

Thank you.

SECTION ONE – DEMOGRAPHIC CHARACTERISTICS OF RESPONDENTS

1. Please indicate your highest educational qualification by ticking appropriately:

SSS/Diploma/ Certificate () First Degree () Masters () Doctorate ()

Others, indicate -----

2. Please indicate your age group: Less than 25 () 25-35 () 36-45 () 46-60 ()

Please indicate by ticking the last position you held before uniBank was closed:

Branch manager		SME relationship manager	
Credit officer		Corporate SME manager	
Operations manager		Customer service manager	

Other, please specify.....

3. Indicate how long you worked with the erstwhile uniBank (Experience in the banking industry) by ticking appropriately.

Less than 1 year		6-10 years	
1-5 years		Above 10 years	

SECTION TWO – QUESTIONS ON THE CAUSES OF BANK CLOSURE

External Factors

4. What were some of the external factors responsible for the closure of erstwhile uniBank?
5. Was the operation of uniBank affected by macroeconomic factors? To what extent?
6. Was there political interference in the operation of former uniBank? To what extent?
7. Tell us the relationship between erstwhile uniBank and the two major parties in Ghana

Internal factors: Bank Specific Factors

8. What were some of the constraints affecting credit management in else while uniBank
9. Who were the most common businesses that were getting loans and contract from uniBank

What are the factors that affected the credit department concerning the following:

- The credit management
- Recovery structures
- Nature of transactions

10. In your opinion what is the single cause of uniBank closure?

.....

11. What can be done to avoid the Bank closure in Ghana?-----

THANK YOU

APPENDIX ii UniBank Financial performance before liquidation (2013-2017)

all amounts in GHS' million	2013	2014	2015	2016	2017 est.
Total Assets	1,299	2,147	3,831	5,743	5,956.48
Total Deposits	892	1,651	2,728	2,616	2,051.15
Loans and Advances	825	1,309	2,475	2,886	3,210.06
Investments	156	304	387	950	1,167.29
Shareholders' Funds	151	223	301	478	542.82
Profit before Tax	32	41	51	60	8.97
Profit after Tax	26	33	39	42	8.97
Return on Assets	3.01%	3.01%	3.01%	3.01%	0%
Return on Equity	22.95%	22.95%	22.95%	22.95%	2%
Stated Capital	75	120	160	295	350.13