ASSESSING THE CAUSES OF NON-PERFORMING LOANS AND THE IMPACT ON PROFITABILITY OF COMMERCIAL BANKS

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DECLARATION

I hereby declare that this submission is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person nor material which to a substantial extent has been accepted for the award of any other degree or diploma at Kwame Nkrumah University of Science and Technology, Kumasi or any other educational institution, except where due acknowledgment is made in the thesis

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ABSTRACT

Commercial banks in Ghana have consistently been confronted with the problem of non-performing loans that has impacted their profitability significantly. Notwithstanding the steps, including licensing of credit reference bureaus, to reduce the impact of non-performing loans, the trend is on the increasing trajectory and the profits of the banks have been affected. Therefore the purpose of the research was to assess the factors accounting for the incidence of non-performing loans of the Commercial Banks in Ghana, to determine the key determinants of profitability of the commercial banks in Ghana, to ascertain the internal factors affecting the performance of the commercial banks in Ghana and to assess the effects of non-performing loans on the profitability of the Commercial Banks in Ghana. In order to achieve the objectives, a survey was conducted where a questionnaire was design and a quantitative analysis was carried out to determine the findings using SPSS as the tool in performing the analysis. The findings indicated that the factors accounting for the incidence of non-performing loans of the Commercial Banks in Ghana were the Poor credit appraisal techniques, Business failure, Inadequate marketing avenues, Inefficient appraisal and monitoring, Lack of proper education on the business area, Lack of sufficient supervision from the bank and High interest rate charged by the bank.. However, there were minor factors that causes non-performing loans which were the Diversion of funds, wrong timing of credit delivery, Moral hazard and insider lending and high consumption expenditure. Also, the key determinants of profitability of the Commercial Banks in Ghana were the Capital Adequacy, Asset Quality, Management Quality, Earning Capital and Liquidity. There were three internal factors which was identified to be affecting the performance of the Commercial Banks in Ghana. These internal factors were the Technology, Credit Risk and Interest Rate.

Key words: Non-Performing Loans, Profitability, Internal Factors, Commercial Banks, Poor Credit Appraisal.

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LIST OF ABBREVIATIONS

CAMEL	-Capital Adequacy, Asset Quality, Management Efficiency. Liquidity
NIM	-Net Interest Margin
NPLR	-Non-Performing Loans Ratio
NPLs	- Non-Performing Loans
PM	- Profit Margin
ROA	-Return on Assets
ROE	-Return on Equity
SPSS	- Statistical Packages for Social Sciences
TLP	-Total Loan Portfolio

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DEDICATION

I dedicate this work to my beloved husband Duncan Kwesi Tawiah, my mother Theresa Clara Glah, my sister Shine Glah, my brother Ernest Glah and to my little girl Clara Emefa Glah for their immense support and prayers throughout my study.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Industries in Ghana have been driven largely on credit facilities from the banks and other financial sectors in the Ghanaian economy and has played a pivotal role in our socio-economic development, (Hamisu, 2011). The banking industry has to be applauded for this prominence and influential role. This means that the other industries in Ghana have depended mostly on the financial sector especially the banks for various financial supports and this has contributed to the survival of the Ghanaian economy. However, many banks in Ghana today are making huge losses due to the problem of non-performing loans in their books. The possibility of a bank to make losses as a result of loans defaults by debtors often happens in the financial sector especially banks. This is clearly a negative effect against the intermediary role the banks play towards the growth of the economy.

The rate at which these institutions give credit to businesses and some individuals step up the pace of economic growth of the nation (Kolapo and Oke, 2012). Ghana banking system is regulated and monitored by the bank of Ghana with the Banking Act made by the parliament of Ghana. The Acts has regulations which guides the activities of all banks and some other financial institutions in the country. Unfortunately, records show that profits in the sector fell sharply in the years 2005 to 2007 due to numerous reasons amongst the non-performing loans ratio (NPLR) on the books of most banks but however saw a better liquidity and profitability performance at the close of 2009 (Bank of Ghana, 2012). Financial institutions all over the world face several risks of nonperforming loans, it is however prudent for these institutions to introduce monitoring mechanisms to follow up with the activities of borrowers. It is well noted that importance of credit risk management has increased particularly in the developing countries for both lenders and borrowers. It is a fact that average bank asset quality worsened sharply due to the global economic meltdown. It is argued however that the poor performance of loans was very uneven in a number of countries. It is also established that a number of variables significantly affect NPL ratios which includes but not limited to lending interest rate, share prices and some risk factors. Non-Performing Loans is the possibility of a borrower defaulting an unpaid loan either partly or in full (Basel Committee on Banking Supervision ,2001), This is in line with Ahmad and Ariff (2007), who stated that NPL is a percentage of loans that are not repaid within three months. The committee further emphasized on credit risk management practices due to the rise of NPLs which is unfavorable to banks achievement of core targets. Balasubramaniam (2013) outlined some effects that NPLs can have on bank's activities. A fall in the NPL indicates an improvement in the asset quality of Banks.

1.2 Problem Statement.

Non-Performing Loans have a direct impact on profitability of Commercial Banks by reducing Returns on Assets (ROA), a measurement of profitability. Non-performing Loans Assets have opportunity costs, in that the non–interest earning assets could have been invested elsewhere and provide earnings.

The failure in reducing the poor performance of banks can be confirmed through the procedures and the process involved in the nature of work they do. The failure of the customers to give or disclose information during the credit appraisal can be the greatest reason that might influence the overall performance of the bank.

Commercial Banks in Ghana have remained with determined challenge of reducing NPLs that has been considered to have adverse effect on their profitability.

In the loan appraisal process of banks, there are still internal processes that the whole system should meet. Interest income largely contributes major income for banks. Some Experts approve that the interest regime of banks should be expected to regulate the earning of the entire banking sector, whose fundamental basis of income is interest income (CBK, January, 2003).

Regardless of several actions taken to reduce the NPLs which included licensing of Credit Reference Bureaus, the Non-performing Loans continues to grow and this has been an increasing trend in Commercial Banks in Ghana. A Study by Berger et al., (1997) revealed that non-performing loans affect profitability. Michael et al., (2006) emphasized that Non Performing Assets (NPA) in loan portfolio affects operational efficiency which at the long run affects profitability, liquidity and solvency in banks. Subsequently, NPLs are those that are not being rated according to loan agreements, they epitomize probable losses to financial institutions.

Written off loans are also a major area of apprehension for banks. According to KPMG (2002), written off loans hugely affects the bank's profitability. High levels of NPL's in a bank's portfolio is likely to affect the level of interest income. According to the Government of Japan (GOJ), (2001) the continued existence of NPLs will continue to erode banks profitability unless some corrective measures are put in place. Even though banks may not have eloquent influence over macroeconomic factors that results in bankruptcy of their debtors. Nevertheless, as managers of the shareholders, they have the responsibility to assume management decisions that are in the interest the shareholders, such decisions should warrant wealth maximization. This is in accordance with the agency theory (McColgan, 2001).

In order to reduce the occurrence of the Non-Performing Loans (NPL), there is the need to carefully ascertain the fundamental causes of NPL's in Commercial Banks in Ghana.

The findings of this study will assist in discovering the major reasons why debtors refuse to pay back their loans on time and also help management to improve on the management of Non-Performing Loans. The study will also help to ascertain the determinants of profitability of the Commercial Banks in Ghana. The Central Bank of Ghana can also use the discoveries of this research in the formation of guidelines that will assist in managing NPLs in the Commercial Banks in Ghana and this will help protect the interest of the general public or depositors."

1.3 Research Questions

What are the factors accounting for the incidence of non-performing loans of the commercial banks in Ghana?

What are the key determinants of profitability of the commercial banks in Ghana?

What are the internal factors affecting the performance of the commercial banks in Ghana?

1.4 Aim of the study

The main aim of the study is to determine why loans disbursed to customers are not repaid and their adverse effect on the profitability of Commercial Banks.

1.5 Objectives of the study

In pursuance of the above aim of the study, the following specific objectives are considered:

- To assess the factors accounting for the incidence of non-performing loans of the commercial banks in Ghana
- To determine the key determinants of profitability of the commercial banks in Ghana
- To identify the factors affecting the performance of Commercial Banks.
- To determine the effect of Non-Performing performing loans on the profitability of Commercial Banks.

1.6 Significance of the study

The finding of the study will help management of the Commercial Banks to ascertain the causes of Non-Performing Loans and the necessary steps to be employed in managing NPL's of the Commercial Banks.

The study will also encourage managers of the bank to partake more in the preparation of the credit policy.

The study will also help mangers to understand the effect of NL's on banks profitability.

Bank of Ghana could also employ the findings of this research to establish guidelines that will govern the loan disbursement process in the Commercial Banks in Ghana.

1.7 Research Methodology

The study relied on both primary and secondary data for the purposes of analysis. Survey questionnaire was used to collect the primary data from staff and management of the commercial banks. The explanatory research design was adopted to assess the subject under consideration. The population of the study comprised of management and staff of the Bank. The sample size for the study was 100 sample size with 5 management members and 95 staffs drawn from the Bank. Following the collection of data, the analysis was conducted with the help of the Statistical Software for Social Sciences (SPSS). The mean score ranking and descriptive statistics such as frequencies, percentages was used in analyzing the data. A regression analysis was conducted to ascertain the causes of Non-Performing Loans on the profitability of banks. Purposive and convenient sampling techniques was be used to collect data from both the management and the staff.

1.8 Scope of the study

The conceptual scope of the study covers the factors accounting for the incidence of Non-Performing Loans, key determinants of profitability, and the factors affecting the performance of Commercial Banks. With regards to organizational context, the study will be limited to the operations of Ghana Commercial Bank in Ghana.

1.9 Limitations of the study

Due to time constraints, the study was limited to a few Commercial banks. A good alternative should have extended the study to cover other commercial banks in Ghana. Access to information was a great problem as most of the respondents were unwilling to divulge information they deemed confidential. The confidential nature of information on operations of bank's code of secrecy made it difficult for staff to willingly provide the needed information. As a solution to this problem, the researcher sought permission by writing to the management of the banks informing them of the purpose of the study and assuring them of the confidentiality the information provided. The cost involved in collecting the data was also a challenge as the researcher was required to travel to some of the respondents. To assist in collecting the data, well trained assistants were involved, further adding to the cost incurred by the researcher.

1.10 Organization of the study

"The study will be organized into five interrelated chapters. Chapter one will provide general introduction to the work. Chapter two will review literature and theories relating to impact of Non-Performing Loans on banks profitability. Chapter three provides the methodological approach to the study. Chapter four will also provide data analysis and discussions of results. The last chapter will provide a summary of findings, conclusions, and recommendation for management and academia."

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter review literature relevant to the study. The areas considered include; theoretical review,

2.1 Theoretical Review

This theory explains the consequences of Non-Performing Loans on banks. The theoretic analyses covered are; "Asymmetric Information Theory, Agency Theory and Modern Portfolio Theory".

2.1.1 Asymmetric Information Theory

This theory was first presented by Akerlof (1970) "The Market for Lemons".it is the single mist important study in the literature on economic of information. The theory is all about the dissemination of information to the right person and at the right time. This theory comes in handy when there is discrepancy in information circulated.

This happens when two people have different understanding about the same information. Asymmetric information seems to be rampant in the financial world in terms of Credit granting. In credit appraisal the customer has more information than the lender and always refuse to relay such information leading to poor credit appraisal and default in loan repayment.

This theory was first presented by Akerlof (1970); "The Market for Lemons". "It is the single most important study in the literature on economics of information.

2.1.2 Agency Theory

This theory talks about the relationship that assist between the Master and agent. This agent is hereby given the authority to perform an act on behalf of the principal, this can be seen in the banking sector where the managers of the bank have been given the authority to run the bank on behalf of the shareholders.

Ross (1973) and Mitnick (1973) were the first scientist who explicitly suggested that the agency theory be developed.

The origin of the economic theory is traced back to Ross (1973). Whereas Mitnick (1973) is liable for the agency's institutional theory. The theory of the agency is gaining a lot of popularity in explaining organizations' economic performance.an organization's management is generally evaluated as an officer employed by the stakeholder to operate through excellent economic results to enhance the stakeholders' value. Therefore, management is supposed to behave in the best interest of the owners and improve the organization's economic performance. Moreover, this theory suggest that the majority of managers operate the bank for their benefit rather than that of the shareholders' interest, thus affecting the banks' primary goal or vision and objective when this happens, to control the occurrence of the conflict of interest, shareholders are to put in place measures to motivate their agents or employees.

2.1.3 Modern Portfolio Theory

This theory is also known as mean-variance analysis, this talks about the portfolio of investment. This theory tries to talk about diversification of investment, thus not putting all your investment into one particular investment company.

With this regard, it will be advisable for Bank's not to lead to only one particular sector like lending to only government contractor, when this is done and government delays in payment or there is a change in government leading to massive delay in payment, this will affect the loan portfolio of the bank, hence diversification is key in credit lending.

2.2 Commercial Banks profitability determinants.

Profitability of banks of banks are mostly driven by two factors, both internal and external.

The internal factors are factors that are in the control of the managers of the bank and which are caused by the decision of the managers which includes but not limited to the following: Management Efficiency, Adequacy of the bank, Capital, Liquidity Risk, and Credit Risk among others.

Some of the External factors attributing to the performance or profitability of the banks are factors that are beyond the control of the managers of the bank ,these factors could be Macroeconomics factors and Financial Structure .the Macroeconomics factors include which includes Gross Domestic Product (GDP) and Gross National Product (GNP) among others, with this factors at times managers can forestall the occurrence of such factors and some actions may be taken to minimize any huge effect it might have on their performance in terms of profitability (Krakah & Ameyaw, 2010). A study by Elyor (2009) and Uzhegova (2010) used CAMEL to assess the factors affecting performance of the banks. The CAMEL is the most extensively used ideas and is recommended by Basle Committee on Bank supervision and IMF (Baral, 2005).

2.2.1 Capital Adequacy

Capital adequacy relates to the quantity of equity that is sufficient to absorb any shocks the bank may encounter (Kosmidou, 2008). Banks capital requirement are under heavy government control. This phenomenon is explained by the fact that a critical factor in a bank's performance is its asset capital adequacy (Kamau, 2009). Capital adequacy relates to the quantity of capital needed by the financial regulator of a bank or other financial organization. This is expressed as an equity of capital to be kept as a proportion of risk-weighted assets. The equity-to- be –total assets ratio is used as a metric for the adequacy of bank capital. This accounts for the proportion of the total assets funded by equity. Therefore, capital adequacy defines the quantity of equity that can absorb shock that banks may encounter. Then greater the equity the equity-to-assets ratio, the reduced the need for external financing and hence the commercial banks' profitability is anticipated.

Banks with a greater capital-to-assets ratio is regarded comparatively harmless and tends to have a greater cushion margin, remaining lucrative even in challenging economic times.in contrast, banks' with reduced capital adequacy are regarded to be more risky compared to extremely capitalized bank. Therefore, capital adequacy is regarded to have an impact on business banks' profitability.

2.2.2 Asset Quality

Asset quality is one of the variables in CAMEL that determines commercial banks profitability. The quality of the assets of a bank is based on specific risk exposure, non-performing loans patterns, health and profitability of bank borrowers (Baral, 2005). Aburime (2008) claims that a bank's profitability depends on its capacity to predict, prevent and track hazards, potentially to cover losses caused by hazard. Asset quality measures a commercial banks' capacity to handle credit risk. Asset quality represents assets structure and productivity. Thus, the quality of assets has a direct effect on a banks' profitability. The bad profitability of a bank can be explained by its poor asset quality. This is predicted by having a good knowledge of the bank's performance of investment in the category and by estimating future performance factors in probable future allocation of assets. Banks are impacted negatively when non-performing loans increase. Loans are Commercial Banks' significant assets from which they produce revenue. The quality of the portfolio of loans determine banks' profitability. The quality of the credit portfolio has a direct impact on the profitability of the bank. Non-Performing Loan Ratios are the highest asset quality proxies and have an impact on profitability. In recent decades, the problem on NPA has received increasing attention given the proven reality that bank failure is the immediate consequence of NPAs bubbling in the banking system.

Non-Preforming Assets/loans lower general asset returns (ROA) as loans are component of asset of commercial banks. Return on assets is a measure of commercial banks' profitability.

2.2.3 Liquidity

This factor is used to assess how much returns will accrue. In order to extend loans, it is important that banks have adequate liquid cash. As such, it is important for banks to find strategies to make use of the liquid cash to make some returns because money in its liquid state yields no return. The liquidity of a bank is the measure of a bank's capacity and helps to meet short-term obligations or liabilities when due. The operations of a bank can be explained as the traditional use of customer deposit been extended as a credit facility in the form of loans. As a result, the proportion of improvements from the bank to deposits from customers is used as a liquid proxy. The liquidity of a bank is the can pose a significant problem, and shortages in liquidity can lead to a bank's failure. Liquidity is also seen by banking regulators as a significant issue. Commercial banks without adequate liquidity to fulfill the requirement of the danger of bankruptcy of their depositors. Holding extremely liquid assets tends to lower revenue as liquid assets are associate with reduced return price. For example, a non-earned assets cash that is the most liquid of all assets. Higher liquid would therefore be anticipated to correlate negatively with profitability.it is asserted that when banks maintain higher liquidity, they do so at some investment's opportunity cost that could produce high yields (Kamau, 2009).

An elevated liquidity ratio therefore shows a bank that is less risky and less lucrative (Hempel et al, 1994). As a result, the liquidity of a bank is used to predict a bank's profitability and management face the liquidity and profitability dilemma.

2.3.4 Operational Cost Efficiency

The primary contributor to bad profitability is bad expenditure management, (Sufian and Chong 2008). Management also has the ability to do such illegal acts; to use loss clauses on non-performing loans (assets) to smooth profit. Instructively, income smoothing is seen to violate the international accounting standards (IAS. 39), its evidence been based on incurred losses or impairment (IASB, 2005). This is often enabled by asymmetric information since key informants are against the temptation of arousing the interest of outsider's expectation concerning income to be accrued in future. Incoming smoothing is said to remain strong in operations especially on countries that are industrialized (Pérez et al., 2008). The two factors attributing to economic objectives are Cost Efficiency and Profit Efficiency and these two factors attributes to the minimization and maximization of profit. The cost efficiency can be defined as the ratio that links the minimum cost possible to reach a volume of production and the cost realized, whereas profit efficiency is an econometric performance which is tells how well profitability is measured as compared to best – practice. A destructive relationship is anticipated amongst the profitability and operation cost which indicates an increase in operation coast and the opposite applies. The optimum way to maximize profit to to give out clean loans by the commercial banks.

2.3.5 Revenue Diversification

The notion of income diversification follows the portfolio theory idea which states that by varying a firm's portfolio, this helps in decreasing firms' specific risk. Activity diversification advocates or product blend claim that diversification offers steady and less unstable revenue, economies of scope and scale, and the capacity to influence product-wide organizational effectiveness Chio et al., (2006). Chiorazzo et al. (2008) observed that the economies of scale and scope created by combined manufacturing of economic operations result in increased effectiveness of banking organizations and thus increased profitability as a consequence of activity divergence. As quoted by Uzhegova (2010), Albertazzi et al, (2006) observed that the decrease in interest margins resulting in low profitability has compelled banks to investigate alternative sources of revenues, leading to diversification into trading activities, other services and non-traditional economic operations. The contrary argument to diversification is that results in enhanced agency costs, enhance organizational complexity and bank managers' potential for risker conduct. Choi and Kotrozo (2006) stated that activity diversification of activity outcomes in more complex organizations that make the conduct of the other divisions/branches more challenging for top leadership.

2.3.6 Ownership

The connection between profitability of commercial banks and identity of property emanates from the theory of agency. This theory talks about principal and agent relationship. The notion of ownership can be described in two lines of thinking, according to Ongore (2011): ownership concentration and ownership combination. The concentration relates to the percentage of shares retained in the company (the biggest shareholder) by a few shareholders and the later defines the shareholder identity. The dominant shareholders may have the authority and reason to monitor management performance carefully, leading to better effectiveness and improved profitability. To curb the occurrence of huge agency cost, there will be the need to have a close monitoring on the activities of the managers to ensure effective use of resourced which will intend yield higher profit or returns to the commercial banks. However concentration of ownership may lead to a problem with regards to overlooking the minority right. If shareholders are too much involved in the management of the banks can also constitute huge problems in terms of overlooking minority right and this will also hinder the innovativeness of the managers of the banks which will in the long run affect the profitability of the commercial bank. Agency theoretical perspectives claim that the primary reason for the presence of information asymmetry and dive are distinct ownership structure and distinct roles in organizations. Claessens and Jansen (2000) asserted that banks foreign banks generally bring with them better knowledge and technical ability to the country which helps increase the efficiency in managing the banking sector leading to increase profitability.

2.4 Determinants of Non-performing loans

In developing countries, banks are considered a safer place for people to keep their funds. Most of the lending are based on depositors' money and for that matter the credit appraisal team or the credit managers are to do a proper credit appraisal so that the depositors' money that was given out as loans/credit will be paid back on time in order to secure the depositors funds. Boahene et al., (2012). Good credit appraisal minimizes the chance of loan default since all factors are considered in the lending process before the loan is given. Beside proper credit appraisal as a mitigating factor of NPL's, there are other factors account for the non-performance of loans. Findings has attributed NPL's to moral Hazards in the sense that most people take risk since they are not the same people to bear cost of the risk. Richard (2011). Findings shows that another reason why there has been increase in NPL's due to the fact that most credit officers and managers gets involve in poor credit lending practices by receiving bribes. When borrows are to give out portions of the money received to augment their working capital as bribes which is popularly termed as"LOSO", most people go to the extent to take 10% to 20% of the loan amount as facilitation fees, so when this happens the borrow is affected since the money will not be able to meet the intended purpose. (Mutibvu et al, 2012; p.471).

In our country Ghana some of the likely causes of NPLs may include but not limited to the following reasons,

- ❖ Poor credit appraisal: inappropriate loan quality evaluation can lead to default, this issue may be as a result of competitive pressure and loan development as they tend to place a time limit on precise information .also fast development and entry into fresh market may attempt management to lend without adequate financial and economic assessment. This may also result as incompetent staff involved on the credit process, poor assessment of credit quality all the name of meeting target. Also management can support loan choice by using easy credit quality indicators such as the features of borrowers, present and expected value of collateral or help from a parent business or associated business to promote faster decision making.

- Economic situation: economic circumstances thus a shift in national income and unemployment affect credit risk through changes in business cycle, exchange rate, interest rate accessibility of credit and credit quality.
- Liquidity crunch or financial problems can have an impact on the ability of borrowers to fulfill their obligations.
- Diversions of funds: borrowers mostly divert funds into other business ventures that were not assessed during the credit appraisal hence default in payment should the business fail.
- Wrong timing in granting credit: the delay in granting the loan can also contribute to default in payment, this happens because the borrow applied for the loan for a particular purpose at for a particular time should there be a delay in the granting the loan will defeat the purpose of the loan hence diversion will arise if the purpose for the loan is not able to be met due to delay in granting the facility.
- Lending over and above the collateral taken: there is also another factor in lending over and above the collateral. When credits are given for the purchase or development of property used as collateral, many financial institutions are unable to evaluate the relationship between the financial situation of debtors and revenue producing capacity and price changes and market liquidity.

2.5 Factors affecting banks' performance

The discussion below critically evaluates the selected internal determinants that influence commercial banks performance.

2.5.1 Liquidity Management

Liquidity is evaluated against complete assets as a proportion of cash and cash equivalent. (Aver, 2008). High liquidity allows commercial bank to avoid costly borrowing of funds when the need for cash arises. However, in addition, (Bonfim, 2009) elucidates that there is also an opportunity cost that commercial banks incur as a result of not advancing the cash presented to spawn returns. Consequently, this could appear to be positive. According to (Bibow, 1995), inadequate liquidity is one of the main reasons of commercial banks fail. However, despite that, holding liquid assets offer an opportunity cost of higher returns. Aver (2008) found a positive substantial link between bank liquidity and performance. In periods of instability though, commercial banks may choose to increase their cash holding to mitigate risks. Unlike Bibow (1995), Derbali (2011) concluded that there is a negative correlation between liquidity and commercial banks performance levels. Honohan (1997) opine that adequate level of liquidity is positively related to commercial banks profitability. The common financial ratios that reflect liquidity position a commercial bank as Honohan holds it are "customer deposit to total asset and total loan to customer deposits". However, other researchers use diverse financial fraction to measure liquidity. For example, Kithinji, (2010) uses cash to deposit ratio to measure the liquidity level of banks Malaysia. However, a study undertaken in China and Malaysia established that liquidity level of commercial banks had no relationship with the performances of banks (De Grauwe, 2012).

Musyoki (2011) explains that liquidity risk indicator is measured by bank net loans to total assets or a percentage of assets that comprise the loan portfolio. This is regarded as a mixture of bank activities and a significant proxy for banks' general level of danger to the extent that distinct source of revenue are defined by distinct expenses and volatility (Bonfim, 2009). According to a study by Irsova and Havranek (2010), banks relative levels of high non-interest earning assets are less profitable overall. This shared by Capone (2012) that explains that commercial banks that rely on deposits for their funding are also less profitable out of the fact they require extensive branch network, and other expenses that are incurred in administering deposit accounts. For that reason, the effect to bank performance of this variable could be mixed. Cook and Heiser (2011) posits that commercial banks performance is affected by banks internal factors which relate to the specific characteristics such as bank size, capital adequacy, liquidity risk and cost and so on. Juma (2014) explains that depending on how banks managers their internal factors, such factors can lead to bureaucracy, prolonged decision making and cost escalation that hinder effective performance of commercial banks.

2.5.2 Capital Strength

According to Cook and Heiser (2011), capital is one of the bank's specific variables that affect its efficiency. Chandler et al., (2010), define capital as "the amount of own fund available to support the bank's business and act as a buffer in case of adverse situation". Commercial banks' equity generates liquidity for the banks as a consequence of most fragile deposits being susceptible to bank runs. It is also stated that the higher the capital of the bank, the lower the likelihood of trouble Ahanasoglou et al., (2005). However, this is not without disadvantages; it leads to week demand for liability and the cheapest sources of money. Capital strength is the level of capital requires by commercial banks to enable them overcome their exposure to cost, market risk and operational risk, absorb potential losses, and protect debtors of the bank Chandler et al.,(2010). Several studies show that banks with greater capital concentration perform better than their low-capital counterparts (Barney, 1990 b).in this research, the investment level of commercial banks is clarified by a proportion of total equity to total capital assets. Well-capitalized commercial banks have a reduced perception of danger and should generate reduced yield according to finance theory (Okore, 2011).on the contrary, in the event of liquidity, banks with greater capital rate are regarded as having a safety net. This is backed by Danny (2014), which explained that bankruptcy-insured banks also enjoy reduced capital costs that contribute to their result. Certain performance-specific determinant of banks such as equity, liquidity and loan management bring with them a lot of hazards that require banks to be strategic in their leadership strategy in order to stay effective and productive (Okore,2011).

2.5.3 Operational Efficiency

Operational efficiency is another key internal factor that influences commercial banks performance. Different financial ratio such as complete asset development, credit growth rate and earnings growth rate represent operational efficiency, Cook and Heiser (2011). However, suffice to say, this is one of the developments that focuses on the capture with financial ratios. Furthermore, operational competence in dealing with operational expenses is also an aspect for quality management. Management performance is often qualitatively demonstrated by subjective evaluation of leadership structure such as organizational discipline, control systems, personal performance, (Jason, 2006). Migai (2010) stated that management’s ability to use resources in ventures that yield high income and reduce the cost of operation is ascertained suing financial ratios. One of such ratios is the operating profit income (Kithinji, 2010). Bonfim (2009) explain that efficiency not only improve profits, but could lead to market share gains leading to increased concentration so that the result of a positive relationship between concentration and profits could spurious result due to correlations with other variables. Derbali (2011) however contrary argue that increased concentration is not the result of managerial efficiency, but reflects increasing deviations from competitive market structures which lead to monopolistic profits. Musyoki (2011) established positive relationship between better quality management and performance in Kenyan commercial banks. This internal variable could therefore have a positive or negative impact on commercial banks performance. Positive effect will translate to better quality management at reduced costs while negative effect translates to higher inefficiency levels at higher costs. Nasieku, Kosimbei and Obwogi (2013) studied intermediation efficiency and how it influenced productivity of banks. The study applied the Data Envelopment Analysis (DEA) which is a non-parametric approach to analyze intermediation efficiency in the commercial banking sector. Moreover, Malmquist Productivity Index (MPI) was applied to how efficiency of growth to commercial banks' are measured. The study established that efficiency increase by commercial banks was observed in 2008. This was in form of cost-cutting and application of technology.

2.5.4 Cost

As banks operate, they incur costs in from of administrative costs, transaction costs, opportunity costs among others (Musyoki, 2011). A study by Musyoki (2011) investigating the impact of cost management on the financial performance of commercial banks in Kenya established that commercial banks that reduced their costs of operation, have efficient management structure and have better working credit policies performed well compared to banks loaded with management inefficiencies and bureaucracy. Another study by Ngetich (2011) focusing on the empirical analysis of the commercial banks efficiency and performance in Kenya concluded that banks with effective and efficient management, credit lending policy, credit portfolio, labour productivity, information technology, risk and quality management could perform twice better than banks where such internal factors are poorly managed or not aligned with organization goals and objectives Makiyan (2003) observe the banks costs of operation determine their level of performance. "Costs influences the expenses which cut the on the profitability of a firm.

Thus, costs negatively affect banks profitability and performance" (Bonfim, 2009). Ngetich (2011) explains that for commercial banks in Kenya to be able to realize significant performance in their operations, they must devise ways of cutting costs while maximizing how to improve profitability. Kithinji (2010) explains that in the wake of high cost of doing business for financial institutions, only banks that nurture good management skills and expertise to cut down on the cost will realize a boost in their performance. Migai (2010) adds that issues such as lean management, flat organization structure, organization culture and individual institutional policies determine whether a bank performs or not in the banking sector in Kenya. This is supported by Musyoki (2011) that established that commercial banks in Kenya with lean organization structure, unbloated workforce and capable to make timely financial decisions were the best performance in the Kenyan financial market. Banks are anticipated to have an adverse correlation with performance as a proportion of their earnings. The amount of operation expenses is seen in the literature as an indicator of the effectiveness of the management, for instance, in the research, Ongore (2013) found that, despite their beneficial impact on net interest margins, operating costs have adverse impact on profit measures. Including bank spending in performance is also backed by Ngetich(2011) and Kithinji (2010),who find a connection between bank performance and spending management.

2.5 Empirical Review

Several empirical research on NPL's and commercial banks profitability have been performed, confirming that negative economic modifications contributes to NPL's and adversely impact the efficiency of banks.Hou and Dickinson(2007),who looked at the non-performing microeconomics loans, specifically at the bank level to empirically assess how NPLs influence the lending conduct of Commercial Banks. Specifically, it discusses some economic implications of NPLs. They used empirical methodology to test the impact of NPLs that the information from the balance sheet of the individual bank will negatively impact the lending conduct of the bank.by taking information from 2000-2010,Kolapo et al.(2012)also evaluate the impact of Credit Risk on the result of five banks in Nigeria. Credit Risk ids measured by taking the ratio of NPLs to loans plus advances, total loans to advance plus deposit, and the ratio of provisions on loans loss while performance is measured by assets return. Fixed effect model used in the research and the outcomes of regression analysis show that unsuccessful loans and credit loss provision adversely affect performance while complete loans to progress plus deposit ratio have a beneficial impact on performance. This is obvious from the research that in order to maximize profit the banking industry needs to enhance its credit management procedures. Mohammed (2012) researched bank performance in corporate governance, primarily using the proportions of NPLs and credit deposits. Study was performed on 9 Nigeria banks from 2001-2010 for a period of 10 years. Based on generalized outcomes of the least square regression, the NPL ratio has a substantial adverse impact while the loan deposit ratio has adverse impact on performance.so bank's survival depends heavily on better asset quality means depending on minimizing the percentage of NPL.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

Presented in this chapter are the methods deployed to ensure that the study achieves its set objectives. It focuses on the overall design of the study and covers other areas including the method of sampling, the population and sample size, the means of primary data collection, its analysis and presentation.

3.1 Research Design

The study designed and reported in this thesis is the descriptive survey. This involves the determination of what is happening in relation to a particular variable and this study was focused on the factors accounting for non-performance of loans. Return on Assets (ROA) measures profitability was taken as dependent variable and NPLs over complete loans were taken as independent variable. CAMEL factors influencing profitability in particular; the assessment regarding capital adequacy, operating cost efficiency and liquidity as controlling variables.

3.2 Population of the Study

Bryman et al (2003) depict a study population as "the entire gathering that the study concentrates on". Subsequent analysis. The population of this study comprise of management and staffs of the Commercial Banks in Greater Accra. Consequently, customers were excluded because the study seek to assessing the causes of non-performing loans and its impact on bank's profitability of the Commercial Banks which all the information needed to achieve the aim of the study will be gathered from the bank and the workers at the bank therefore there was no need to include customers.

3.3 Study Area

This study was carried out in the Greater Accra region of Ghana.

3.4 Sample size determinant

Since this study is using all the commercial banks in Greater Accra as the population, there is a need to use Cochran's Sample Size Formula to calculate the sample size. This because the population of the employees of the commercial banks was not known therefore the Cochran formula allows one to calculate an ideal sample size given a desired level of precision, desired confidence level, and the estimated proportion of the attribute present in the population.

Below is the Cochran's Sample Size Formula:

$$n_0 = \frac{Z^2pq}{e^2}$$

Where:

- e is the desired level of precision (i.e. the margin of error),
- p is the (estimated) proportion of the population which has the attribute in question,
- q Is 1 – p.

Considering the study the

The margin error (e) = 0.05

P = 0.5

Q=0.5

Z = 95% confidence interval with the score given (1.96)

$$n\frac{1.96^2 x\ 0.5\ x\ 0.5}{0.05^2} = 96.04$$

The sample since obtained from the calculation was 96 however since some of the respondents might not be able to respond to the questionnaire the sample size was increased to 100. Therefore 100 sample size was used for the analysis.

3.4.1 Sample Size

A sample size of 100 was taken from which 5 Managers and 95 employees will be drawn from the bank and this complies with the statistical analysis guidance, saying that number 30 is a helpful rule of thumb when deciding on an appropriate sample size (Stutely,2003). This sample size was also selected owing to the sampling technique selected, which was predominantly purposive and by convenient and targeted Commercial Banks directly or indirectly engaged in the operation of multiple Commercial Banks in continent.

3.5 Sampling Techniques

The study utilized the purposive and convenient sampling technique. A purposive sampling technique, also called a judgmental sampling technique, is one that is chosen in light of the knowledge of a group in the population and the reason for the study. Purposive sampling requires researcher to use his or her personal judgment to select cases that will best answer the research questions and meet the research objectives, Saunders et al.,(2009). The subjects are chosen as a result of some characteristics. In light of the focus of the study, an attempt was made to include staffs and management with the specialized knowledge of the issue under study.

3.6 Data Collection Instrument

The survey questionnaire was used as the means for the collection of primary data. The questionnaire was largely structured with respondents only required to choose and rate from a set of options and scale respectively. The questionnaire was used due to the fact that they are easy to analyze and in the light of time constraints facing this study, the researcher deemed it the most convenient tool.

3.7 Data Analysis Technique

Data analysis is the process of bringing order, structure and meaning to the mass of information collected. Mugenda et al., (2003). The information gathered through data collection was critically subjected to thorough analysis and careful examination which helped in the conduct of the study in making appropriate suggestions and recommendation to the organization and the society at large. The responses were coded into the Statistical Package for Social Sciences (SPSS) software for analysis purpose, frequency distributions, as well as tables were used to present the data. Cronbach alpha multivariate analysis was .o test reliability of data employed. Meanings and interpretations were given by regression analysis, mean, percentages and standard deviation tools.

3.8 Validity and Reliability of data

3.8.1 Validity

According to Saunders et al. (2009), validity explains how accurately the method of data collection used measures the subject it was intended to measure. Several measures were put in place to ensure the validity of the study. First, the data collection instrument contained empirical variables that were reported in other studies. Second, a pilot study was conducted to ensure that the questionnaire representatively measures the subjects under consideration. Through the pilot study, the researcher was able to make necessary adjustments. Finally, the data was collected within a short period of 3 weeks during which no change of the subject area occurred.

3.8.2 Reliability

According to Saunders et al. (2009), reliability refers to the degree to which data collection method or methods will yield consistent findings, similar observations would be made or conclusions reached by other researchers or there is transparency in how sense was made from the raw data. Cronbach's alpha was used to measure the internal consistency. According to Lavrakase (2000) Cronbach's alpha is a statistic that measures the internal consistency among a set of survey items that (a) a researcher believes all measure the same construct, (b) are therefore correlated with each other, and (c) thus could be formed into some type of scale. It belongs to a wide range of reliability measures. Therefore based on the research a reliability coefficient of 0.70 or higher was considered "acceptable".

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.0 Introduction

In this chapter, the results of the data analysis are presented and interpreted in line with the research objectives and the research questions. The data was presented in tables and graphs beginning with the sample characteristics and then research questions that were formulated to guide the research. The first part of the chapter considers the demographic background of the respondents, focusing on sex, Age, Educational level and working experience of the respondents. The second part presents the factors accounting for non-performing loans, the third also represented the key determinants of profitability of the Commercial Bank, followed by the internal factors affecting the performance of Commercial Bank and the Commercial Bank's profitability and the effect the Non-Performing Loans have on the profitability of the banks.

This study is to; assess the factors accounting for the incidence of Non-Performing Loans of the Commercial Banks in Ghana**,** determine the key determinants of profitability of the commercial banks in Ghana, ascertain the internal factors affecting the performance of the commercial banks in Ghana and assess the effects of non-performing loans on the profitability of the commercial banks in Ghana.

4.1 Data Presentation and Analysis

In totality, 100 respondents were included in this study from GCB Bank and a total of 100 questionnaire were retuned for further analysis. The response rate for this study is therefore 100%.

4.2 The distribution of respondents per commercial bank

Table 4.1 indicates the number of banks that were involved in the research. Each bank were given ten (10) questionnaire each to respond to, which sum up to hundred (100) sample size. All .the respondents responded to the questionnaire.

Table 4.1: The distribution of respondents per commercial bank

Banks Involved	**Distribution per bank**
1. Fidelity bank Limited	10
2. Prudential Bank Limited	10
3. GCB Bank Limited	10
4. National Investment bank	10
5. Ecobank Ghana Limited	10
6. ADB Bank Limited	10
7. Barcleys Bank Limited	10
8. Access Bank	10
9. Stanbic Bank Ghana Limited	10
10. Cal Bank Limited	10

4.3. Respondents' Background

Data collected in relation to the background of the respondents included the sex and age of the respondents.

4.3.1 Gender Distribution

Primarily, the data presented here covers the male and female genders. This was collected as a necessary information to determine the sex distribution of the employees in the commercial bank settings.

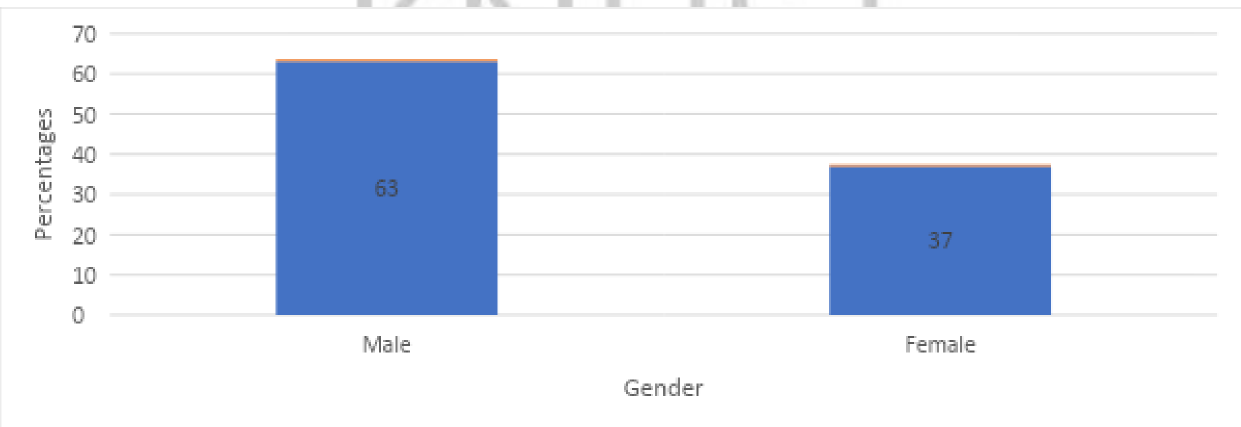

Figure 4.1: Gender Distribution

Source: Field Survey, (2019).

The graph presented in Figure 4.1 represents the findings from a total of 100 respondents included in this study. It can be seen that 63.0% were male and 37% were female. This is an indicated that the male gender dominated the commercial banks against the popular believe that the banks are female dominated. It could also be explained by the fact that, the male gender was the most present at the time of data collection.

4.3.2 Age of the Respondents

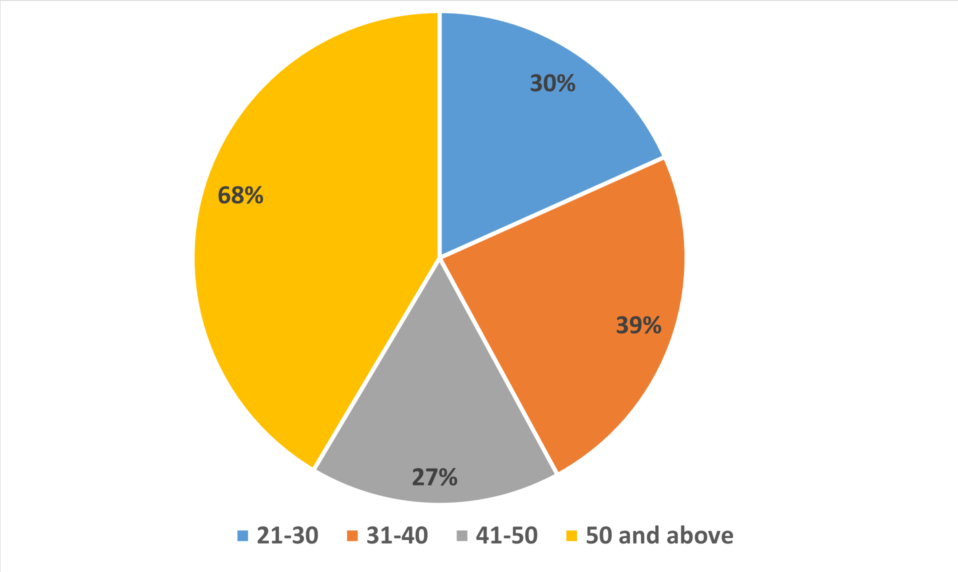

Figure 4.2: Age of the respondents

Source: Field Survey, (2019).

This includes the age range of respondents from 21 to 51 above.

Figure 4.2 above shows the respondents' suggestions on the percentage of age range of respondents. With 30% of the respondents falling between 21 and 30 years, also 39% of the respondents falling between 31 and 40 years, 27% of the respondents also falling between 41 and 50 years and finally 68% of the respondents were above 51 years.

From the analysis it was indicated that majority of the respondents were 31 years and above.

4.3.3 Education Level of respondents

Table 4.2: Education Level of respondents.

Educational Background		
	Frequency	Percent
Professor/PhD	6	6.0
Master's Degree	37	37.0
1st Degree	26	26.0
HND	18	18.0
SSS	13	13.0
Total	100	100.0

Source: Field Survey, (2019).

From the Table 4.2, represent the educational level of the respondents. It was indicated that 13% of the respondents have acquire SSS, while 26% of the respondents have HND. Also, 26% of the respondents says they have first Degree whiles 6% of the respondents says they have PhD (Professor) and finally 37% of them said they have post graduate or masters qualification. Therefore from the analysis it was observed that 87% of the respondents have completed Tertiary and post graduate level which can be assumed that they may have much knowledge about the research conducted

4.3.4 Number of years worked with the bank

The study was equally interested in finding out from the staff the number of years they worked with the bank. The results are presented in Figure 4.3

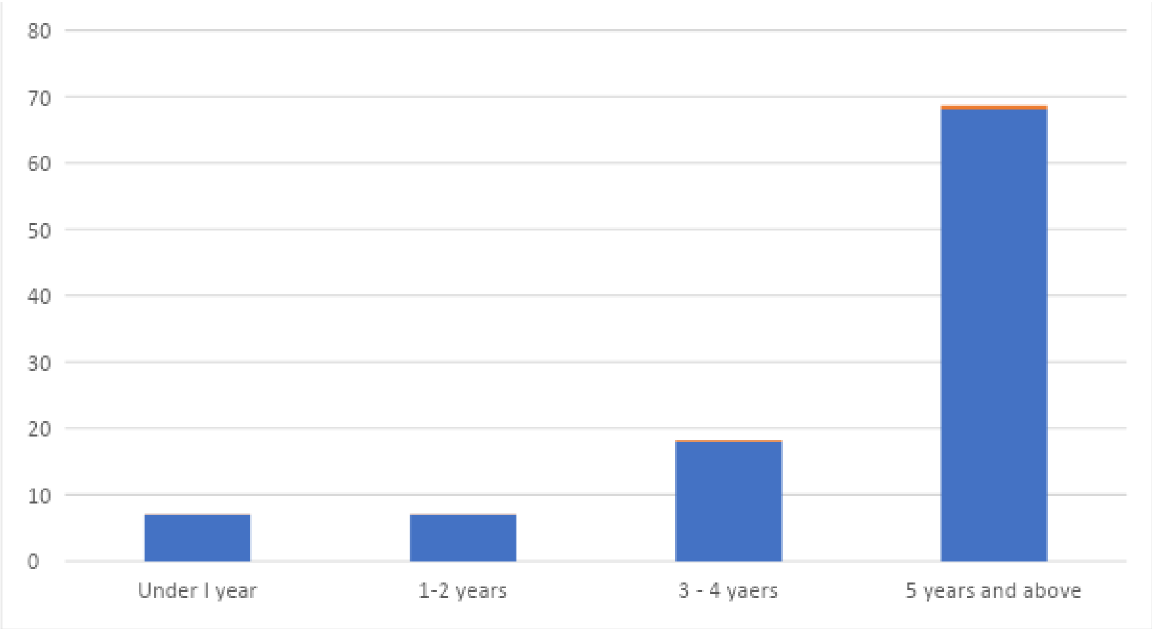

Figure 4.3: Number of years worked with the Bank

Source: Field Survey, (2019).

The results in Figure 4.3 revealed that 86% of the respondents had been with the bank for over 3 years. It can therefore be assumed that most of the staff in the bank had enough experience and adequate knowledge of the issue under study. Since most of them had been with the bank for over 5 years, it is long enough to conclude that they have gained much experience and knowledge in the loan default on banks profitability.

4.4 Factors Accounting For Non-Performing Loans

The major factors identified by the respondents were Poor credit appraisal techniques, In Inefficient appraisal and monitoring, Diversion of funds, Business Failure, Wrong timing of credit delivery, inadequate marketing avenues, High interest rate, Corruption and fraud, Moral hazard and insider lending, Lack of proper education on the business area, Lack of sufficient supervision from the bank, High consumption expenditure among others. This is done to determine the factors accounting for the incidence of NPLs in Ghana Commercial bank.

Table 4.3 Factors Accounting For Non-Performing Loans

Cause of NPL	Frequency	Rank	Mean
Poor credit appraisal techniques	100	1st	4.12
Business failure	100	5th	3.58
Inadequate marketing avenues	100	2nd	4.06
Diversion of funds	100	9th	3.34
Wrong timing of credit delivery	100	10th	3.26
Inefficient appraisal and monitoring	100	7th	3.57
Corruption and fraud	100	11th	2.96
Moral hazard and insider lending	100	12th	2.75
Lack of proper education on the business area.	100	3rd	3.60
Lack of sufficient supervision from the bank	100	3rd	3.60
High consumption expenditure.	100	8th	3.41
High interest rate charged by the bank.	100	5th	3.58

Source: Field Survey, (2019).

After the administration of the questionnaires, the responses given by the respondents are discussed below. Many reasons were assigned to the causes of non-performing loans in the commercial banks. The major factors identified by the respondents were Poor credit appraisal techniques, Diversion of funds, Business Failure, Poor weather conditions, inadequate marketing avenues, wrong timing of credit delivery, high interest rate, among others. The data was analyzed using the mean scores of the Oxford and Burry-stock (1995) scales, where the low scores is between range 1.0-2.4 medium between range 2.5-3.4 and high is between ranges 3.5-5.0.

Inefficient appraisal and monitoring: From the respondents who returned the questionnaires, mentioned that inadequate monitoring as the most dominant cause of NPLs. Understaffing and lack of logistics (vehicles/motor bikes) were the most common reasons cited as the causes of ineffective monitoring. This ranked 7th with the mean of 3.57 which indicates that the respondents have highly agreed that inefficient appraisal and monitoring is one of the factors that causes Non-Performing Loan.

Inadequate Marketing Avenues: Inadequate marketing opportunities were ranked by the respondents as the second highest cause of NPLs. They claimed that they were unable to meet their loan commitments because they faced post-harvest losses. This score the mean of 4.06.

Business Failure: According to those who answered the questionnaires, business failure is also an important factor causing non-performing loans in the commercial banks. Further explanations sought revealed that even the trustworthy borrowers are unable to meet their loan conditions due to business failure. From the table it recorded the mean of 3.58 which indicates that most of the respondents have agreed that Business Failure is one of the causes of NPL in Commercial banks.

Poor credit appraisal techniques: Consequently, poor credit appraisal techniques on the part of credit/loan officers also account for some loans becoming delinquent. The explanation provided is to the effect that there is the lack of skills necessary of the loan officers to determine the possibility or otherwise of commercial viability of the loans and as such loan repayment becomes a challenge.

Therefore, they responded that the main causes of the NPL in the commercial banks. This factor recorded the highest means which indicates that the respondents are in support that the Poor credit appraisal techniques as one of the causes of the NPL in the commercial banks.

Diversion of Funds: The next factor that was cited by the respondents was diversion of funds the respondents believe diversion of funds is indeed one of the causes of the incidence of NPLs. Diversion of funds is where funds or loans granted to undertake a particular project is used for unintended purpose. This leads to a drop in the projected cash flows and ultimately results in loan default. Therefore from the mean 3.34 indicates that the respondents partially agrees that the Diversion of Funds are the causes of the NPL in the commercial banks.

Wrong timing of credit delivery: in some instances, customers who request loans suffer business losses because of the delay in disbursing their loans. Due to this, some customers are often found to misuse this money when they are finally disbursed in other areas that sometimes yield no returns because that was not the intended purpose of the money. They are therefore confronted with the challenge of their inability to pay the loans on time. This is study is showing that respondents somewhat agree that the wrong timing of credit delivery accounts for NPLs.

Corruption and fraud: corruption and fraud has been a daily activity in the area of banking sector which some of the respondents based on to say they can also cause NPL.

According to the respondents, Corruption and fraud is partially involved in the non-performing loan in the commercial banks. This score 2.96 which falls between the medium range; therefore, this indicates that not more than half of the respondents agreed to these factors.

High Interest rate: this factor was considered to contribute to NPLs. This was considered to be slightly, strong reason, this is because it only applies to defaulters of loan who are able to pay the principal but are unable to pay the interest that accrued on the loan facility. In cases where both the principal and interest are in default, it is difficult to associate it with high interest rate.

Moral hazard and insider lending: The moral hazard and inside lender, was the lowest ranked, this is because the respondents did not agree that they are the major causes of nonperforming loans in the commercial banks even though they can cause NPL.

Lack of proper education on the business area: The respondents cited that Lack of proper education on the business area is the factor that cause non-performing loans in commercial banks. It recorded 3.60 means which indicates that majority of the respondents has agreed that Lack of proper education on the business area is one of the factors causing NPL.

Lack of sufficient supervision from the bank: Lack of sufficient supervision from the bank on the part of credit officers and non-compliance with the provisions of the credit policy was one of the major reasons cited as factors that result in loan default by the respondents.

High consumption expenditure. Finally one of the minor reasons the respondents cited as a factor of nonperforming loans is the High consumption expenditure which was ranked 8th in position with the mean of 3.4.

Therefore in conclusion, the major factors given by the respondents to be the causes of Nonperforming loans were the Poor credit appraisal techniques, Business failure, Inadequate marketing avenues, Inefficient appraisal and monitoring, Lack of proper education on the business area, Lack of sufficient supervision from the bank and High interest rate charged by the bank.. Also the minor factors that causes nonperforming loans were the Diversion of funds, wrong timing of credit delivery, Moral hazard and insider lending and high consumption expenditure.

4.5 Key Determinants of Profitability of the Commercial Bank

Table 4.4 Key Determinants of Profitability of the Commercial Bank

Individual Variables	Individual Mean	Ranking
Management Quality	**5.03[1]**	**1st**
The quality of the management will determine the success of a bank	4.86	
The quality of a management is based on the experience of the management and their track record in terms of their vision and competence in running the bank	4.47	
The integrity and the overall corporate governance standards in the bank	4.93	
The integrity and the overall corporate governance standards in the bank	5.68	
The performance of a bank is largely dependent on the vision and competence	5.23	
Capital Adequacy	**4.06[1]**	**2nd**
The ability of bank to undertake additional business	3.66	
Earn more profit through translating the safety advantage into profit	4.00	

The size of capital provides financial flexibility for bank and financial institution	3.58	
It identifies which financing options are available for the entity	5.01	
Earning Capital	**4.03[1]**	**3rd**
earnings of a bank depend largely on how well the management manages the assets and liabilities of the bank	4.66	
A bank must earn reasonable profit to support asset growth, build up adequate reserves and enhance shareholders‟ value	3.78	
Good earnings performance would inspire the confidence of depositors, investors, creditors, and the public at large	3.73	
The ability of the entity to meet debt obligations, the rate of growth of assets, reserves and ultimately the shareholders' value	3.95	
Asset Quality	**4.01[1]**	**4th**
The asset quality reflects the composition and productivity of the assets.	3.88	
Poor asset quality is the major cause for banks poor profitability	4.34	
Ability to reduce nonperforming assets	3.81	
Incidence of high loan recovery rate	4.00	
Liquidity	**3.00[1]**	**5th**
A bank must always be liquid to meet depositors‟ and creditors‟ demand to maintain public confidence	2.89	
The ability of the bank to meet its financial obligations	3.08	

The need to be an effective asset and liability management system to minimize maturity mismatches between assets and liabilities and to optimize returns	3.03

[1]Category Mean = sum of mean of variables constituting category / number of variables in category

Source: Field Survey, (2019)

To determine the Key determinants of Profitability of the Commercial Bank the researcher stated five key determinants which include the Capital Adequacy, Asset Quality, Management Quality, Earning Capital and Liquidity. These variables were analyzed using the mean score ranking and are briefly discussed in the following subsections.

4.5.1 Capital Adequacy

The Capital Adequacy of a bank allows it to diversify and accrue more returns. This provides banks with the safety threshold to accommodate any shocks that they may experience in their lines of operations (Kosmidou, 2008). Usually, the capital required to operate a commercial bank is the prerogative of a government through regulations. This is done to ensure that the financial sector is not inundated with banks that are likely to fail due to inadequate capital. Such occurrence could lead to depositors losing their investments. Capital adequacy therefore explains the degree to which a bank is able to absolve shocks with affecting its operations. However, banks whose capital adequacy are low are considered to be risky than banks with low capital adequacy. Thus, capital adequacy is considered a key determinant of a bank’s profitability.

Therefore, based on the above statements the respondents agreed that the Capital adequacy is the second highest Key factor that Determinants the Profitability of the Commercial Bank. Thus, it was ranked 2nd position with the mean of 4.06.

4.5.2 Liquidity

To maintain the confidence of its depositors and creditors, a bank is required to remain liquid. Furthermore, liquidity is seen as the ability of the bank to meet its financial obligations, the need to be an effective asset and liability management system to minimize maturity mismatches between assets and liabilities and to optimize returns. This variable also measures a bank's Return on assets, a key determinant of a bank's profitability. Banks are to remain liquid to be able to extend loan facilities to its customers to make good returns because the mere availability of money in its liquid form does not translate into profits unless they are used in profitable ventures. When a bank is not liquid, it faces the possibility of going bankrupt. Therefore, based on the above mentioned, the liquidity is not too much important as the key determinant factor for the profitability of the commercial banks. Based on the analysis it was ranked 5th with mean of 3.00 which is the smallest mean.

4.5.3 Management Quality

To determine the key determinant of the profitability of the commercial banks the management quality was ranked first in position with the mean of 4.06 which is not far from the 2nd and 3rd position. This was because the respondents strongly agree that quality management of a bank is key to determining the bank's success. This also relate to the management's experience and their track record as far as the vision of the bank is concerned. Practically, the development of the management focuses on the individuals. High quality management meets high quality standards. Costumers are in the process satisfied and the financial performance of the bank is increased. Banks are expected to have programs designed to meet Total quality management measures. Through this, key topical areas such as management quality are expected to be covered. Practically, though, these requirements are not considered by banks as areas of priority.

4.5.4 Earning Capital

Earning Capital was indicated to be one of the most important key determinants of the probability of the commercial banks with the mean of 4.03 which was positioned 3rd. The earning capital of a bank is a testament of the effectiveness of its management practices in using its assets and liabilities. To be able to grow, a bank must necessarily manage its assets in a such a manner that profits are accrued to shore up its reserve margins and improve shareholders' value. Such measures improve the confidence reposed in the bank by its key stakeholders.

4.5.5 Asset Quality

The asset quality reflects the composition and productivity of the assets, ability to reduce nonperforming assets, incidence of high loan recovery rate, and poor asset quality is the major cause for banks poor profitability. A bank's asset holdings is often dictated by the extent to which the bank is exposed to particular types of risks, the tracjectory of its NPLs, and the profitability of its customers/borrowers (Baral, 2005). According to Aburime (2008), the ability of a bank to forecast its risks in an attempt to block the possible impacts it may have in case it eventuates. It also a measure of how well a bank is able to measure its credit risks. As a result, asset quality is key predictor of a bank's profitability. The reverse is an indication that a bank is not profitable. NPL ratios are used as the best proxies to ascertain a commercial bank's asset quality.

Therefore, based on the above mentioned the respondent indicated that asset quality is very much important when determine the key determinant profitability with the mean of 4.01 which was placed in the 4th position.

4.6 Factors Affecting the Performance of Commercial Bank

Table 4.5 Factors Affecting the Performance of Commercial Bank

Individual Variables	Individual Mean	Ranking
Credit Risk	**3.86[1]**	**1st**
The level of credit risk by the bank will affect its profitability	4.05	
High collateral reduces credit risk exposure of commercial banks	3.67	
The high level of loan defaulters affects profitability.	4.27	
Risk attitudes of various customers determine their ability to repay their loans.	3.45	
Interest Rate	**3.66[1]**	**2nd**
High interest rates limits people to borrow thus affecting profitability	3.74	
Interest rate charged to customers are a source of revenue to the bank	3.77	
Absence of interest regimes affects profitability	3.55	
High interest rates affect Loan repayment by customers	3.56	
Technology	**3.63[1]**	**3rd**
Growth of mobile money loans and mobile banks has directly affected our profits	3.77	
Growth of technology has reduced transaction costs of commercial banks	3.55	
Use of technology has provided service proximity to customers of commercial banks	3.56	
Technology has led to efficiency in transaction	3.65	

[1]Category Mean = sum of mean of variables constituting category / number of variables in category

The researcher identified Internal Factors Affecting the Performance of Commercial Banks, among them are Technology, Credit Risk and Interest Rate. Respondents were required to rate a set of statements constituting the key categories stated. They were analyzed using the mean score ranking and are briefly discussed in the following subsections.

4.6.1 Credit risk

The credit risk rating of a bank is the indication of the risks associated with loans granted to its customer base. The performance of banks partly depends on the volume of loans extended to customers and their ability to honor the conditions of the loan. While the operations of bank inevitably involves granting loans, it is important for the bank to consider the credit risk and other associated risks of the bank's operations. The ability of the banks to manage their credit risks dictates their long term success in the banking sector. Conventionally, credit risk management includes both loans review and portfolio analysis. This risk constitutes a major risk facing the banks and their successful performance is intimately linked to how accurate these risks are measured and managed. Thus, the credit risk status of a bank is key to its performance in the banking sector. This factor was ranked 1st with an averaged mean of 3.86.

4.6.2 Interest Rate

Based on the following statement; High interest rates limits people to borrow thus affecting profitability, Interest rate charged to customers are a source of revenue to the bank, Absence of interest regimes affects profitability and High interest rates affect Loan repayment by customers. The respondents strongly agreed that the Interest rate is one of the Internal Factors Affecting the Performance of Commercial Banks. From the analysis it was discovered that the interest rate was ranked 2nd with the mean 3.66. Consequently, interest rate have a direct effect on banks profitability which is the proportion of a loan that is charged as interest to the borrower, typically expressed as an annual percentage of the loan outstanding.

4.6.3 Technology

Technology was identified to be one of the Internal Factors Affecting the Performance of Commercial Banks with the mean 3.61 which was ranked 3rd in position.

4.7 To determine the effect of non-performing loans on the profitability of Commercial Banks.

Table 4.6 The effects of Non-Performing Loans on the profitability of Commercial Banks.

Individual Variables	Mean	Ranking
Huge loan loss provision	4.27[1]	1st
Market confidence in the bank is weakened.	4.06[1]	2nd
Bank may be declared insolvent.	3.74[1]	3rd
Interest income decreases.	3.62[1]	4th
Increase in administrative costs of managing bad debts	3.53[1]	5th
Risks of breaching capital requirements.	3.32[1]	6th

[1]Category Mean = sum of mean of variables constituting category / number of variables in category

The researcher identified some effects NPLs have on bank's profitability and among them includes huge loan loss provision, market confidence in the bank been weakened, Bank may be declared insolvent, interest income will decrease and subsequently increase in administrative cost in managing the bad debt and finally the risk of breaching capital requirement.

If a borrower decides to stop making payments according to the terms of the loan agreement , the bank after a time will be forced to classify the loan as bad, Normally, the bank must classify a loan as bad no later than when payment from the borrower is 90 days overdue. When the classification has been made, the bank must, in turn, make a provision for expected credit losses, which in practice means that the value of the loan is written down as a preventive measure.

Banks are to recovery loans given out to be able to advance more loans and to be liquid, if the rate of NPLs keeps increasing and the rate of recovery keeps decreasing in no time the bank will be faced with liquidity issues and if care is not taken they will be declared bankrupt or insolvent.

An increase in bad loans lead to interest income decreases at the same time as the administrative costs of managing the loans increase. For a profitable bank, small volumes can, as a rule, be addressed without any problems, while the bank can continue to issue new loans. However, problems arise when the volume of bad loans is so large that the bank's profitability falls significantly. The bank must also write down the value of the loan to allow for any credit losses. For an unprofitable bank, this means all things been equal , that bank's equity decreases, which in turn makes it more difficult to issue new loans, as they will be subject to capital charges. If the market is not sure whether the bank has sufficiently allowed for credit losses in its write-downs, market confidence in the bank can weaken. In turn, this makes it more difficult to raise funding and obtain new capital, because investors now run a greater risk of incurring losses. If the bank continues to make a loss and does not manage to raise new capital from its investors, it risks breaching its own capital requirements which can ultimately lead to default.

4.8 Regression Analysis on the effects of non-performing loans on the profitability of the commercial banks in Ghana

Hypothesis

H_0**:** There is an effect of non-performing loans on the profitability of the commercial banks in Ghana

H_1: There is no effect of non-performing loans on the profitability of the commercial banks in Ghana

The model will predict whether there is an effect of non-performing loans on the profitability of the commercial banks in Ghana

. H_0: μ1= μ2= μ3== μ4

H_1: μi ≠ 0 for all i = 1, 2, 3, 4, 5

4.8.1 Multiple Regression Model

Where P_i is the Profitability

β_0: is a constant number

$CBP1_1$= Competition has effect on Bank's Profitability

$CBP2_2$= Increase in interest rates affects profitability in banks

$CBP3_3$= Effective utilization of invested fund by management leads to profitability

$CBP4_4$= The credit risk exposure of commercial banks determines its financial performance and profitability

Table 4.7 Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.612[a]	.471	.445	.833
a. Predictors: (Constant), CBP4, CBP2, CBP3, CBP1				

Source: Field Survey, (2019).

The above table presents the summary of the regression model.

Table 4.8 the Anova of the Dependent Variables and the Predictors

ANOVA[b]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	46.849	4	8.612	8.127	.012[a]
	Residual	89.911	95	.743		
	Total	1114.760	99			
a. Predictors: (Constant), CBP4, CBP2, CBP3, CBP1						
b. Dependent Variable: Profitability of the bank						

Source: Field Survey, (2019).

a. Dependent Variable: Profitability

b. Predictors: (Constant), CBP4, CBP2, CBP3, CBP1

The Table4.13 above presents the regression and the residual model of the analysis, which comprises of the sum of square, sum of mean, the degree freedom, the F factor and the significant of the regression model. The table 4.13.2 also, represent the dependent variable and independent variables which are; Dependent Variable: Predictors: (Constant), CBP4, CBP2, CBP3, CBP1

The F-test H_0: $\mu 1 = \mu 2 = \mu 3 = \mu 4$

H_1: $\mu i \neq 0$ for all i = 1, 2, 3, 4

Now if the p-value is less than 0.05 we reject H_0, otherwise fail to reject H_0.

From the ANOVA table, when the model excluded some of the independent variables, the regression sum of squares because the R2 value to 0. 471 representing 47.1% of the total variability of the effect of f non-performing loans could be accounted for by the independent variables in the model. From the ANOVA table, the p-value, p* = 0.012[a] [b] >0.05, therefore we fail to reject the H_0 and conclude that there is an effects of non-performing loans on the profitability of the commercial banks in Ghana.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the important elements of research including the purpose of the study and research questions.

This study had the aim of identifying the causes of No-Performing Loans in the Commercial Banks in Ghana. To achieve this aim, three objectives were set and to achieve the objectives, a critical literature review was conducted where the theoretical understanding of critical causes of No-Performing loans were unraveled leading to the development of questionnaires to collect empirical data from Management and staff of the commercial Banks in Ghana.

5.2. ACHIEVING THE OBJECTIVE AND FINDINGS

5.2.1 To assess the factors accounting for the incidence of non-performing loans of the commercial banks in Ghana.

This objective was achieved by conducting a literature review aimed at identifying those factors from the theoretical perspective of other researches.

The literature review led to the realization of several factors that causes the Non-Performing Loans.

The major factors identified by the respondents were Poor credit appraisal techniques, Inefficient appraisal and monitoring, Diversion of funds, Business Failure, Wrong timing of credit delivery, inadequate marketing avenues, High interest rate, Corruption and fraud, Moral hazard and insider lending, Lack of proper education on the business area, Lack of sufficient supervision from the bank, High consumption expenditure among others. This is done to determine the factors accounting for the incidence of NPLs in Ghana Commercial bank.

From the analysis, it was discovered that the Poor credit appraisal techniques had the highest score in that the credit officers of the bank as well as the credit Analyst do not do proper credit appraisal hence leading to high increase in NPL's.

Proper credit appraisal techniques in the sense that, all the necessary procedure that need to be done is not followed all in the name trying to meet ones target which in the long run affects the performance of the loan book of the Bank. Even though the other factors such as Inefficient appraisal and monitoring, Diversion of funds, Business Failure, Wrong timing of credit delivery, inadequate marketing avenues, High interest rate, Corruption and fraud, Moral hazard and insider lending, Lack of proper education on the business area, Lack of sufficient supervision from the bank, High consumption expenditure did not get the highest ranking does not mean they are not important, they all play important role in determine the causes of high NPL's in the Banking Sector.

5.2.2 To identify the key determinants of profitability of the commercial banks in Ghana.

Some of the factors identified as being the key determinant of banks profitability includes but not limited to these are Management Quality, Capital Adequacy, Earning Capital, Asset Quality and lastly liquidity.

The major factor identified by the respondents was Management Quality, in their view the quality of management is based on the experience of the management team and their track records in terms of their vision and competence in running the bank, this will help determine if the bank will make profit or not. Also management decision can make or unmake the bank, most of the banks collapsing off late is due to poor managerial control, poor management decision accounts mostly to bankruptcy of Banks. If management do not take proper decision in terms of investment and granting of loans, this will at the long run affect the profitability of the Bank.

5.2.3 Internal factors affecting the performance of Commercial Banks.

The researcher identified Internal Factors Affecting the Performance of Commercial Banks, among them are Technology, Credit Risk and Interest Rate. Respondents were required to rate a set of statements constituting the key categories stated. They were analyzed using the mean score ranking.

From the survey to identify the factors affecting the performance of Commercial Banks, Credit risk was ranked first among other factors such as Technology and Interest Rate by the respondents, this is not to say the other factors are not important.

Credit risk relates to the inability of the borrower to default in paying the amount borrowed. In the first resort, the risk is that of the lender may lose principal and interest, disruption to cash flows and increased collection or recovery cost. The loss may be complete or partial.

The credit risk rating of a bank is the indication of the risks associated with loans granted to its customer base. The performance of banks partly depends on the volume of loans extended to customers and their ability to honor the conditions of the loan

Improper credit risk management reduces the bank's profitability, affects the quality of its assets and increases loan losses and non-performing loans which may eventually lead to financial distress.

Banks suffer heavy losses from Credit Risk when borrowers fail to pay credit at majority.

Credit risk will affect the performance of the Commercial banks in the following regards:

- The bank will be unable to repay assets-secured fixed or floating charge debt
- The bank will be unable to pay its employees earned salary when due
- A huge credit risk issue will lead to bankruptcy and at the long run lead to insolvency.

5.2.4 To determine the effect of non-performing performing loans on the profitability of the Commercial Banks.

When referring to NPLs, it is also relevant to consider the level of provisions made by banks for bad loans. The share of provisions shows the extent to which banks have already allowed for anticipated credit losses. The higher the provision coverage ratio, the greater the credit losses for which the bank has already made provisions. If a borrower decides to stop making payments according to the terms of the loan agreement , the bank after a time will be forced to classify the loan as bad, Normally, the bank must classify a loan as bad no later than when payment from the borrower is 90 days overdue. When the classification has been made, the bank must, in turn, make a provision for expected credit losses, which in practice means that the value of the loan is written down as a preventive measure.

An increase in bad loans lead to interest income decreases at the same time as the administrative costs of managing the loans increase. For a profitable bank, small volumes can, as a rule, be addressed without any problems, while the bank can continue to issue new loans. However, problems arise when the volume of bad loans is so large that the bank's profitability falls significantly. The bank must also write down the value of the loan to allow for any credit losses. For an unprofitable bank, this means all things been equal , that bank's equity decreases, which in turn makes it more difficult to issue new loans, as they will be subject to capital charges. If the market is not sure whether the bank has sufficiently allowed for credit losses in its write-downs, market confidence in the bank can weaken. In turn, this makes it more difficult to raise funding and obtain new capital, because investors now run a greater risk of incurring losses. If the bank continues to make a loss and does not manage to raise new capital from its investors, it risks breaching its own capital requirements which can ultimately lead to default.

Non-Performing Loans (NPL) will therefore affect the profitability of the bank in the following ways:

- Banks are always complied to so write down the value of the loan (Loan loss provision)to allow for any credit losses, this in turn reduces the bank's equity.
- If the market is not sure whether the bank has sufficiently allowed for credit losses in its write-downs, market confidence in the bank can weaken. In turn, this makes it more difficult to raise funding and obtain new capital, because investors now run a greater risk of incurring losses.
- If the bank is unable to meet its liability then at the long run the bank will be declared bankrupt and its license will be revoked by BOG.
- An increase in bad loans lead to interest income decreases.
- An increase in NPLs will result in an increase in the administrative costs of managing the loans increase.
- If the bank continues to make a loss and does not manage to raise new capital from its investors, it risks breaching its own capital requirements which can ultimately lead to default.

5.3 Summary of the findings

5.3.1 Key findings

After the analysis of the empirical data collected with respect to each objective, the following findings emerged:

- Poor credit appraisal techniques, Business failure, Inadequate marketing avenues, Inefficient appraisal and monitoring, Lack of proper education on the business area, Lack of sufficient supervision from the bank and High interest rate charged by the bank were identified as the causes of NPL's in Commercial Banks in Ghana.
- However, there were minor factors that causes Non-Performing Loans which were the Diversion of funds, wrong timing of credit delivery, Moral hazard and insider lending and high consumption expenditure.
- The Key Determinants of Profitability of the Commercial Bank in terms of capital adequacy were that the capital adequacy provides the ability of banks to undertake additional business contributes to the banks performance this can help the size of capital by providing financial flexibility
- Also, in terms of asset quality as the Key Determinants of Profitability of the Commercial Bank, it was indicated that asset quality has created incidence of high loan recovery rate, the respondents strongly agreed that the asset quality reflects the composition and productivity of the assets, poor asset quality is the major cause for banks poor profitability and the asset quality has the ability to reduce nonperforming assets.
- In terms of management quality as a key determinants of profitability of the Commercial Bank it was indicated that the performance of a bank is largely dependent on the vision and competence of a bank, the quality of a management

is based on the experience of the management and their track record in terms of their vision and competence in running the bank, the integrity and the overall corporate governance standards in the bank and the.

- Again in terms of Earning Capital as a key determinants of profitability of the Commercial Bank it was observed that the ability of the entity to meet debt obligations, the rate of growth of assets, reserves and ultimately the shareholders' value, good earnings performance would inspire the confidence of depositors, investors, creditors, and the public at large and the bank must earn reasonable profit to support asset growth, build up adequate reserves and enhance shareholders.
- Finally the last key determinant of profitability was the liquidity and the data depicts that, the need to be an effective asset and liability management system to minimize maturity mismatches between assets and liabilities and to optimize returns the overall corporate governance standards in the bank, bank must always be liquid to meet depositors and creditors demand to maintain public confidence and the bank needs the liquidity in order to meet its financial obligations.
- From the analysis, based on the Factors Affecting the Performance of Commercial Bank in terms of technology, it was observed that technology has led to efficiency in transaction, also, growth of mobile money loans and mobile banks has directly affected profits and the use of technology has provided service proximity to customers of commercial banks and Growth of technology has reduced transaction costs of commercial banks.
- Also, based on the Factors Affecting the Performance of Commercial Bank in terms of credit risk, risk attitudes of various customers determine their ability

to repay their loans, high collateral reduces credit risk exposure of commercial banks and the high level of loan defaulters affects profitability.

- Based on the Factors Affecting the Performance of Commercial Bank in terms of Interest Rate, it was observed that high interest rates affect loan repayment by customers, absence of interest regimes affects profitability, high interest rates limits people to borrow thus affecting profitability and Interest rate charged to customers are a source of revenue to the bank.

- Finally, based on the effect of non-performing loans on the bank's profitability it was observed that bank's make huge provisions for bad debt which in turn decrease their equity and as such to some extent the bank may loss market confidence, this makes it more difficult to raise funding and obtain new capital, because investors now run a greater risk of incurring losses.

5.4 Conclusions from the study

This study examines the effect of Non-Performing Loans on profitability of GCB Bank Ghana.

The study concluded that there is an effect of NPL on the profitability of Commercial Banks in Ghana in that an increase in NPLs or Bad Loans leads to interest income decreasing at the same time as the administrative costs of managing the loans increase, also it was identified that equity of the bank decrease as a result of the huge loan loss provision the banks are compiled to set aside per Bank of Ghana regulations.

Poor Credit Appraisal Technique, Management Quality and Credit Risk were also identified as factors accounting for NPL's in Commercial Banks in Ghana.

5.5 Recommendation

In response to the findings of the study below are some of the measures recommended to help solve the challenges the commercial banks are facing

1. Effective and regular monitoring

A key way of solving the challenge of NPLs is the institution and implementation of effective monitoring and evaluation throughout the entire cycle of disbursement and final payment. Such measures will help ensure that loan facilities are not misapplied and diverted which were found from this study to be responsible for high NPLs in commercial banks. Such a initiative enables the commercial bank through their loan officers to examine the books of their customers.

2. Training of Credit officers and Managers.

This study is recommending for periodic training programs should be put in place to update the knowledge of loan officers and managers on NPLs. This measure could help to improve the knowledge base of the loan officers and improve how they can evaluate their customers.

3. Provision of security for credit facility

In the light of the uncertainties that surround repayment of loans, lenders cannot tell from the looks of people's faces whether they are good or bad borrowers as indicated by Kwarteng (2007), it is therefore strongly recommended that MFIs will begin to demand some form of security even if not adequate to ensure that at least, it can recover part of the indebtedness in the event of default. This recommendation is even more critical at this time when the central bank is taking steps to streamline and sanitize the operations of the commercial banks in Ghana. Security such as blocked savings accounts, fixed deposits could all be considered as acceptable security arrangements.

This will reduce the losses arising from NPLs and help minimize the adverse impact of such loans on the financial performance of the MFIs. It is imperative to state that if a credit facility is secured in one way or the other, it reduces the chances of willful defaulting since the borrower is aware that the security will be realized to offset the indebtedness.

Management is therefore strongly advised to review the security requirement policy with the view to tighten the screws to ensure that in the event of default, the institution will able to salvage something to compensate for the provision for credit losses or to reduce the impact of NPLs on its profitability.

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APPENDIX 1

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY, KUMASI

QUESTIONNAIRE

The purpose of this study on causes of non-performing loans and its impact on banks profitability. This is purely an academic exercise, and your responses shall be treated with great confidentiality, anonymity, aggregate analysis and voluntary participation. There are no right or wrong answers, so please respond with the best of your knowledge.

QUESTIONNAIRE FOR MANAGEMENTS AND STAFFS OF COMMERCIAL BANKS IN ACCRA METROPOLIS

Please answer the questions by ticking the appropriate boxes or providing your answers where necessary. Thank you

SECTION A: BACKROUND INFORMATION

1. Gender: Male [ ] Female [ ] Others [ ]
2. Age: Under 20 years [ ] 21-30 years [ ] 31-40 years [ ]
   41-50 years [ ] 51 years and above
3. Highest Educational Level: Professor/PhD [ ] Master's Degree [ ]
   First Degree [ ] HND [ ] SSS [ ] Basic Education [ ]
   No formal education Others Specify……………………….
4. How long have you been working with the bank?

Under I year [ ]   1-2 years [ ]   3-4 years [ ]   5 years and above [ ]   Others [ ]

SECTION B: FACTORS ACCOUNTING FOR NON-PERFORMING LOANS

From the statement below, please indicate your level of agreement or disagreement to the following statement. Please use the scale below

1=Strongly Disagree 2=Disagree 3=Neutral 4=Agree 5=Strongly Agree

		1	**2**	**3**	**4**	**5**
FNPL	***Factors of non-performing Loans***					
FNPL1	Poor credit appraisal techniques					
FNPL2	Business failure					
FNPL3	Inadequate marketing avenues					
FNPL4	Diversion of funds					
FNPL5	Wrong timing of credit delivery					
FNPL6	Inefficient appraisal and monitoring					
FNPL7	Corruption and fraud					
FNPL8	Moral hazard and insider lending					
FNPL9	Lack of proper education on the business area.					
FNPL10	Lack of sufficient supervision from the bank					
FNPL11	High consumption expenditure.					
FNPL12	High interest rate charged by the bank.					

SECTION B: KEY DETERMINANTS OF PROFITABILITY OF THE COMMERCIAL BANK

From the statement below, please indicate your level of agreement or disagreement to the following statement. Please use the scale below

1=Strongly Disagree 2=Disagree 3=Neutral 4=Agree 5=Strongly Agree

		1	2	3	4	5
DPB	***Determinants of Profitability of banks***					
	Capital Adequacy					
CA1	The ability of bank to undertake additional business					
CA2	Earn more profit through translating the safety advantage into profit.					
CA3	The size of capital provides financial flexibility for bank and financial institution					
CA4	It identifies which financing options are available for the entity					
AQ	**Asset Quality**					
AQ1	The asset quality reflects the composition and productivity of the assets.					
AQ2	Poor asset quality is the major cause for banks poor profitability					
AQ3	Ability to reduce nonperforming assets					
AQ4	Incidence of high loan recovery rate					
MQ	**Management Quality**					
MQ1	The quality of the management will determine the success of a bank					

MQ2	The performance of a bank is largely dependent on the vision and competence					
MQ3	The quality of a management is based on the experience of the management and their track record in terms of their vision and competence in running the ban					
MQ4	The integrity and the overall corporate governance standards in the bank					
MQ5	The adoption of technology and responsiveness to competition and growth strategy					
EC	**Earning Capital**					
EC1	Earnings of a bank depend largely on how well the management manages the assets and liabilities of the bank					
EC2	A bank must earn reasonable profit to support asset growth, build up adequate reserves and enhance shareholders‟ value					
EC3	Good earnings performance would inspire the confidence of depositors, investors, creditors, and the public at large					
EC4	The ability of the entity to meet debt obligations, the rate of growth of assets, reserves and ultimately the shareholders' value.					
	Liquidity					
L1	A bank must always be liquid to meet depositors‟ and creditors‟ demand to maintain public confidence					
L2	The ability of the bank to meet its financial obligations					

L3	The need to be an effective asset and liability management system to minimize maturity mismatches between assets and liabilities and to optimize returns					

SECTION C: FACTORS AFFECTING THE PERFORMANCE OF COMMERCIAL BANK

From the statement below, please indicate your level of agreement or disagreement to the following statement. Please use the scale below

1=Strongly Disagree 2=Disagree 3=Neutral 4=Agree 5=Strongly Agree

		1	2	3	4	5
IFAPC	**Factors Affecting Performance of Commercial Bank**					
T	**Technology**					
T1	Growth of mobile money loans and mobile banks has directly affected our profits					
T2	Growth of technology has reduced transaction costs of commercial banks					
T3	Use of technology has provided service proximity to customers of commercial banks					
T4	Technology has led to efficiency in transaction					
	Credit Risk					
CR1	The level of credit risk by the bank will affect its profitability					
CR2	High collateral reduces credit risk exposure of commercial banks					
CR3	The high level of loan defaulters affects profitability.					

CR4	Risk attitudes of various customers determine their ability to repay their loans.					
	Interest Rate					
IR1	High interest rates limits people to borrow thus affecting profitability					
IR2	Interest rate charged to customers are a source of revenue to the bank					
IR3	Absence of interest regimes affects profitability					
IR4	High interest rates affect Loan repayment by customers					

SECTION D: EFFECTS OF NON-PERFORMING PERFORMING LOANS ON THE PROFITABILITY OF COMMERCIAL BANKS.

From the statement below, please indicate your level of agreement or disagreement to the following statement. Please use the scale below

1=Strongly Disagree 2=Disagree 3=Neutral 4=Agree 5=Strongly Agree

		1	**2**	**3**	**4**	**5**
ENPL	**Effects of non-performing performing loans on the profitability of Commercial Banks.**					
ENPL1	Huge loan loss provision					
ENPL2	Market confidence in the bank is weakened.					
ENPL3	Interest income decreases.					
ENPL4	Increase in administrative costs of managing bad debts					
ENPL5	Risks of breaching capital requirements.					
ENPL6	Bank may be declared insolvent.					

Thank You