BAD LOANS PORTFOLIO: THE CASE OF ADB

by

Francis Bawoledam Aballey B.A. (Hons.)

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CERTFICATION

I hereby declare that this submission is my own work towards the award of Commonwealth Executive Masters in Business Administration (CEMBA) and that, to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the University, except where due acknowledgement has been made in the text.

FRANCIS B. ABALLEY (20065873) ……………………… ………………
Student Signature Date

Certified by:

G.S. AHINFUL ……………………… ………………
Supervisor Signature Date

Certified by:

Prof. EDWARD BADU ……………………… ………………
Dean of Institute Signature Date

DEDICATION

This work is dedicated to my entire family, especially my lovely children Wilson Wenawome Aballey, Valeria Aballey and Wewole Aballey.

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ABSTRACT

Lending is a principal business activity for banks. Loan portfolio therefore form a substantial amount of the assets of banks because it is the predominate source of interest income. However, when loans go bad, they tend to have some serious effects on the financial health of banks through provisions for bad debts, in line with banking regulations. In view of the critical role banks play in the economy of a country, it is worth finding out the impact of bad loans on financial performance of bank. The study was carried out to establish the impact of bad loans on the financial performance of banks, focusing on the ADB. It specifically focused on the effect of bad loans on loan interest income, profits and lending. The study also looked at the trend of bad loans during the five-year period under review and the factors that account for bad loans. Primary and secondary data were used in the study.

The findings showed that the bank recorded huge amount of bad loans during the period under consideration. It was established that these provisions negatively impacted on the financial performance of the bank through reduction in loan interest income, profits and lending funds. The study identified ineffective loan monitoring and poor credit vetting as the major factors accounting for bad loans. To improve on the quality of the bank's loan portfolio, some measures have been recommended to management of the bank. These are credit training programme, effective loan monitoring, and adequate collateral, establishment of agriculture infrastructural facilities and use of credit bureaus.

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CHAPTER ONE

1.0 GENERAL INTRODUCTION AND BACKGROUND OF STUDY

1.1 Introduction

Lending is one of the main activities of banks in Ghana and other parts of the world. This is evidenced by the volume of loans that constitute banks assets and the annual substantial increase in the amount of credit granted to borrowers in the private and public sectors of the economy. According to Comptroller (1998), lending is the principal business for most commercial banks. Loan portfolio is therefore typically the largest asset and the largest source of revenue for banks. In view of the significant contribution of loans to the financial health of banks through interest income earnings, these assets are considered the most valuable assets of banks. A survey in 2006 on the Ghanaian banking sector revealed that loans accounted for about 50% of total bank assets which had increased from 41.5% in 2005 (Appertey and Arkaifie, 2006). In 2007, the figure increased to 53% of the industry's total assets of GH¢ 7,795.6 million (Infodata Associates, 2009).

The reason why banks give much attention to the lending activity, especially in periods of a stable economic environment, is that a substantial amount of banks income is earned on loans which contribute significantly to the financial performance of banks. A financial report of ADB in 2007, indicated that out of the total interest income of GH¢42,327,367.00 earned in that year, about 66.5% was earned on loans and advances.

In 2004, CAL Bank also earned about 55.9% of its total interest income on loans and advances (CAL Bank Financial Statement, 2004). Thus, the figures point to the fact that loans contribute immensely to the financial performance of banks in Ghana.

The above literature gives ample evidence that healthy loan portfolios are vital assets for banks in view of their positive impact on the performance of banks. Unfortunately, some of these loans usually do not perform and eventually result in bad debts which affect banks earnings on such loans. These bad loans become cost to banks in terms of their implications on the quality of their assets portfolio and profitability. This is because in accordance with banking regulations, banks make provisions for non-performing loans and charge for bad loans which reduce their loan portfolio and income. For example in February, 2009, a Bank of Ghana report revealed that non-performing loans ratio increased from 6.4% in 2007, to 7.7% in 2008.

The problem of bad loans is not common in only Ghana but it is in other countries where the problem has led to the liquidation of some banks. The findings of Caprio and Klingebiel (2002) cited in Fofack (2005), showed that in Indonesia, non-performing loans represented about 75% of total loan assets which led to the collapse of over sixty banks in 1997.

A cursory study of the annual reports and financial statements of banks in Ghana indicate that bad loans are seriously affecting most banks hence necessitating a study into the problem. A financial statement of ADB showed that the bank’s provision for loan impairment losses increased from GH¢6,272,800.00 in 2005 to GH¢7,965,600.00 in 2006, registering an increase of about 26% (ADB, 2005; ADB, 2006). This demonstrates the negative relationship between bad loans and the financial performance of banks in Ghana.

In the light of the above, the issue of bad loans has raised some concerns among stakeholders of these institutions. The study therefore seeks to find out how bad loans affect financial performance of banks in Ghana specifically in the areas of loan interest income, lending funds and profits. Again, the study aims at offering some suggestions to minimize the problem of bad loans, focusing on the case of ADB.

1.2 Problem Statement

Loan portfolio is typically the largest asset and the predominant source of income for banks. In spite of the huge income generated from their loan portfolio, available literature shows that huge portions of banks loans usually go bad and therefore affect the financial performance of these institutions (Comptroller, 1998). The Bank of Ghana's classifications of advances of the Banking industry indicated that bad loans in the loss category increased from GH¢125, 196,732 in December 2007 to GH¢204, 978,569.00 in December 2008, indicating over 63% jump in bad loans. A report on the performance of banks in 2006 indicated that among other factors, higher loan loss provision accounted for a decline in the profitability of banks in 2005 (Bank of Ghana, 2006).

The issue of bad loans can fuel banking crisis and result in the collapse of some of these institutions with their attendant repercussions on the economy as a whole. Kane and Rice

(2001) stated that at the peak of the financial crisis in Benin, 80% of total bank loans portfolio which was about 17% of GDP, was non-performing in the late nineties.

Indeed bad loans can lead to the collapse of banks which have huge balances of these non-performing loans if measures are not taken to minimize the problem. In Ghana, the banking industry plays an important role in the development of the economy. Huge bad loans could therefore affect banks in the performance of this important role.

In view of the above, it is imperative to find out the extent of the impact of bad loans on banks performance and identify the causes of bad loans of banks in Ghana.

1.3 Objectives of Study

The study has a general objective of establishing the main impact of bad and unpaid loans on the performance of ADB. Specifically, the study has the following objectives:

- To establish the trend of bad loans of the bank during the past five years;
- To establish the impact of bad debt provisions on loan interest income, profit and liquidity;
- To identify the factors that account for bad loans;
- To determine the sector that records higher bad loans; and
- To come out with recommendations that can address the issue of bad loans in the Ghanaian banking sector.

1.4 Research Questions

Evolving from the problem statement discussed above, the study aims at providing answers to the following questions:

- What is the trend of bad loans over the last five years?
- What factors account for loan repayment problems?
- Which of the sectors has higher bad loans?
- Which key areas of the Bank's financial performance are affected by bad loans?
- What has been management response to bad loans?

1.5 Significance of the Study

Loan portfolios form a greater portion of the total assets of banks in Ghana. These assets generate huge interest income for banks which to a large extent determines the financial performance of banks. It could therefore be concluded that a healthy loan portfolio has a direct bearing on the financial performance of banks. However, some of these loans usually fall into non-performing status and adversely affect banks' performance.

In view of the critical role banks play in the performance of the economy, it is essential to identify problems that affect the performance of these institutions. This is because these non-performing assets can affect the banks' ability to play their role in the development of the economy. In the light of the foregoing, the significance of the study includes the following:

- The findings would enable management of banking institutions come out with pragmatic policies for loan portfolio management aimed at improving the quality of their loan portfolios. The findings are expected to remind credit staff about the implications of their credit duties in creating quality loan portfolio for their banks.

- The findings of this study could be seen as a contribution to existing works on bad loans. Indeed, this would contribute immensely in building up academic knowledge in a wide range of issues.

- The study would also play a significant role of engineering further research into other aspects of the topic under consideration or other related topics in the banking sector. This would provide various solutions to some of the problems in banking institutions.

Thus through the above, the study would contribute significantly to the development of the banking industry which plays a pivotal role in the development of the economy. This is because the study also seeks to identify causes of bad loans in banks and recommend some measures that can solve these problems.

1.6 Scope of the Study

The study focuses on the ADB; one of Ghana's largest and oldest banks. This is premised on the fact that the Bank has been operating long enough to give the kind of academic insight the study seeks to offer.

Besides, the bank lends to almost all the major sectors of the economy and as such the data needed to accomplish the work would be obtained without any hindrance. Again, the nation-wide operation of the bank presents an opportunity for a national outlook of the issues under the study.

Conceptually, the study looks at all categories of bad loans and the trend, their causes and impacts on financial performances of the ADB. Specifically, the impact of bad loans on loan interest income, profitability and liquidity of the bank is assessed. The study also considers the sector that is prone to bad loans and sub-sectors of that sector and factors accounting for bad loans in that sector.

1.7 Limitations of the Study

Time was a major constraint in this study. As a result of limited time within which to complete this work, the study was carried out using a case study approach. There was therefore the possibility that some issues regarding the topic might not come up if such issues are peculiar to some banks that were not covered in the study. This limitation was dealt with by conducting the study on ADB one of the banks with diversified loan portfolio in almost all major sectors of the economy.

The study was further narrowed down to some loan officers and some management staff of the bank, from whom primary data was obtained. This also posed a limitation since there could be some biases regarding the information obtained. In dealing with this limitation, the study adopted objective questionnaires and interview guides for all respondents to reduce their personal perceptions. Again, respondents were assured of their confidentiality in order to give information that represented the facts and figures on the ground.

Accessibility to data was also a constraint in view of the confidentiality of information in banks. This limitation was minimized by relying on published annual reports and financial statements of the bank, both in the print and electronic media. A letter of introduction was also obtained from the Institute of Distance Learning (IDL), KNUST which enabled the researcher to collect data from the relevant institutions for the study. The researcher's association with the bank was also very helpful in this direction.

As an important measure to these limitations, time and resources were judiciously managed to achieve the objectives of the study within the stipulated time frame for completion of the work.

1.8 Organization of the Study

The work was grouped into five main chapters. The first chapter contained introduction of the study including the statement of the problem of the study, research objectives and questions, significance of the study, scope of the study and the limitations associated with the study.

Chapter two focused on review of literature on the previous works related to bad loans. Performing and nonperforming loans, bad loan provisioning, loan-making procedures and monitoring of loans were also considered in this section of the study. The details of research method and organizational profile were captured under chapter three while chapter four entails data presentation and analysis. The Last chapter covered summary, conclusions and recommendations of the study.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter focuses on the review of relevant literature on bad loans and other core aspects of the topic under study. Areas such as description of performing loans, bad loans, loan classification and provisioning, impact of bad loans on performance of banks and possible factors that lead to bad loans are covered. The chapter thus presents the conceptual and theoretical basis for the study.

2.2 Performing Loans

Legally, a loan or credit facility refers to a contractual promise between two parties where one party, the creditor agrees to provide a sum of money to a debtor, who promises to return the said amount to the creditor either in one lump sum or in installments over a specified period of time. The agreement may include provision of additional payments of rental charges on the funds advanced to the borrower for the time the funds are in the hands of the debtor. (htt://en.wikipedia.org/wiki/loan). The additional payments that are in the form of interest charges, processing fees, commissions, monitoring fees among others, are usually paid in addition to the principal amount lent. Indeed these additional payments when made in accordance with the loan contract constitute income to the lender or the creditor. A loan may therefore be considered as performing if payments of both principal and interest charges are up to date as agreed between the creditor and debtor.

Bank of Ghana classifications of loans indicate that loans that are current are those for which the borrower is up to date in respect of payments of both principal and interest. It further shows that an overdraft would be considered as current or performing if there were regular activity on the account with no sign of a hardcore of debt building up. (Bank of Ghana, 2008)

The foregoing reveals that loans that are up to date in terms of principal and interest payments are described as performing facilities. These types of loans constitute quality asset portfolio for banks in view of the interest income generated by such assets.

2.3 Non-Performing Loans

The term ‘’bad loans’’ as described by Basu (1998), is used interchangeably with non-performing and impaired loans as identified in Fofack (2005). Berger and De Young, (1997) also considers these types of loans as “problem loans”. Thus these descriptions are used interchangeably through out the study.

Generally, loans that are outstanding in both principal and interest for a long time contrary to the terms and conditions contained in the loan contract are considered as non-performing loans. This is because going by the description of performing loans above, it follows that any loan facility that is not up to date in terms of payment of both principal and interest contrary to the terms of the loan agreement, is nonperforming.

Available literature gives different descriptions of bad loans. Some researchers noted that certain countries use quantitative criteria for example number of days overdue scheduled payments while other countries rely on qualitative norms like information about the customer's financial status and management judgment about future payments. (Bloem and Gorter, 2001)

Alton and Hazen (2001) described non-performing loans as loans that are ninety days or more past due or no longer accruing interest. Caprio and Klingebiel (1990), cited in Fofack (2005), consider non-performing loans as loans which for a relatively long period of time do not generate income, that is the principal and or interest on these loans have been left unpaid for at least ninety days.

A non-performing loan may also refer to one that is not earning income and full payment of principal and interest is no longer anticipated, principal or interest is ninety days or more delinquent or the maturity date has passed and payment in full has not been made. (http://teachmefinance.com/Financial Terms/nonperformin_loan.html)

A critical appraisal of the foregoing definitions of bad loans points to the fact that loans for which both principal and interest have not been paid for at least ninety days are considered non-performing. A classification of advances of the banking industry in December, 2008 showed that out of the total loan portfolio of GH¢5,966,804,133.00, 7.68% was non-performing. This included loans captured within substandard, doubtful and loss categories. Loans in these groups have exceeded ninety days in terms of repayment (Bank of Ghana, 2008).

This study uses the quantitative criteria for identifying bad loans. Therefore any loan that is outstanding for ninety days or more is considered a non-performing loan. According to Berger and De Young (1997), such loans could be injurious to the financial performance of banking institutions.

2.4 Loan Classification and Provision

- *Loan Classification*

Loan portfolios of banks are classified into various classifications to determine the level of provisions to be made in line with banking regulations. Loans are classified into five categories including Current, other loans especially mentioned (OLEM), substandard, doubtful and loss (Bank of Ghana, 2008).

The classifications indicate the level of provisions banks are required to make to reflect the quality of their loan portfolio. Indeed the various classifications clearly group loans into performing and nonperforming, in line with banking regulations. These categories further help banks to know the structure of their loan portfolio and for that matter their assets quality.

- *Loan Provisioning*

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

In view of the above, banks take into account the assets used in securing the facility to determine the level of provision to be made. Bank of Ghana regulations indicate that certain amount of provisions are made on the aggregate outstanding balance of all current advances, and aggregate net unsecured balance of all other categories as shown in the table below.

Table 2.1 Categories of Loans and their Provisions

	CATEGORY	PROVISION (%)	NO. OF DAYS OF DELIQUENCY
1	Current	1%	0-less than 30
2	OLEM	10%	30-less than 90
3	Substandard	25%	90-less than 180
4	Doubtful	50%	180-less than 360
5	Loss	100%	360 and above

Source: Section 53(1) of Banking Act 2004

The review of the above literature on classifications and provisioning implies that the higher the non-performing loan category the higher the provisions and charges for such bad loans. For example in December, 2008, the total banking industry loan classification depicted an increase in the nonperforming categories which were 85.97%, 78.47% and 63.73% for substandard, doubtful and loss respectively. This led to an increase in the total non-performing loans which increased from 6.37% in 2007 to 7.68% in 2008 (Bank of Ghana, 2008).

2.5 Implication of Bad Loans for Banking Institutions

Loans generate huge interest for banks which contribute immensely to the financial performance of banks. However, when loans go bad they have some adverse effects on the financial health of banks. This is because in line with banking regulations, banks make adequate provisions and charges for bad debts which impact negatively on their performance. Bank of Ghana regulations on loan provisioning indicate that loans in the non-performing categories that is loans that are at least ninety days overdue in default of repayment will attract minimum provisions of 25%, 50% and 100% for substandard, doubtful and loss, respectively(Bank of Ghana Act, 2004).

According to Bloem and Gorter, (2001), though issues relating to non-performing loans may affect all sectors, the most serious impact is on financial institutions such as commercial banks and mortgage financing institutions which tend to have large loan portfolios. Besides, the large bad loans portfolios will affect the ability of banks to provide credit. Huge non-performing loans could result in loss of confidence on the part of depositors and foreign investors who may start a run on banks, leading to liquidity problems.

The provisions for bad loans reduce total loan portfolio of banks and as such affects interest earnings on such assets. This constitutes huge cost to banks. In 2006, ADB made a total provision for bad and doubtful loans to the tune of GH¢35,080,800.00 which reduced the bank's loan portfolio from GH ¢186,004,100.00 to GH¢150,923,300.00.The bank's charge for bad debts also reduced its net interest income by about 25% (ADB, 2006)

Study of the financial statement of banks indicates that bad loans have a direct effect on profitability of banks. This is because charge for bad debts is treated as expenses on the profit and loss account and as such impact negatively on the profit position of banks. For example Barclays Bank Ghana Limited declared a loss in its 2008 financial statement partly due to the huge charge for bad debts which increased from GH¢5,540,000.00 in 2007 to GH¢46,890,000.00 in 2008 (Price Water-House Coopers, 2009). The annual report of ADB for 2007 showed that the bank had embarked on a five-year bad loan provisioning which affected its profitability during the period. The report indicated that the net profit for 2007 decreased by 13.81% which was attributed mainly to the non-performing loan provisions.

Some foreign literature indicates that bad loans can fuel banking crisis and subsequently result in the collapse of banks with huge non-performing loans. Demirgue-Kunt et al (1989), cited in Berger and De Young (1997), indicate that failing banks have huge proportions of bad loans prior to failure and that asset quality is a statistically significant predictor of insolvency.

As was indicated earlier in this research, Caprio and Klingebiel (2002), cited in Fofack (2005), also reported that during the banking crisis in Indonesia, non-performing loans represented about 75% of total loan assets which led to the collapse of over sixty banks in 1997. This means that banks holding huge bad loans in their books can run into bankruptcy if such institutions are unable to recover their bad debts.

A possible effect of bad loans is on shareholders earnings. Dividends payments are based on banks performance in terms of net profit. Thus since bad loans have an adverse effect on profitability of banks, it can affect the amount of dividend to be paid to share holders. The Banking Act of Ghana spells out that a bank shall not declare or pay dividend on its shares unless it has, among other things, made the required provisions for nonperforming loans and other erosions in assets value [Section 30 (1) of Banking Act, 2004].

The effect of bad loans on the amount of dividend paid to shareholders can also affect capital mobilization because investors will not invest in banks that have huge non-performing loans portfolio. Elebute (2009) identified among other things, foreign direct investment and domestic capital mobilisation as some of the options available to Ghanaian banks to source funds to meet the minimum capital requirement of Bank of Ghana which is pegged at GH¢60,000,000.00 (Asamoah, 2009). It is evident that non-performing loans with their attendant negative impact on investors' earnings can affect the Ghanaian banks in meeting the minimum capital requirement.

The foregoing discussions show the implications of bad loans on banks performance in Ghana and other parts of the world. This study intends to delve into the impact of bad loans on the performance of banks in Ghana. To ensure a comprehensive study, the causes of these bad loans in Ghana would be identified to enable the study offer some suggestions to reduce the problem.

2.6 Factors Accounting for Bad Loans

Research findings and publications show that bad loans occur as a result of some factors. Berger and De Young (1997) identified poor management as one of the major causes of problem loans. They argue that managers in most banks with problem loans do not practice adequate loan underwriting, monitoring and control.

A World Bank policy research working paper on Non-performing Loans in Sub-Saharan Africa revealed that bad loans are caused by adverse economic shocks coupled with high cost of capital and low interest margins (Fofack, 2005). Goldstein and Turner (1996) stated that ‘’the accumulation of non-performing loans is generally attributable to a number of factors, including economic downturns and macroeconomic volatility, terms of trade deterioration, high interest rate, excessive reliance on overly high-priced inter-bank borrowings, insider lending and moral hazard’’.

Some writers also hold the view that bad loans can be caused by problem accounts. Rouse (1989) indicated in his work that problem loans can emanate from overdrawn account where there is no overdraft limit, overdraft taken on an account which has not been actively operated for some time and overdraft taken in excess of reasonable operational limits. He also identified lack of good skills and judgement on the part of the lender is a possible cause of bad loans.

Bloem and Gorter (2001) indicated that non-performing loans may rise considerably due to less predictable incidents such as the cost of petroleum products, prices of key export products, foreign exchange rates or interest rates change abruptly. They also stated that deficient bank management, poor supervision, overoptimistic assessments of creditworthiness during economic booms, and moral hazard that result from generous government guarantees are some of the factors that lead to bad loans.

It is worth noting that though the literature obtained from foreign sources indicate some causes of bad loans, some of these may not apply to banks in the Ghanaian environment. Besides, it is possible that there are other serious factors that are causing bad loans in Ghana which have not been revealed in the literature reviewed.

It is because of these reasons that it has become necessary to identify the causes of these bad loans in the Ghanaian banking environment, looking at the case of ADB. This would form the basis for cogent recommendations to be made towards solving the problem.

2.7 Loan Processing in Banks

There is risk in the provision of credit to borrowers. This risk exists because an expected payment may not occur. Credit risk is defined as potential losses arising from the inability of credit customers to pay what is owed in full and on time. Bank lending involves a bank, providing a loan in return for the promise of interest and principal repayment in the future (Kay Associates Limited, 2005).

Available literature on lending indicates the lender's role in ensuring good decisions relating to provision of loans in order to minimize credit risk. Rouse (1989) explained that a lender 'lends' money and does not give it away. There is therefore a judgment that on a particular future date repayment will take place. The lender needs to look into the future and ask whether the customer will repay by the agreed date. He indicated that there will always be some risk that the customer will be unable to repay, and it is in assessing this risk that the lender needs to demonstrate both skill and judgment.

The lender should aim at assessing the extent of the risk and try to reduce the amount of uncertainty that will exist over the prospect of repayment. The lender must therefore gather all the relevant information and then apply his or her skills in making judgement. Though there might be pressures from customers and elsewhere which may sway away the lender's judgement, the lender must seek to arrive at an objective decision.

In view of these credit risks that might lead to bad loans, banks have some loan request procedures and requirements contained in their credit policy documents to guide loan officers in the processing of loans for customers. The following are some of the factors considered in granting loans:

- Applicant's background.
- The purpose of the request.

- The amount of credit required.
- The amount and source of borrower's contribution.
- Repayment terms of the borrower.
- Security proposed by the borrower.
- Location of the business or project.
- Technical and financial soundness of the credit proposal.

(ADB Desk Diary, 2008)

Among the criteria outlined above, credit vetting or appraisal is one of the crucial stages in the loan processing procedures. This is because this stage analyses information about the financial strength and creditworthiness of the customer.

Kay Associate Limited (2005) identified five techniques of credit vetting known as the five Cs framework used in assessing a customer's application for credit. Firstly, the character of the customer is assessed. This determines the willingness of the customer to pay the loan and may include the past credit history, credit rating of the firm, and reputation of customers and suppliers. Secondly, the capacity of the customer which is described as his or her ability to pay in terms of cash flow projection is critically assessed. Besides, the capital or soundness of the borrower's financial position in terms of equity is assessed. The conditions such as the industry and economic conditions of the business are also assessed. These are important because such conditions may affect the customer's repayment ability. The last C is collateral. This is referred to as the secondary source of repayment. This is considered in appraising the customer's request.

2.8 Monitoring and Control

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

Monitoring can minimize the occurrence of bad loans through the following major purposes that it serves:

- Ensure the utilization of the loan for the agreed purpose.
- Identify early warning signals of any problem relating the operations of the customer's business that are likely to affect the performance of the facility.
- Ensure compliance with the credit terms and conditions.
- It enables the lender discusses the prospects and problems of the borrower's business.

2.9 Reducing Bad Loans

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

The study seeks to find out whether or not noncompliance of these procedures and requirements in loan making could lead to problem loans in the Ghanaian banking institutions. It further strives to identify measures that can be put in place to minimize the loan problems.

The chapter focused on the core issues relating to the research topic as revealed by the literature above. The next section discusses in detail the methods and procedures involved in the study and the underlying basis for the adoption of such methods of conducting the research. It also provides a contextual profile of the operational activities of the bank.

CHAPTER THREE

3.0 METHODOLOGY

3.1 Introduction

This chapter presents two broad issues. Firstly, the methodology adopted and used for the study has been discussed. These include the research design, sampling, data collection and analysis techniques among others. The second issue discussed is the profile of ADB focusing on brief history, scope of activities and branch network system of the bank.

3.2 Research Design

The researcher adopted exploratory and explanatory approaches. Exploratory was used to help the researcher find out more about the problem of bad loans, especially the adverse effects of these loans on bank performance as well as factors that lead to bad loans. Robson (2002), cited in Saunders et. al (2007), described exploratory study as a valuable means of finding out what is happening in order to seek new insights, to ask questions and assess phenomenon in a new situation. Thus, a combination of this approach with in-depth interviews and the use of questionnaire as data collection techniques were very useful in the study of bad loans.

Explanatory study approach was employed to establish how bad loans impact on bank performance and also to show how the loan making procedures and rules, as well as other factors can result in bad loans. Saunders et al (2007) indicated that explanatory studies establish the causal relationship between variables. For example this approach established the link between charge for bad loans and the profitability of the bank.

The case study design was employed to find answers to the research questions. The justification for this method is that it generated answers to the questions such as why, what and how, which helped in answering the research questions. A case study strategy is mostly used in exploratory and explanatory research (Saunders et al, 2007).

3.3 Population and Sampling

The ADB network of offices include various departments at the Head office, seven area offices spread all over the ten regions of Ghana, fifty-two branch offices and nine agencies also spread across the country to cater for the banking needs of its numerous customers in every part of Ghana.

Fifty-two credit officers were purposively drawn from the entire population of the credit officers of the bank. This forms about 25% of the total population of credit officers of the bank. These comprised credit officers at head office, area and branch offices across the country. These were people who had the expertise in loan administration issues. Personal biases were avoided in the selection of participants by drawing credit officers from different units of the bank. Indeed all the units such as Head office, Area offices and Branches had representatives in the sample.

Another important issue that was considered in the selection bordered on the schedule that related to loans and number of years experience on such positions. Thus, at the Head office an official of one of the loans departments was selected for the interview. At the Area level an official with branch manager's experience was selected while at the branch level credit officers with at least four years experience were considered for the data collection. This ensured that relevant information relating to the topic was obtained for the study. These methods led to the easy and convenient access to the data needed to achieve the objectives of the research.

3.4 Data Collection

The data collected for the study comprised of primary and secondary data. The type of data, their sources and the instruments used in gathering them are discussed as follows:

3.4.1 Primary Data

Both structured questionnaires and interview guides were used in the data collection. While the structured questionnaires were used to get the unbiased opinion of respondents, the interviews were used for clarifications of some unclear issues such as factors that account for high bad loans in agriculture sector, how poor credit appraisal result in bad loans among others. Specimens of the questionnaire and interview guides are attached as Appendix 1. These data collection instruments made it very convenient for respondents to give the data needed for the analysis.

Participants were first contacted on telephone and briefed about the study. They were allowed to schedule the interview time and dates convenient for them. Some of the interviews were conducted outside working hours, late in the evening whilst others chose week ends for the interview. Information on the issues to be covered was given to the respondents to enable them do some little preparation as some of the questions may need some figures in view of their technicalities.

The major questions were the research questions combined with some follow up and probing questions where necessary, that sought answers necessary to answer the questions of the study. The flexible nature of these data collection instruments enabled the researcher to probe some of the responses obtained. Interviewees were also afforded the opportunity to build on their answers or give further explanation when the need arose in the data collection process.

3.4.2 Secondary Data

The secondary data were sourced from the published annual reports and financial statements of the bank. The information covered a period of five years from 2003 to 2007. This category of data was mainly in quantitative form. Access to the data was not a problem as these were published annually in the print and electronic media for public consumption. The researcher benefited in so many ways from the use of this type of information for the study. First, this was less expensive to collect, in terms of time and money. It afforded the researcher the opportunity to collect high quality data which would not have been of the same quality if the researcher were to collect it in its primary form. Saunders et al, (2007) quote Stewart and Kamins (1993) as stating that secondary data are likely to be of higher-quality than could be obtained by collecting empirical data.

The data collected contained the main information needed to answer the research questions like loan portfolio of the bank, provisions and charge for bad loans and profitability during the five year period.

3.5 Pre-testing

A pre-testing activity of the data collection instruments was carried out to test the construction of the English language, validity and reliability of the questions. It was carried out at one of the branches not considered in the actual data collection exercise. There were no ambiguities relating to the construction of the questions. One of the questions on the loan making procedures and rules was modified to make it straight forward. The respondents were asked about their opinions on the nature of the questions but no suggestions were made concerning revision of the questions.

The pilot study was very helpful to the researcher because it gave the researcher the confidence that the questions were going to elicit the required information needed for the study. It gave a signal to the researcher that there were going to be sub-questions or follow up questions aimed at clarifying some answers to the questions. This made the researcher prepared in advance with possible questions which made the interview very successful.

3.6 Limitation of Data Collection

Generally, the data gathering exercise was successful. However, as the nature of the instruments demand one-on-one contact either through face-to-face or on telephone, the researcher faced some few difficulties in terms of the time for the interview like evenings where the researcher had to spend the night outside his place of residence. Besides, others re-scheduled the meeting time and dates to suit their changed official programmes. The interviews conducted through telephone were also characterized by telephone reception problems, especially respondents in the remote areas like Northern part of the country. With regard to the questionnaire, there were some few limitations like multiple responses provided by majority of the respondents. The data were ranked in descending order to determine major and minor factors for easy analysis of the data. Thus the use of these strategies enabled the researcher to manage these challenges and obtained the required data for the study.

3.7 Data Analysis

The secondary data obtained were scrutinized to determine their suitability, reliability, adequacy and accuracy. The figures contained in the 2003 to 2006 financial statements were in old Ghana cedis. To ensure consistency, these figures were converted into the new Ghana cedis with help of an excel software on currency conversion. Spread sheet and simple excel were used to process the data for the analysis. Tables and statistical diagrams like bar charts, pie charts and line graphs also aided in the data presentation. The primary data were presented by some of these statistical tools and by way of narration.

Presentation of the data on these statistical tools made the analysis very easy. The statistical tools used conveyed the meaning of the figures captured and as such made the analysis straight forward.

3.8 Ethical Issues

All human organizations have some ethical issues to observe. Divulging of information by employees that can affect the institution is among several ethical issues relating to the staff of banks. These were addressed by first explaining the essence of the study to the respondents.

The confidentiality of the information collected from interviewees was considered by ensuring that their names and other information that could bring out their identities were not disclosed in the data collected. They were also made to understand their role in the data collection activity to find answers to the research questions. To avoid imposing the interviews on respondents, they were given the choice to opt out if the interview would affect them in any way.

The methods and procedures explained above were used in seeking the needed data for the analysis which are captured in the next chapter that is chapter four.

3.9 Organisational Profile

3.9.1 Brief History

The ADB was established in 1965 by an Act of Parliament, Act 286 under the name Agricultural Credit and Cooperative Bank to promote and modernize the agricultural sector and other related economic activities through appropriate financial intermediation. The name of the bank was changed to Agricultural Development Bank (ADB) in 1967 by NLC Decree 182. Its functions were further broadened by the passage of the Act of Parliament (Act 352) in 1970.

At this stage the bank's corporate mission centered on the provision of agriculture credit and management projects. However, with the enactment of the Banking Law (PNDC Law 225), the bank considered this event as an opportunity and broadened its corporate mission to include the entire range of financial intermediation without sacrificing its primary function.

3.9.2 Ownership and Focus

The bank is jointly owned by the Government of Ghana and the Central Bank of Ghana with a shareholding structure of 52% and 48% respectively. Thus, it is pure government bank.

- *Vision Statement*

The bank's vision is ‘‘Achieving the position of being the largest, prudently managed and the most profitable growth-oriented agricultural development bank in Africa’’.

- *Mission Statement*

Its mission is ‘’ADB is committed to building a strong customer-oriented bank, run by knowledgeable and well-motivated staff, providing profitable financial intermediation and related services for a sustained and diversified agricultural and rural development’’.

- *Lending Goals*

The basic agricultural lending goals of the bank include the following:

- To strengthen domestic food security;
- To generate foreign exchange savings through cost effective production of import substitutes;
- To generate sustained increases in foreign exchange earnings through rapid expansion of particularly non-traditional agricultural export crops;
- To generate productive employment and poverty reduction; and
- To promote profitable value-addition to agricultural produce through investment in agricultural marketing and processing.

In line with its primary functions as contained in the mission statement, the bank seeks to finance agricultural sub-sectors such as primary production, agric-business, agro-processing, agro-export and cocoa sub-sector, with short term, medium term and long term loan facilities.

3.9.3 Scope of Activities

The bank's services are grouped into six main areas as outlined below.

- *Development Banking Services*

These include agricultural production and marketing credit, agro-processing financing, cocoa farm maintenance and bean purchases, export development financing and agriculture business financing.

- *Corporate banking*

Services include foreign account services, domestic current account service, business credit and international banking.

- *Commercial Credit Services*

Under this category, credit is extended on commercial basis to individual, groups and societies, sole proprietorships, partnerships, limited liability companies, and other corporate organizations. These services include overdrafts, letters of credit, advance mobilization guarantees, issue of bonds and guarantees.

- *Retail and Consumer Banking*

Services include current account, salary account, savings and deposits account, personal loans, institutional managed personal loan, local payment service, and Automated Teller Machines (**ATM**) services.

- *International Banking*

This provides services such as foreign exchange account, foreign deposit account, travelers' cheques, international funds transfer, export finance, export documentation and processing, export advisory service and import financing.

- *Treasury Management Services*

This includes cedi account deposits, special call deposits, fixed deposits and Bank of Ghana treasury bills or bonds, and foreign currency deposits.

- *Western Union Money Transfer*

This service allows the payment of inward remittances with ease, convenience and speed from every city in the world in local currency to the beneficiary in accordance with an agreement with the sender.

3.9.4 The Bank's Offices and Branch Network

The bank has its Head office in Accra with various departments in with its scope of activities as stated above. It has seven Area offices, fifty-two branches and thirteen Agencies and Farm Loan offices which are strategically spread across the ten Regions of Ghana. (ADB, 2008)

CHAPTER FOUR

4.0 DATA PRESENTATION AND DISCUSSIONS

4.1 Introduction

This chapter covers the presentation and analysis of the data used in the study. It shows the findings of the study which seek to answer the research questions vis-à-vis the study objectives. The core issues of the research which are the impact of bad loans specifically, on loan interest income, profit and liquidity, and the trend of bad loans during the period are analyzed in this chapter. The chapter also covers the causes of bad loans and identifies the sector that records high bad loans. This chapter plays an essential role in the entire study as it relates empirical data to secondary data reviewed in previous chapters.

4.2 Analysis of the Trend of Bad Loans

This analysis is to establish the trend of non-performing loans during the period under consideration. Table 4.1 and Figure 4.1 depict the trend of non-performing loans of the bank over the past five years.

Table 4.1 Non-performing Loans

YEAR	GROSS NON-PERFORMING LOANS RATIO
2003	35.99%
2004	30.99%
2005	22.96%
2006	23.63%
2007	18%

Source: Annual Report & Financial Statement, 2003-2007

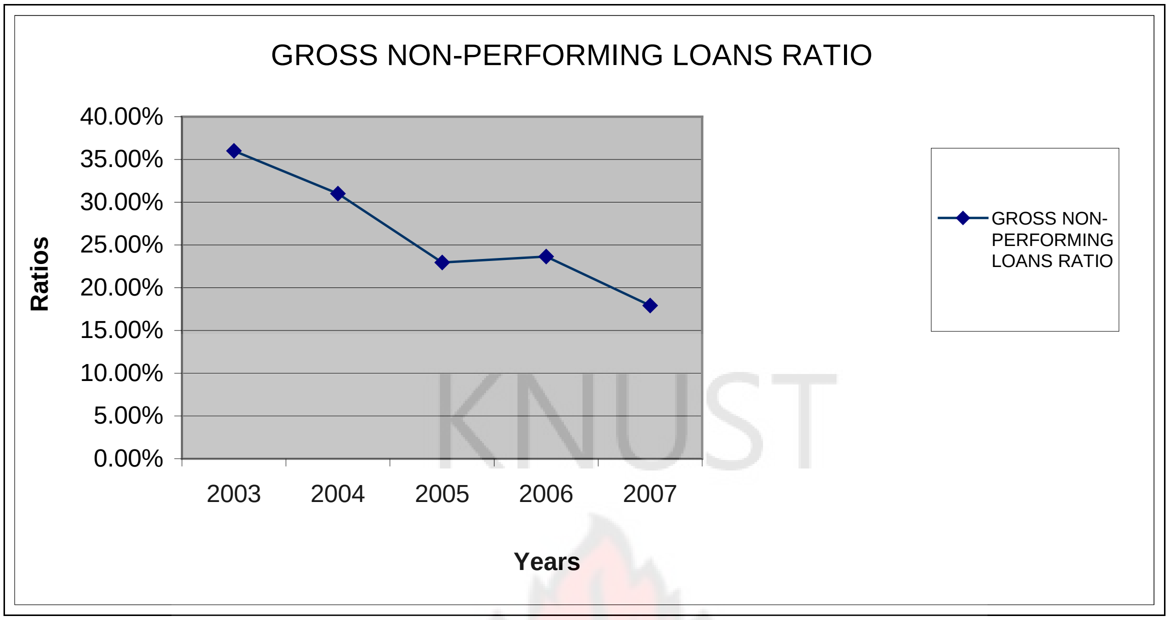

Figure: 4.1 Trends of Non-performing Loans

Source: Annual Report & Financial Statement, 2003-2007

Table 4.1 shows the trend of non-performing loans ratios during the five-year period under review. Non-performing loans ratio refers to the total amount of bad loans expressed as a percentage of the total loan portfolio during the period. The ratios of non-performing loans for 2003, 2004, 2005, 2006 and 2007 are 35.99%, 30.99%, 22.96%, 23.63% and 17.93% respectively. The ratios show that during the period, huge sums of the bank's loans were non- performing. The table further reveals that 2003 recorded the highest proportion of non-performing loans followed by 2004, 2006 and 2005, while 2007 recorded the lowest. According to management, most of the bank's agriculture loans, especially cotton loans granted to farmers in the Northern part of the country, between 1990 and 1999 did not perform due to poor weather conditions and bush fires which resulted in poor yield and hence creating repayment problems. These repayment problems resulted in the huge non-performing loans during the period. To improve on the loan portfolio quality of the bank, management put in place certain measures which resulted in a general falling trend of the non-performing loan ratios as indicated by Figure 4.1.

The factors that accounted for the declining trend are that the 2003 and 2004 cocoa season recorded a very high cocoa production in the agriculture sector. This resulted in a decrease in the non-performing loans ratios from 35.99% in 2003 to 30.99% in 2004. The significant performance of the cocoa sector coupled with improved loan monitoring and recovery due to supply of vehicles to almost all branches, resulted in the reduction of overall non-performing loans as shown by a sharp decline in the ratios from 30.99% in 2004 to 22.96% in 2005. It is also worth noting that in 2004 and 2005, management recruited credit officers which beefed up its credit staff strength and as such minimized loan deterioration, hence the fall in 2005 ratio. The year 2006 however recorded a marginal increase in the non-performing loan ratio which rose from 22.96% in 2005 to 23.63% in that year. It was gathered that in 2006, there was unfavourable rain pattern in the Northern part of the country. This affected the yield of farmers in the area and thus resulted in loan repayment problems which reflected in the minimal rise in the trend of non-performing loans as evidenced by figure 4.1 above. The trend of non-performing loans in 2007 also saw a significant decline as indicated by a fall from 23.63% in 2006 to 17.93% in 2007. Management embarked on computerization programme which networked almost every branch as at the end of 2007. This aided loan monitoring and recovery and hence the decline in non-performing loan ratios.

It can therefore be concluded that though the bank had huge proportions of non-performing loans during the period, management was able to improve on the quality of its loan portfolio by minimizing the ratios of non-performing loans. This therefore translated into a general falling trend of non-performing loans during the period.

4.3 Bad Debts and Loan Interest Income

Loan interest income is the predominate source of income for the bank (See Appendix 3). The analysis establishes the impact of charge for bad debts on loan interest income as shown in Table 4.2 below.

Table 4.2 Bad Debts and Loan Interest Income

YEAR	LOAN INTEREST INCOME	CHARGE FOR BAD DEBT	RATIO OF BAD DEBT TO LOAN INTEREST INCOME (%)
2003	13,449,200.00	9,528,400.00	**70.85**
2004	16,603,100.00	10,314,500.00	**62.12**
2005	19,420,400.00	6,272,800.00	**32.30**
2006	23,463,600.00	7,965,600.00	**33.95**
2007	28,156,101.00	7,336,574.00	**26.06**
TOTAL	**101,092,401.00**	**41,417,874.00**	**40.97**

Source: ADB Annual Report & Financial Statement, 2003-2007

Table 4.2 shows that there was a consistent increase in the interest income generated by the bank's loan portfolio. However, this was reduced by bad debts charges which are shown by the ratios 70.85%, 62.12%, 32.30%, 33.95% and 26.06% for 2003, 2004, 2005, 2006 and 2007 respectively. The table further shows that in 2003 and 2004, bad debts charges eroded a substantial amount of the bank's loan interest income as indicated by 70.85% and 62.12%. The table reveals that the bad debt charges reduced the overall loan interest income by GH¢41, 417, 874 representing 40.97% during the period. The huge reduction in loan interest income by 70.85% in 2003 was due to high bad debts provisions caused by agriculture sector loans, and ineffective loan recovery attributed to understaffed credit offices and inadequate logistics. The ratios of bad debts to loan interest income declined from 70.85% in 2003 to 62.12% in 2004 and dropped further to 32.30% in 2005. This was due to improved loan monitoring and recovery supported by increased credit staff. However, the ratio in 2006 rose from 32.30% in 2005 to 33.95% in 2006. This was as a result of huge provisions made in that year, which was aimed at improving the loan portfolio quality. Bad debts ratio also decreased from the 2006 ratio of 33.95% to 26.06% in 2007, indicating effective measures put in place by management to improve upon its interest income through reduced bad debts charges.

It can be deduced from the foregoing that the huge reduction in loan interest income impacted negatively on the total income earnings of the bank during the period. It can therefore be concluded that though the bank was able to reduce bad debts from 2003 to 2005 and from 2006 to 2007 through intensive loan recovery activities, the overall impact of bad loans on its loan interest income was negative (See Table 4.2).

4.4 Operating Profits and Bad Debt (GH¢)

The analysis is to determine the impact of bad debts provisions on the profit of the bank. Table 4.3 below shows the effects of bad debts charges on operating profit of the bank over the five year period under consideration.

Table 4.3 Impact of Bad Debt on Profit

YEAR	OPERATING PROFIT BEFORE CHARGE FOR BAD DEBT	CHARGE FOR BAD DEBT	OPERATING PROFIT AFTER CHARGE FOR BAD DEBT	RATIO OF BAD DEBT TO OPERATING PROFIT (%)
2003	18,167,700.00	9,528,400.00	8,639,300.00	**52.45**
2004	22,568,600.00	10,314,500.00	12,254,100.00	**45.70**
2005	14,407,400.00	6,272,800.00	8,134,600.00	**43.54**
2006	20,529,100.00	7,965,600.00	12,563,500.00	**38.80**
2007	13,141,345.00	7,336,574.00	5,804,771.00	**55.83**
TOTAL	**88,814,145.00**	**41,417,874.00**	**47,396,271.00**	**46.63**

Source: ADB Annual Report & Financial Statement, 2003-2007

Operating profit has been reduced by 52.45%, 45.70%, 43.54%, 38.80% and 55.83% for 2003, 2004, 2005, 2006 and 2007 respectively (See Table 4.3). As can be seen from the table, the ratios further point to the fact that in 2003 and 2007, bad debts reduced operating profit of the bank by 52.45% and 55.83% respectively, depicting the greatest impact of bad debts on operating profit of the bank during the period. This was mainly due to high provisions caused by huge non-performing loans. The year 2006, recorded the lowest ratio of bad debt to operating profit which resulted in the highest profit level during the period. This was attributed to low provision and high loan interest income. Table 4.3 however, shows that between 2004 and 2006 there was a marginal reduction in bad debts ratios. This again stemmed from effective loan monitoring which reduced loan diversion and also supported customers to improve upon their business operations.

During the period, the total operating profit of GH¢88, 814, 145.00 was reduced by bad debt figure of GH¢41, 417, 874.00 representing 46.63%. This shows the overall negative impact of bad loans on the operating profit of the bank. The high bad debt figure emanated from high loan losses recorded in the period which resulted in serious effects on the bank's profit. It was also caused by Management programme of purging its books by making huge provisions for bad debts, aimed at improving on the assets quality of the bank.

The significance of this analysis is to bring to the fore the factors that result in high bad debt provision which impact negatively on the bank's profit. Indeed it has policy implications for management in respect of instituting pragmatic measures to improve upon its loan portfolio which is a predominate source of interest income for the bank.

4.5 Analysis of the Impact of Bad Debts on Lending Funds (liquidity)

Banks depend largely on customers' deposits to create loans. Therefore if banks grant loans and they are not able to recover such loans including interest charges, it reduces the funds available for lending and as such affect its capacity to create more loans for customers. Table 4.4 shows the effect of charge for bad debts on the funds available for lending.

Table 4.4 Bad Debt Effect on Lending Funds

YEAR	CHARGE FOR BAD DEBT	FUNDS THAT WOULD HAVE BEEN AVAILABLE FOR LENDING (2004-2008)	AMOUNT OF INTEREST INCOME LOST DUE TO BAD DEBT (27.5%)	TOTAL AMOUNT LOST
2003	9,528,400.00	-	-	-
2004	10,314,500.00	9,528,400.00	2,620,310.00	**12,148,710.00**
2005	6,272,800.00	10,314,500.00	2,836,487.50	**13,150,987.50**
2006	7,965,600.00	6,272,800.00	1,725,020.00	**7,997,820.00**
2007	7,336,574.00	7,965,600.00	2,190,540.00	**10,156,140.00**
2008	-	7,336,574.00	2,017,557.85	**9,354,131.85**
TOTAL	**41,417,874.00**	**41,417,874.00**	**11,389,915.35**	**52,807,789.35**

Source: ADB Annual Report & Financial Statement, 2003-2007

Table 4.4 shows that an amount of GH¢41, 417, 874.00 would have been available for lending in the subsequent years, but as a result of bad debts charges lending funds have been reduced by this amount. It also indicates that a total loan interest income of GH¢11, 389,915.35 would have been earned on such funds if the amount had been used for creating loans at the bank's base rate of 27.5% as at 17th June, 2009 (ADB website: www.agricbank.com). This obviously affected the financial performance of the bank since the interest income was lost due to bad loan provisions.

It is therefore worth pointing out again that the incidence of bad debts during the period seriously impacted negatively on the liquidity of the bank which resulted in inadequate funds for lending. One of the key informants indicated during the interview, that management had placed a temporary ban on loan disbursements due mainly to liquidity problems caused by bad loans.

4.6 Factors Accounting for Bad Loans

Several reasons were advanced by the respondents regarding the causes of bad loans in the bank. Most of the responses given as the causes of bad loans are similar and in some cases the same factors were given by all respondents as the causes. The main causes as identified by the interviewees include delayed loan approval, inadequate financing, diversion of loan, ineffective monitoring, ineffective appraisal of credit request, marketing problems, poor weather conditions among others. Respondents were asked to rank the reasons and causes of bad loans and the results are presented in Table 4.5.

Table 4.5 Factors Accounting for Bad Loans

Perceived Causes of Bad Loans	Frequency	Rank
Delayed loan approval	30	2nd
Poor credit appraisal	40	1st
Diversion of loans	30	2nd
Under financing	30	2nd
Ineffective monitoring	40	1st
Poor weather conditions	30	2nd
Marketing problems	30	2nd
Lack of business management knowledge	20	3rd
Others	20	3rd
Total	270	-

Source: Field Survey, June 2009.

From Table 4.5, respondents ranked poor credit appraisal and ineffective monitoring as the most important factors affecting the quality of loan recovery. Delayed loan approval, diversion of loans, under financing, marketing problems and poor weather for agricultural activities were cited as the second ranked causes of bad loans of the bank. Lack of business management knowledge is the third ranked cause of bad loans of the bank. Other causes of bad loans cited by respondents were overtrading and non-compliance with the bank's credit policy.

The explanations given by respondents for the causes of bad loans in the bank have been explained seriatim:

- ***Poor Credit Appraisals and Ineffective Monitoring***

Table 4.5 above reveals that poor credit appraisal and ineffective monitoring are ranked the most important factors with a score of 40 responses for each of these two factors. The respondents indicated that poor appraisal of credit requests by credit officers result in wrong credit approval decisions that lead to loan repayment problems. The reason is that ineffective analyses of financial ratios, cash flow statements, credit risks analyses among others, usually give misleading information to the approving authority on the customer's financial position and ability to repay the loan. According to the respondents poor credit vetting also result in delayed loan approval which results in loan problems. The table further shows that ineffective monitoring of loans is a major cause of bad loans as indicated by a score of 40 shown in table 4.5 above. The respondents explained that monitoring of loans entails keeping track of the loan customers' activities in relation to the loan on regular basis to ensure that the terms and conditions of the facility are complied with as contained in the loan agreement. This includes on-sight and off-sight monitoring. It came up that mostly credit officers ignore on-sight monitoring which has to do with field visits to determine how customers are faring in their activities and their ability to repay loans promptly. It also came up that 71.4% (Appendix 4) of the respondents scores indicate that the problem of ineffective monitoring is due to inadequate resources such as under-staffing and logistics that aid effective monitoring. Other reasons given by respondents are ineffective supervision by management and lack of access roads to customers projects sites. It can be concluded that since these resources are very essential for monitoring, branches that are inadequately resourced, face the problem of ineffective monitoring and hence loan repayment problems.

- ***Delayed Approval, Diversion of Loans, Under financing, Poor Weather and Marketing Problems***

The respondents believed that delayed loan approval (see table 4.5 above) is one of the second major factors that accounts for bad loans. A key respondent indicated that this has serious consequences for time-bound projects like agriculture sector projects, construction and some trading activities. The data shows that 44.4% of respondents' scores indicate that rigid approval procedures cause delayed approvals while 33.3% is due to customers' inability to meet loan requirements. A respondent explained that for instance, a loan amount of GH¢100,000.00 and above has to be approved by the bank's Board of Directors. This causes undue delays because the Board meets once in a month and in the event where the board is unable to meet, a loan approval can delay for almost two months or more. Poor credit appraisal and liquidity problems also result in delayed loan approval as indicated by 11.1% each, of the respondents scores (see appendix 4).

Table 4.5 also shows that inadequate financing is a second major cause of bad loans. It was found out that 66.6% of the respondents scores show that poor credit appraisal and low account turnovers result in inadequate financing while 22.2% and 11.1% for inadequate collateral and liquidity problems respectively, account for inadequate financing of customers projects. Respondents explained that this compels customers to source for additional credit from other banks to make up for the short-fall, which affects loan repayment. Besides, due to inadequate loan amount customers plough back proceeds generated by the project that are meant for servicing the loan, into the business. According to the respondents, diversion of loans into activities other than the agreed purpose also accounted for bad loans. It was found that 57.1% of the respondents scores point to the fact that loan diversion is caused by ineffective monitoring, while 42.9% show that customers anticipation of higher gains in other activities result in the problem of loan diversion. The other major factors that account for bad loans are poor weather conditions, natural disasters and marketing problems. These are caused by poor rain patterns, flooding, crop and animal diseases among others. A respondent cited for example that the black pot disease has affected cocoa production over the years. This coupled with adverse weather conditions have resulted in huge bad loans on cocoa loans schemes which account for 50% of the bad loans in the agriculture sector (see appendix 4). According to respondents, lack of ready market, lack of storage facilities among others, have caused marketing problems for farmers which resulted in loan repayment problems over the years. A respondent indicated that tomato farmers in the Tono and Via Irrigation Projects in the Upper East Region had serious marketing problems as a result of the glut in the 2009 harvesting season. This inevitably resulted in repayment problems of their loans contracted from the bank.

- ***Lack of Business Management Knowledge***

The respondents also indicated that inadequate business management knowledge on the part of customers, which is ranked third in table 4.5. It was found out that lack adequate business management knowledge resulted in loss of sales income through poor records keeping on stocks and sales, and other activities of customers businesses. Some respondents held the view that inadequate business management knowledge accounts for overtrading which results in loan repayment problems.

The other factors that account for bad loans as indicated by the respondents are overtrading and non-compliance with the bank's credit policy. Overtrading occurs when a business expands its operations too quickly. It describes a situation where there is a mismatch between the business resources especially financial resources and its activities. This results in liquidity problems and hence affects loan repayment. Respondents believed that ineffective monitoring of customers businesses and lack of business management knowledge, lead to overtrading. Regarding non-compliance with the bank's credit policy as a cause of bad loans, majority of respondents attributed the problem to management and customer pressures. These pressures result in disbursement of loans without necessary legal documentation in place and approval of loans for projects or businesses that are not worth financing in view of their inability to generate sufficient income for loan repayment. Besides, customers' pressure can result in unauthorized overdrafts given by branch managers in excess of the approved overdraft limit or given without any approved limit as indicated by Rouse (1987). The risk associated with unauthorized overdrafts is that, if customers default, the bank cannot recover such facilities through legal means because of lack of documents to pursue the legal battle.

4.7 Analysis of the Sector with High Bad Loans

The study also found out the sector of the bank's lending activities which records high incidence of bad loans. It was revealed by 77% of the respondents that agricultural sector loans record higher bad loans. This is attributed to the fact that most farming activities in Ghana are rain-fed and are faced with unreliable weather conditions. Therefore in seasons where the rain patterns are not favourable, it results in poor yield which affects the income generated from farming activities. Besides, agricultural infrastructural facilities such as irrigation, storage, agro-processing industries, good roads among others, are lacking in farming areas in Ghana. The absence of these facilities in farming communities, hinder the farming business and as such cause loan repayment problems. A respondent indicated that the absence of agro-processing factories to provide ready market for farmers and also lack of storage facilities, seriously affected tomato farmers in the Tono and Via Irrigation Projects in the Upper East Region, in the 2009 harvesting season. It was gathered that most of these farmers contracted loans from the bank and as a result of poor market and storage facilities they could not generate sufficient income to enable them repay their loans as scheduled. Other problems that affect the agriculture sector loans are floods, crop and animal diseases and bush fires. It can therefore be concluded that since the bank's core activity is agriculture credit, the agriculture sector loan portfolio remains heavily threatened by the aforementioned factors. Indeed this analysis has policy implications for management to institute measures to mitigate these threats so as to improve the overall loan portfolio quality of the bank.

4.7.1 Agricultural Sector and Bad Loans

The study revealed that the major agricultural sub-sectors that have bad loan portfolio include: Poultry, Cocoa maintenance and others. The proportions of bad loans under these sub-sectors have been presented in Figure 4.2 below.

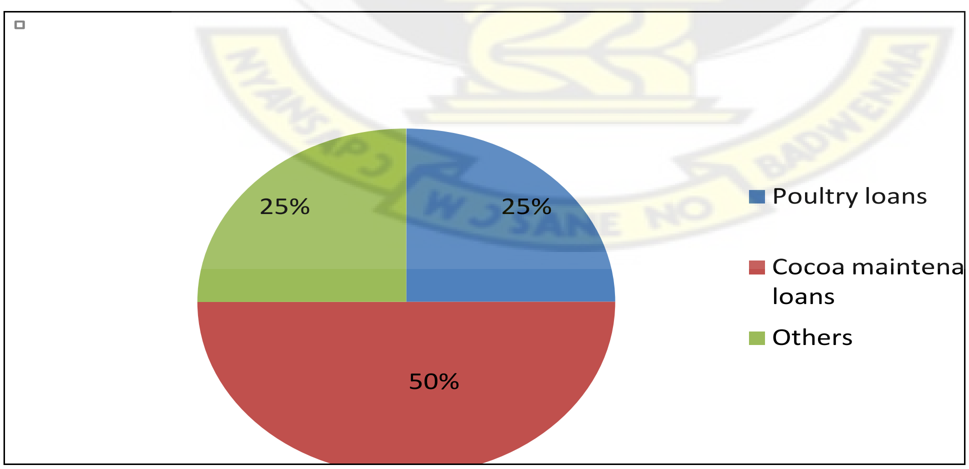

Figure 4.2 Agriculture Loans with High Bad Loans

Source: Field Survey, June 2009.

Figure 4.2 shows three major areas of the bank's agriculture sector loans. These include poultry loans, cocoa maintenance loans, and other agriculture loans such as cotton loans, tomato loans, rice, maize among others. According to the respondents, 50% of bad loans resulted from the cocoa sector which is the highest among the agriculture sub-sectors. Cocoa is one of the major traditional cash crops in Ghana, especially in the Southern sector where most of the bank's branches are sited to cater for the banking needs of cocoa farmers. Besides, cocoa farming faces the problem of black pot disease that destroys huge amount cocoa pots annually. It was found out that lack of collateral to enable farmers secure adequate funding for maintenance of cocoa farms is a major cause of this problem. This might have accounted for its high proportion in bad debts. Also the poultry and other sectors account for 25% each, of bad loans in the agriculture sector. The reasons for poor performance of the poultry sub-sector which results in bad loans are bird diseases, stiff competition caused by high importation of poultry products, delayed loan approval among others. In addition to some of these factors, poor weather and lack of market result in bad loans in the other sub-sectors of the agriculture sector.

The above data presentation and analysis provide the study findings in relation to the research questions. The next chapter covers the summary, conclusions and recommendations.

CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter entails a recap of the research findings and the methods used in obtaining the data for the study. It further provides conclusions and recommendations relating to the study objectives. This is very essential as it gives the implications of the findings and the possible measures that could help reduce the problem of bad loans.

5.2 Summary of Findings

The findings show that the bank recorded huge amount of non-performing loans, especially in 2003 and 2004 as shown by 35.99% and 30.99% of total loans respectively, during the period. The non-performing loans ratios for the past five years, however, indicated a general declining trend. This means that management of the bank improved upon its loan monitoring and recovery activities during the period.

The analysis revealed that loan interest income has been reduced by bad debt provision amount of GH¢41,417,874.00, representing 41% of the loan interest. This indicates that a substantial amount of the loan interest income was eroded by bad debt charges. The impact of bad debt on loan interest income was particularly high in 2003 and 2004 with ratios of 70.85% and 62.12% respectively. This greatly affected the financial performance of the bank since loan interest is a major source of income to the bank. In spite of this, the ratios showed improved trend due to effective loan recovery carried out by management of the bank.

Operating profit has been reduced by 52.45%, 45.70%, 43.54%, 38.80% and 55.83% for 2003, 2004, 2005, 2006 and 2007 respectively. The findings show that 2007 recorded the highest while 2006 recorded the least. The overall reduction of operating profit by 46.63% is very high signifying that bad debts charges consumed a chunk of the bank's operating profit during the period. Bad debt therefore impacted negatively on the financial health of the bank over the past five years under consideration.

The analysis further indicates that charge for bad debts reduced the bank's lending funds to the tune of GH¢41, 417, 874.00. The findings also show that the bank also lost loan interest amount of GH¢11, 389, 915.35 which would have been earned on the lending funds lost, as a result of bad debts provision. This means that bad loans reduced the liquidity position of the bank and as such affected its lending capacity.

The findings of the study revealed several factors that caused loan default and hence bad loans. Ineffective monitoring of loans and poor credit appraisal were emphasized by all respondents as major causes of the loan problems. It is also worth noting that among the sectors of the bank's lending activities, the agriculture sector recorded the highest incidence of bad loans as shown by 77% of the respondents, while within this sector cocoa loans have the highest with 50% followed by poultry and other agriculture loans recording 25% each.

5.3 Conclusion

The findings as briefly summarized above give rise to some conclusions that could be drawn from the analysis. It is evident from the findings that the bank's loan portfolio contained huge amounts of non-performing loans as shown by non-performing loan ratios during the period. The declining trend however reflects management efforts at improving the bank's loan portfolio.

In view of the reduction of a chunk of the loan interest income, operating profit and lending funds, it can be concluded that bad loans seriously affected the financial performance of the bank in the five-year period.

Considering the factors that account for bad loans as established by the research findings, it can also be concluded that agriculture sector credit which is a core lending activity of the bank is heavily exposed to credit risk than other sectors. Management therefore needs to put in place pragmatic measures to mitigate the risk in this sector so as to improve the quality of the overall loan portfolio of the bank.

5.4 Recommendations

The foregoing findings reveal a worrisome situation about the bad loan portfolio of the bank during the period under review. A critical review of the analysis shows that bad loans eroded the huge financial gains the bank has made over the years. Indeed, it shows that the problem has affected the financial performance of the bank during the period. In view of the important role the bank plays in the economic development of Ghana, it is very essential for all stakeholders, especially management to adopt pragmatic measures to minimize the problem of bad loans in the bank. Some of these measures were suggested by respondents.

- *Regular Training Programmes for Credit Staff*

It is recommended that management should organise regular training programmes for credit staff in areas like credit management, risk management and financial analysis. This would sharpen the knowledge and skills of credit officers so as to improve on the quality of credit appraisal, prevent delayed loan approvals, enable credit officers appreciate the need to comply with credit policy and further enhance monitoring of credit. It is also believed that through training programmes, credit staff would be able to conduct effective analysis of loan portfolio structure of their branches and give much attention to loans with warning signals. Management should also ensure that credit officers give such loan facilities more than the normal attention to prevent them from falling into non-performing categories. Management can achieve this by engaging experts or consultants in the aforementioned areas to provide quality training for credit officers under the respective Area Offices on regular basis, under the strict supervision of Area Managers. It is essential to mention that management can ensure the successful implementation of this suggestion by showing commitment in terms of providing the needed resources for these training programmes.

- *Regular Monitoring and Supervision*

Another important way of minimizing bad loans is through regular monitoring and supervision of loan facilities. This would prevent diversion of funds into business ventures other than the agreed purposes, help loan officers assist customers who are facing some business management problems such as improper records keeping, and overtrading that affect their business operations. To ensure effective monitoring, management should ensure that credit offices at all branches and area offices, are adequately resourced in terms of staff, vehicles and other logistics, to support monitoring activities. Again management needs to show commitment through the provision of these resources at all branches. Management should also ensure regular supervision of branch managers and credit officers at branches through the bank's internal credit auditing systems. It is worth emphasizing that effective monitoring of loan facilities through field visits and reviewing of customers accounts on regular basis, enables the lender assesses borrowers' current financial conditions, ensure the adequacy of collaterals, ensure that loans are in compliance with the terms and conditions of the facility, and identify potential problem loans for action to be taken.

- *Provision of Adequate Security for Credit*

In view of the fact that banks and other lenders cannot tell from the looks of people's faces whether they are good borrowers or bad borrowers as indicated by Kwarteng (2007), it is recommended that loans granted to customers should be well secured in terms of adequacy of the collateral provided and also ensure that proper legal documentation is put place. This would reduce the losses arising from problem loans and minimise the effects of such loans in the form of bad debt provisions, on the financial performance of the bank. It is essential to point out that once the facility is adequately secured, it is difficult for customers to default willfully since the collateral would be used or sold for repayment of the loan. A key respondent indicated that collateral gives a signal of customers' creditworthiness as indicated by the findings of Chan and Kanatas (1985) cited in Hao (2003). Management should therefore review its collateral requirements as contained in the credit policy in line with this recommendation and ensure that loan requests without adequate collateral are declined. This would minimize bad loans and improve upon the loan portfolio of the bank.

- *Provision of Agricultural Infrastructural Facilities*

It is recommended that management should address the problems facing agriculture sector credit since it is a core lending activity of the bank so as to minimize the huge bad loans in the sector. In this regard, management should encourage government to step up the provision of infrastructural facilities like irrigation systems, road network, storage facilities, agro-processing plants, and also provide agriculture extension staff to support farmers in their farming activities. This would solve the problems of poor weather conditions, marketing agriculture produce, plant and animal diseases and thus improve the income levels of farmers to ensure prompt loan repayment. Management can also improve on the quality of agriculture sector loans by providing training in agriculture credit for credit officers under the training programmes mentioned above. This would beef up the capacity of credit officers in the area of agriculture credit.

- *The Use of Credit Bureaus or Credit Reference Agencies*

The bank should use credit reference agencies in line with the Credit Reporting Act, 2007 (Act 726) for the purpose of determining the creditworthiness of borrowers as a means of minimizing bad loans. Credit bureaus keep information on people for the purpose of assessing their creditworthiness in the granting of credit to them. According to Bank of Ghana (2007), this credit reporting system is to provide timely, accurate, and up-to-date information on the debt profile and repayment history of borrowers. This would enable the bank identify good customers and thus minimize loan default. The management of the bank should therefore ensure that all credit officers and loan approving authorities utilize the services of these institutions when conducting credit appraisals before loans are granted. It is further suggested that management can ensure the use of credit bureaus in processing loans by incorporating it into the bank's credit policy for all credit officers to adopt. This would minimize bad loans and as such improve upon the quality of the bank's loan portfolio.

5.5 Future Research Recommendations

A major limitation in this study was time constraint which led to the use of case study approach and a combination of secondary and primary data. In future, different methods of research could be used for study of the same topic or other related aspects of the topic. Specifically, a future study might research into the bad loan problem in different sectors with emphasis on agriculture which is a key sector of the bank's lending activities.

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APPENDIX 1

Questionnaire for Credit Staff

The following questionnaire is meant to collect data for academic study. Your response to this questionnaire would be highly appreciated.

1. In your opinion, which of the following factors account for bad loans?

i delayed loan approval [ ] vi poor weather conditions [ ]
ii poor credit appraisal [ ] vii marketing problems [ ]
iii diversion of loans [ ] viii lack of business management knowledge [ ]
iv under financing [ ]
v ineffective monitoring [ ]

Others, please specify…………………………………………………………….
…………………………………………………………………………………….

2. Do you think non-compliance with credit policy accounts for bad loans?
(a) Yes (b) No

3. If yes above, which of the following account for that?
(a) customer pressure
(b) management pressure
(c) all the above
(d) other please specify………………………..

4. How would you rank the following factors as causes of bad loans using a scale of 1 to 5 with 5 being the highest and 1 the lowest?

i delayed loan approval [ ]
ii poor credit appraisal [ ]
iii diversion of loans [ ]
iv under financing [ ]
v ineffective monitoring [ ]
vi poor weather conditions [ ]
vii lack of business management knowledge [ ]
viii non-compliance with credit policy [ ]
ix marketing problems [ ]

5. Which of the following factors hinder effective monitoring of loans?
(a) lack of logistics
(b) under staffing
(c) ineffective supervision by management
(d) poor road to project site
(e) all the above

6. What are the causes of delayed loan approval?
(a) rigid approval procedures
(b) customers inability to meet approval requirements
(c) liquidity problems
(d) poor credit appraisal

7. Which of the following reasons account for loan diversion by customers?
(a) lack of proper monitoring
(b) anticipation of high gains in other business ventures
(c) ignorance of terms and conditions attached
(d) differences in interest rate applied on loans in different sectors
(e) inadequate financing

8. What account for the problem of under financing of projects?
(a) poor credit appraisal
(b) inadequate collateral
(c) liquidity problems
(d) low account turnover

9. Agriculture sector loans record higher bad loans. (a) Yes (b) No

10. If yes which of the agriculture sector loans record higher bad loans?
(a) poultry loans
(b) cocoa maintenance loans
(c) cotton loans
(d) maize loans
(e) other please specify…………………………………………………………………

11. Are there any particular reasons for your answer above?
Please specify…………………………………………………………………………...

12. What measures should management put in place to reduce bad loans?
a) ………………………………………………..
b) ……………………………………………….
c) ……………………………………………….
d) ……………………………………………….
e) ……………………………………………….
f) ……………………………………………….
g) ……………………………………………….
h) ……………………………………………….
i) ……………………………………………….
j) ……………………………………………….
k) ……………………………………………….

APPENDIX 2
Interview Guide for Credit Officers

Research questions

Q1.How do bad loans affect the financial performance of the bank?

a. What is the effect of bad debt provision on profits?
b. What is the effect of bad loans provision on loan interest income?
c. Do bad debts provisions impact negatively on the lending capacity of the bank?

Q2.What factors account for bad loans?

a. Why do loans go bad?
b. Do loan officers observe loan-making procedures in appraising credit request?
c. What account for the failure to observe loan making procedures?

Q3. Which sector records high bad loans?

a. Which of the sectors of the bank's lending activities is associated with high bad loans?
b. What are the factors that account for this?

Q4. How can the incidence of bad loans be minimised?

APPENDIX 3

BALANCE SHEET AS AT 31ST DECEMBER ('000)	(GH¢) 2007	% Change	2006	% Change	2005	% Change	2004	% Change	2003
Fixed Assets	21,848,240.00	207.87	7,096,500.00	36.62	5,194,500.00	8.07	4,806,600.00	6.76	4,502,300.00
Assets									
Cash & Balances with Bank of Ghana	51,047,582	27.17	40,140,600	24.30	32,292,800	-0.51	32,458,200	-33.99	49,174,900
Government securities	81,972,356	-21.88	104,937,100	36.05	77,130,000	-11.04	86,699,900	-0.98	87,555,700
Due from other banks and financial Institutions	24,757,394	-51.82	51,382,000	117.37	23,638,500	-31.38	34,449,500	-8.33	37,578,600
Other Investment securities	6,171,070	43.51	4,300,200	16.22	3,700,200	12.12	3,300,100	45.48	2,268,400
Loans & Advances to customers	222,933,509	47.71	150,923,300	19.53	126,266,200	49.36	84,536,500	-2.31	86,534,800
Other assets	55,548,640	10.52	50,263,200	-21.44	63,977,500	27.31	50,252,800	64.18	30,609,000
Long term investment in subsidiaries	1,276,100	-	1,276,100	-88.37	10,973,000	-15.30	12,955,400	1,025.87	1,150,700
Total	443,706,651	10.04	403,222,500	19.30	337,978,200	10.94	304,652,400	3.32	294,872,100
Total Assets	465,554,891	13.46	410,319,000	19.57	343,172,700	10.89	309,459,000	3.37	299,374,400
					-		-		-
Liabilities					-		-		-
Customer deposits	271,024,641	15.62	234,414,300	29.19	181,456,100	13.15	160,370,500	5.63	151,819,500
Due to Bank of Ghana	26,789,249	-6.2	28,569,000	-7.43	30,863,300	2.48	30,115,700	86.94	16,109,700
Due to banks and other financial Institutions	7,110,371		23,196,100	236.91	6,885,000	-70.40	23,258,400	-42.73	40,609,400
Interest payable & other liabilities	70,420,251		54,638,400	-11.88	62,002,600	56.09	39,722,300	-10.64	44,452,100
					-		-		-
Total Liabilities	375,344,512	10.1	340,817,800	21.20	281,207,000	10.94	253,466,900	0.19	252,990,700
					-		-		-
Net Current Assets	68,362,139	9.55	62,404,700	9.92	56,771,200	10.91	51,185,500	22.22	41,881,400

Net Assets	90,210,379	29.80	69,501,200	12.16	61,965,700	10.67	55,992,100	20.72	46,383,700
					-		-		-
<u>Represented By</u>					-		-		-
<u>Shareholders funds</u>					-		-		-
Stated Capital	20,000,000	-	20,000,000	-	20,000,000	-	20,000,000	2,498.75	769,600
Income Surplus	38,684,837	18.21	32,725,700	17.37	27,881,500	17.27	23,774,700	-38.92	38,925,200
Statutory reserve fund	19,095,195	13.83	16,775,500	19.11	14,084,200	15.28	12,217,400	82.65	6,688,900
Capital surplus	12,066,347		-		-		-		-
Shareholders' funds	89,846,379		69,501,200		61,965,700		253,466,900		46,383,700
Total(Total liabilities & Shareholders funds)	465,190,891	13.37	410,319,000	21	343,172,700	10.89	309,459,000	3.37	299,374,400
					0		0		0
PROFIT AND LOSS ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER, 2007					0		0		0
					0		0		0
Interest income	42,327,367	0.65	42,055,000	27.22	33,056,000	6.68	30,987,000	3.20	30,025,700
Interest expense	-11,298,781		-11,066,600		-10,550,000		-10,290,400		-9,588,200
Net interest income	31,028,586	0.13	30,988,400	37.69	22,506,000	8.74	20,696,600	1.27	20,437,500
		#DIV/0!		#DIV/0!	-	#DIV/0!	-	#DIV/0!	-
Fee commission income	17,709,992	24.15	14,264,900	-1.21	14,439,500	12.79	12,801,900	12.52	11,377,300
Other operating income	4,691,955	-26.75	6,405,000	141.11	2,656,500	-72.76	9,753,900	955.73	923,900
Operating income	53,430,533	3.43	51,658,300	30.44	39,602,000	-8.44	43,252,400	32.11	32,738,700
Operating expenses	-40,289,188		-31,129,200		-25,194,600		-20,683,800	41.95	-14,571,000
Charge for bad doubtful debts	-7,336,574	-7.90	-7,965,600	26.99	-6,272,800	-39.18	-10,314,500	8.25	-9,528,400
Operating profit	5,804,771	-53.80	12,563,500	54.45	8,134,600	-33.62	12,254,100	41.84	8,639,300
Other income	5,280,368	222.11	1,639,300	133.32	702,600	-65.62	2,043,900	22.97	1,662,100
Other expenses	-1,806,307	-29.58	-2,565,000	235.38	-764,800	-62.00	-2,012,700	29.96	-1,548,700

Profit before reconstruction levy	9,278,832	-20.27	11,637,800	44.17	8,072,400	-34.29	12,285,300	40.36	8,752,700
National reconstruction levy	-		-872,800		-605,400	-50.72	-1,228,600	40.36	-875,300
Profit after levy transferred to income surplus	9,278,832	-13.81	10,765,000		7,467,000	-32.47	11,056,700	40.36	7,877,400

APPENDIX 4

Frequency Table

factors that account for bad loans

	Frequency	Percent
delayed lon approval	30	11.1
poor credit appraisal	40	14.8
diversion of loans	30	11.1
under financing	30	11.1
ineffective monitoring	40	14.8
poor weather conditions	30	11.1
marketing problems	30	11.1
lack of business mgt knowledge	20	7.4
All the above	20	7.4
Total	270	100.0

if yes, which of the ff account for that?

	Frequency	Percent
customer pressure	10	14.3
Management pressure	30	42.9
All the above	20	28.6
Political	10	14.3
Total	70	100.0

5- highest 4- higher 3-average 2-lower 1-lowest

delayed loan approval

	Frequency	Percent
Lowest	10	19.2
Lower	11	21.2
Average	10	19.2
Higher	21	40.4
Total	52	100.0

poor credit appraisal

	Frequency	Percent
Average	20	38.5
Higher	21	40.4
Highest	11	21.2

Total	52	100.0

diversion of loans

	Frequency	Percent
Lowest	31	59.6
Average	11	21.2
Highest	10	19.2
Total	52	100.0

under financing

	Frequency	Percent
Lowest	11	21.2
Lower	20	38.5
Average	10	19.2
Higher	11	21.2
Total	52	100.0

ineffective monitoring

	Frequency	Percent
Lower	11	21.2
Highest	41	78.8
Total	52	100.0

poor weather conditions

	Frequency	Percent
Lower	11	50.0
Higher	11	50.0
Total	22	100.0

Lack of business management knowledge

	Frequency	Percent
Lowest	11	50.0
Higher	11	50.0
Total	22	100.0

non-compliance with credit policy

	Frequency	Percent
Higher	22	100.0

marketing problems

	Frequency	Percent
Lowest	11	50.0
Lower	11	50.0
Total	22	100.0

which of the ff factors hinder effective monitoring

	Frequency	Percent
lack of logistics	30	42.9
under staffing	20	28.6
ineffective supervision	10	14.3
All the above	10	14.3
Total	70	100.0

what are the causes of delayed loan approval

	Frequency	Percent
Rigid approval procedure	40	44.4
Customer inability to meet approval requirement	30	33.3
liquidity problems	10	11.1
poor credit appraisal	10	11.1
Total	90	100.0

which of the ff reasons account for loan diversion by customers?

	Frequency	Percent
lack of proper monitoring	40	57.1
Anticipation of high gains in other business ventures	30	42.9
Total	70	100.0

What account for the problem of under financing of projects?

	Frequency	Percent
Poor credit appraisal	30	33.3
inadequate collateral	20	22.2
Liquidity problems	10	11.1
Low account turnover	30	33.3
Total	90	100.0

Agric sector loans record higher bad loans

	Frequency	Percent
Yes	40	77.0
No	12	23.0
Total	52	100.0

If yes which of the agriculture sector loans record higher bad loans

	Frequency	Percent
Poultry loans	10	25.0
Cocoa maintenance loans	20	50.0
All the above	10	25.0
Total	40	100.0