Ghana Association of Bankers

Raising the bar:

increase in the minimum capital requirements, and implications for the industry*

08

Ghana Banking Survey

*connectedthinking

PricewaterhouseCoopers

Disclaimer

This report - Ghana Banking Survey 2008 – is a joint collaboration of PricewaterhouseCoopers (PwC) and the Ghana Association of Bankers (GAB). It aims to provide general information on Ghana’s formal banking sector and the performance of banks operating in the country for the period between 2003 and 2007. The survey does not purport to provide answers to all possible questions and issues pertaining to the country’s banking industry. Neither does it constitute an invitation to trade in the securities of the banks covered in the survey.

The banks’ annual reports and audited financial statements for the years 2003 to 2007 were our principal sources of information. While we acknowledge that our sources of information are reliable, we provide no guarantees with respect to the accuracy and completeness of the information contained therein.

We will therefore not accept any responsibility or liability for any errors, omissions, or mis-statements that this report may contain. Neither will we accept any responsibility or liability for any loss or damage, howsoever occasioned, to any person, body corporate or organisation of any form relying on any statement or omission in this report.

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List of abbreviations

ABL	Amalgamated Bank Limited	ICT	Information and Communication Technology
ADB	Agricultural Development Bank Limited	IFRS	International Financial Reporting Standards
BBG	Barclays Bank of Ghana Limited	Intercont	Intercontinental Bank Limited
BOG	Bank of Ghana	BPI	BPI Bank Limited
CAL	CAL Bank Limited	MBG	Merchant Bank (Ghana) Limited
DPS	Dividend per share	NIB	National Investment Bank Limited
EBG	Ecobank Ghana Limited	PAT	Profit after tax
EPS	Earnings per share	PBL	Prudential Bank Limited
FAMBL	First Atlantic Merchant Bank Limited	PBT	Profit before tax
FBL	Fidelity Bank Limited	PwC	PricewaterhouseCoopers
GAAP	Generally Accepted Accounting Principles	ROA	Return on assets
GAS	Ghana Accounting Standards	ROCE	Return on capital employed
GCB	Ghana Commercial Bank Limited	ROE	Return on equity
GDP	Gross domestic product	SCB	Standard Chartered Bank Ghana Limited
GTB	Guaranty Trust Bank Limited	SG-SSB	SG-SSB Bank Limited
HFC	HFC Bank (Ghana) Limited	Stanbic	Stanbic Bank Ghana Limited
IASB	International Accounting Standards Board	TTB	The Trust Bank Limited
ICAG	Institute of Chartered Accountants, Ghana	UGL	UniBank Ghana Limited
ICB	International Commercial Bank Limited	ZBL	Zenith Bank Limited

Participating banks

22 out of the 24 banks currently operating in the country participated in this year's survey as listed in the table below. UBA declined to participate.

Name of bank	Abbreviation	Current banking licence	Number of branches	**Chief Executive Officer** (as at April 2008)
Agricultural Development Bank Limited	ADB	Development	50	Yaw Opoku Atuahene
Amalgamated Bank Limited	ABL	Universal	10	Oluwole Ajomale
Barclays Bank of Ghana Limited	BBG	Commercial	95	Margaret Mwanakatwe
BPI Bank Limited	BPI	Universal	7	Hajj Mohammed Nurudeen
CAL Bank Limited*	CAL	Universal	10	Frank Adu Jr.
Ecobank Ghana Limited*	EBG	Universal	32	Samuel Ashitey Adjei
Fidelity Bank Limited	FBL	Universal	6	Edward Effah
First Atlantic Merchant Bank Ltd	FAMBL	Universal	4	Jude Arthur
Ghana Commercial Bank Limited*	GCB	Universal	136	Lawrence Newton Adu-Mante
Guaranty Trust Bank Limited	GTB	Universal	3	Dolapo Ogundimu
HFC Bank Gh. Limited*	HFC	Universal	11	Asare Akuffo
Intercontinental Bank Limited	Intercont	Universal	8	Albert Mmegwa
International Commercial Bank Limited	ICB	Universal	11	L K Ganapathiraman
Merchant Bank (Ghana) Limited	MBG	Universal	16	Paul Baah Sackey
National Investment Bank Ltd	NIB	Universal	24	Daniel Charles Gyimah
Prudential Bank Limited	PBL	Universal	10	Stephen Sekyere Abankwa
SG-SSB Bank Limited*	SG-SSB	Universal	36	Alain Bellissard
Stanbic Bank (Ghana) Limited	Stanbic	Universal	10	Alhassan Andani
Standard Chartered Bank Ghana Limited*	SCB	Universal	19	Ebenezer Essoka
The Trust Bank Limited	TTB	Universal	13	Isaac Owusu-Hemeng
UniBank Ghana Limited	UGL	Universal	11	Joseph Tetteh
Zenith Bank Limited	ZBGL	Universal	8	Andy Ojei

** These banks have their shares listed on the Ghana Stock Exchange (GSE)*

Introduction

Dear reader

We are pleased to share with you the results of our 2008 annual survey of Ghana's banking industry.

As in the past, the survey seeks to present a wide range of decision makers with a candid picture of how banks operating in Ghana fared relative to their peers and within the entire industry. The survey covers the last five years beginning 2003 and includes 22 banks.

This report also highlights some of the key issues associated with the increase in minimum capital by banks in compliance with the directives of the Bank of Ghana (BOG).

The banking sector in Ghana remains one of the sectors with the brightest opportunities despite increasing competition.

Net interest income for the industry has more than doubled within the last five years under review by 123%. Net profit for the industry also increased about 120% over that period.

Industry net profit after tax margin remained constant at 24.1% between 2003 and 2007. Alongside, industry return on equity (ROE) decreased from 34.8% (2003) to 26.5% (2007), and return on assets (ROA) dropped from 3.94% (2003) to 2.9% (2007) giving an indication of the increasing competitive nature of the banking industry.

Going forward, banks' ability to spot and manage high risk-high returns opportunities, effectively control costs, and introduce real differentiation in products and services would be key to their growth and profitability.

The first part of the survey report focuses on the increase in minimum capital by banks by 2009 and 2012. We discuss the reasons behind the new requirement, banks' preparedness, and related benefits and challenges for the industry and economy. We have also presented under this first part an overview of the country's general economic performance.

The second part highlights and discusses key performance indicators and trends in the banking industry for the period from 2003 to 2007.

We hope this publication will, as it always does, continue to engender useful discussions amongst policy makers, regulators, banks and the business community at large. We hope also that it informs the banks as they set about the business of formulating strategies to "go to market" in a manner that benefits their various stakeholders.

We thank you for your continued support and patronage of the survey. We particularly note our appreciation for the roles of the participating banks, Ghana Association of Bankers, and Bank of Ghana. We trust that we can continue to rely on you in our subsequent surveys of the industry.

PricewaterhouseCoopers is proud of its achievements in helping to shape the footprints of the banking industry on the Ghanaian economy.

We wish you more success in your businesses.

PricewaterhouseCoopers

Bank capital increases: raising the bar

Bank capital: the bar has been raised up high.

The chips are down, the stakes have been raised high. It is only that are truly discerning that can identify the true value of the hand that has been played.

Bank of Ghana (BOG) recently announced that banks operating in Ghana would be required to have stated capital of not less than GH¢60million. For new banks entering the market, this would be a condition for the issuance of an operating license. For others already established, BOG has given timelines for full compliance as follows:

- End of 2009 for banks with majority foreign shareholding (foreign banks); and
- End of 2012 for banks with majority Ghanaian shareholding (local banks).

In the extensive industry consultations that eventually led to the press release by BOG on the subject of the requirement for an imminent increase in bank minimum capital, many reasons were advanced and discussed by various stakeholders of the banking industry and the broader financial services industry.

We have summarised a few of these reasons in this survey report. However, after all is said and done, many consider this decision by the central bank to be positive and timely to enable the economy of Ghana to move up to the next level towards achieving middle income status.

What constitutes bank capital?

Bank capital in Ghana or shareholders' funds comprises stated capital, income reserves, statutory reserves, and capital reserves. Our Ghana banking survey 2008 report determined total bank capital to be GH¢805million. However, this excludes capital for UBA, and the two new banks yet to commence operations, i.e. Bank of Sahara and Bank of Baroda.

As a proportion of 2007 fiscal year end GDP, bank capital is estimated at 8%.

The importance of adequate capital in banking

Banks play an important intermediation role in the financial services market. In fundamental terms, they take on deposits (incur liabilities) and provide loans and advances (create assets). From undertaking these activities, they would either make a profit and distribute (some) to providers of capital, or make a loss.

For the conduct of both activities, banks require adequate capital to provide comfort to both customers and the regulator of the industry for them to have confidence in the financial services system. In Ghana, where a statutory deposit insurance scheme (similar to the United States of America's Federal Deposit Insurance Commission??, i.e. FDIC) is lacking, the importance of the adequacy of bank capital cannot be over-emphasised.

The last hikes in minimum stated capital triggered off remarkable growth in the loan book.

Recent changes in bank capital requirements

In 2003, BOG issued a directive requiring all banks to increase stated capital to GH¢7million (equivalent of ¢70billion) by the end of 2006. This was to enable them hold the universal banking licence that allowed them to undertake retail , merchant , development, and/or investment banking without the need to acquire separate licences.

All banks in operation at the time of this directive complied with this BOG directive before expiry of the deadline. The majority of banks raised the additional capital required through transfers from retained earnings and income surpluses. In the process, the industry’s stated capital was increased from GH¢29million (2003) to GH¢181million (2007), i.e. by more than five times the 2003 levels.

A key result of compliance with this directive was that bank lending increased from GH¢1.055billion (2003) to GH¢2.464billion (2007), representing a 66% increase in one year. Prior to 2007, industry net loans and advances had been growing at a simple average of 32% between 2003 and 2006.

Current requirement for a minimum capital raise

BOG, on 14 February 2008, issued a press release, setting the minimum capital requirement for obtaining a Class 1 banking license (universal banking) at GH¢60 million. This new requirement regarding capital comes into effect by 31 December 2009.

Banks with local majority share ownership have an extended period up to 2012 to meet the new minimum capital requirement. However, such banks are required to increase their capital to at least GH¢25million by the end of 2009.

State of readiness of the industry

As part of our 2008 survey, we assessed banks’ current ability to comply with the 2009 minimum capital requirements under the hypothesis that banks would consider capitalising their income surplus as reported at 31 December 2007. We also considered the withholding tax implications of this route to achieving the minimum capital required and the possibility of a tax amnesty on capitalisation.

The dash for the 2009 line… who will be quick to get off the blocks?... who is tipped to breast the tape first?

On the basis of the information disclosed in the 2007 financial statements of banks we determined that MBG, ADB and GCB are the only banks that might not require additional capital to meet the minimum capital requirements for 2009.

As shown in the table below, the industry would potentially need to raise GH¢555 million by 31 December 2009 (ignoring profits for 2008 and 2009, and potential consolidations). This is estimated to be about 69% of 2007's total shareholder's funds.

Additional Capital Required as at 31 December 2007

GH¢'000

Bank	Ownership	Stated Capital	Income Surplus	Available Capital	Potential W/T	Available Capital (W/T)	Minimum Capital (2009)	Additional Capital W/T	Additional Capital
MBG	Ghanaian	7,000.0	21,581.0	28,581.0	(1,726.5)	26,854.5	25,000.0	-	-
ADB	Ghanaian	20,000.0	38,684.8	58,684.8	(3,094.8)	55,590.1	25,000.0	-	-
GCB	Ghanaian	72,000.0	69,889.7	141,889.7	-	141,889.7	25,000.0	-	-
NIB	Ghanaian	7,000.0	16,301.0	23,301.0	(1,304.1)	21,996.9	25,000.0	3,003.1	1,699.0
CAL	Ghanaian	8,008.0	7,709.0	15,717.0	(616.7)	15,100.3	25,000.0	9,899.7	9,283.0
TTB	Ghanaian	7,000.0	5,339.0	12,339.0	(427.1)	11,911.8	25,000.0	13,088.2	12,661.0
PBL	Ghanaian	7,180.0	1,733.4	8,913.4	(138.7)	8,774.7	25,000.0	16,225.3	16,086.6
FAMBL	Ghanaian	7,011.9	1,302.6	8,314.5	(104.2)	8,210.3	25,000.0	16,789.7	16,685.5
HFC	Ghanaian	7,025.2	446.0	7,471.2	(35.7)	7,435.5	25,000.0	17,564.5	17,528.8
UGL	Ghanaian	7,035.0	145.7	7,180.7	(11.7)	7,169.0	25,000.0	17,831.0	17,819.3
Fidelity	Ghanaian	7,172.4	(749.8)	6,422.6	60.0	6,482.6	25,000.0	18,517.4	18,577.4
BBG	Non-Ghanaian	7,000.0	49,905.0	56,905.0	(3,992.4)	52,912.6	60,000.0	7,087.4	3,095.0
SCB	Non-Ghanaian	13,131.0	41,157.0	54,288.0	(3,292.6)	50,995.4	60,000.0	9,004.6	5,712.0
SSB	Non-Ghanaian	7,000.0	27,309.2	34,309.2	(2,184.7)	32,124.5	60,000.0	27,875.5	25,690.8
EBG	Non-Ghanaian	16,400.0	7,773.0	24,173.0	(621.8)	23,551.2	60,000.0	36,448.8	35,827.0
Stanbic	Non-Ghanaian	7,322.0	10,345.0	17,667.0	(827.6)	16,839.4	60,000.0	43,160.6	42,333.0
ABL	Non-Ghanaian	7,200.0	46.8	7,246.8	(3.7)	7,243.1	60,000.0	52,756.9	52,753.2
ZBL	Non-Ghanaian	10,838.0	(3,628.6)	7,209.4	290.3	7,499.7	60,000.0	52,500.3	52,790.6
Intercont	Non-Ghanaian	8,990.8	(2,139.9)	6,850.9	171.2	7,022.1	60,000.0	52,977.9	53,149.1
ICB	Non-Ghanaian	7,759.3	(1,083.0)	6,676.3	86.6	6,762.9	60,000.0	53,237.1	53,323.7
GTB	Non-Ghanaian	10,142.7	(3,946.8)	6,195.9	315.7	6,511.7	60,000.0	53,488.3	53,804.1
BPI	Non-Ghanaian	7,629.8	(1,735.4)	5,894.4	138.8	6,033.3	60,000.0	53,966.7	54,105.6
Total		**259,846.1**	**286,384.9**	**546,231.0**	**(17,319.6)**	**528,911.4**		**555,422.9**	**542,924.6**

(W/T) Withholding Tax

The benefits are obvious and much touted…

Anticipated benefits of the capital raise

In a consultation paper titled *Building a Financial Sector for an Emerging Market Economy* and dated October 2007, BOG notes that Ghana's financial services sector and banking industry has undergone significant reforms recently and is emerging as one sector that is seeing an increased level of sophistication and reach in the transactions it is involved in.

In an economy that is poised for accelerated growth, such as Ghana's, the average values of transactions are expected to rise, requiring a banking industry with massive capital to support it. Raising the minimum stated capital of banks is one way that the regulator is ensuring that banks prepare themselves adequately for this challenge and related opportunities.

An example is cited of the level of participation of banks in Ghana in syndicated lending for the bulk purchase of cocoa beans for export by Ghana Cocoa Marketing Company, and for the import of crude for refinery.

The additional capital is expected to act as a shot in the arm for the economy. Coming hard at the heels of the recent oil find, and in anticipation of the sale of the country's first shipload of crude, a whole new sub-sector is expected to sprout, brimming with opportunities. These opportunities would certainly require the right amount of appropriately structured credit to become real wealth-generating businesses, offering employment and stimulating overall economic growth. Following compliance with BOG's directive, banks would have the capital, and we see a meeting of needs here.

Another benefit – probably moot – is the expectation that compliance with this objective is likely to lead to a consolidation of the industry resulting from mergers and acquisitions, as happened in Nigeria a few years ago when the Federal Bank of Nigeria implemented a similar directive to increase bank capital.

Analysts have suggested that it is likely that stronger capitalised banks are likely to acquire banks that are unable to raise the capital to meet the requirements of the regulator. BOG has intimated that consolidation in the industry is not the principal objective of this new requirement, as the goal is to infuse the industry and the economy with huge volumes of <u>fresh</u> capital, thus making available more liquidity for financing new, high value projects. However, it is acknowledged that such a development could very well lead to the "survival of the fittest" in the industry, as weaker banks get eliminated.

Another benefit that is anticipated, but which is dependent on the route to capitalisation that is chosen by the banks, is the potential deepening of Ghana's capital markets. We imagine that if the environment is right, banks might seek to raise some more

…however, the road to compliance and beyond could be dotted with significant challenges and bankers and the regulator should keep an eye out.

capital through initial public offerings (IPOs), which also have the knocked-on benefit of broadening the shareholder base of banks together with further developing the corporate governance landscape. Furthermore, the more robust capital base of the industry would engender confidence in the business and investor communities, and in the general retail banking public.

Potential challenges

Consolidation, should it occur along the way to compliance, could reduce the level of competition the industry is currently witness to and take away some of the benefits the industry's customers are enjoying today. Reduced competition may mean that the industry could become less responsive to market forces.

A serious concern that has been voiced by bankers, mainly, is whether Ghana's economy – even in the medium term – would harbour enough opportunities to create effective demand for the amount of capital that would be availed.

Overnight banks would have capital on their book in volumes unprecedented in Ghana's economy. Admittedly, the economy has a bright future with the recent oil find; however, Ghanaian banks have a rather low appetite for risk. This low appetite is compounded by structural weaknesses of the financial services industry, which recent emergent legislation are targeting.

For certain, opportunities will abound, but we envisage that they might carry risk profiles that banks in Ghana are not familiar with. Banks therefore, alongside working to comply with the many regulatory introductions and changes, must deliberately invest in enhancing the quality of their human capital base to prepare them for the imminent opportunities and challenges. Such investment would cost the banks a lot of money. However, ill-preparation could cost banks and the industry - and for that matter, the entire economy – immensely. To put this into the right perspective, one big value syndicated facility, if not adequately risk-evaluated and managed, could create instability and trigger runs, should it turn bad.

In less catastrophic terms (and more likely to be the scenario in the short-to-medium term), we run the risk of an upturn of the loan loss reserve ratio trend. The declining trend over the last five years as shown in this survey report has been the result of hard work by the industry, and should be jealously guarded. However, the reality is that as individual banks go to market, they would have unsettling thought about the amount of capital they have on their books for which they need to find profitable business, which in turn generates adequate returns for the providers of capital. This is where the temptation of bad lending could come from to erode the gains that have been made.

Still, when these “roadblocks” are passed… the trophy is BIG!

In addition to asset quality becoming impaired over time, the industry is also at risk of inappropriate pricing by banks as they seek to ensure positive returns, over and above the hurdle rate are available to shareholders.

It is anticipated that the recent and on-going reforms such as the introduction of the Credit Reporting Act 2007 (Act 726) and the Foreign Exchange Act 2006 (Act 723), and the improved payments and settlements system would lead to a reduction in the cost of credit, and hopefully a narrowing of banks’ spreads.

Needless to say, in spite of the existence of a massive amount of capital, if borrowers still perceive local credit as still more expensive relative to financing sourced from external markets, banks would still be crowded out of the big-value end of loan transactions market.

Current and emergent developments/ discussions

A key subject of discussion in the industry focuses on the dual track for compliance that BOG has outlined for Ghanaian and non-Ghanaian banks. The latter is expected to fully comply with the new minimum stated capital by the end of 2012, three years after foreign banks are required to achieve full compliance.

Views have been expressed that, though it offers a more relaxed pace for compliance, the dual track could ultimately put the local banks at a disadvantage. It is argued that local banks that take their time to achieve full compliance may very well lose market share, and most likely edged out of the market by better capitalised banks.

However, expectations are that this might not happen. BOG had requested that all banks submit to the central bank their capitalisation plans. Already some banks have commenced work to try and secure additional capital to enable them to meet the timelines provided by BOG. HFC and CAL have announced plans to raise additional capital through rights issues. Indeed at a recent meeting of shareholders of CAL, members of the bank approved a request for the bank to raise additional capital of GH¢100 million by 2012.

Finally, some banks have proposed that the central bank should revisit the requirement for a statutory reserve. Opinions have been expressed that banks be permitted to capitalise statutory reserves, some of which have accumulated huge reserves over time. In their view, capitalising statutory reserves would not constitute a deviation from the principle underlying statutory reserves.

Conclusion

Bigger capital is a done deal for the industry. It is beneficial for the economy and banks agree with it. The bar has been raised… let those who deem themselves fit vault it and lift the trophy.

Overview – the economy and industry

The economy continued to show resilience in the face of rising world crude oil prices.

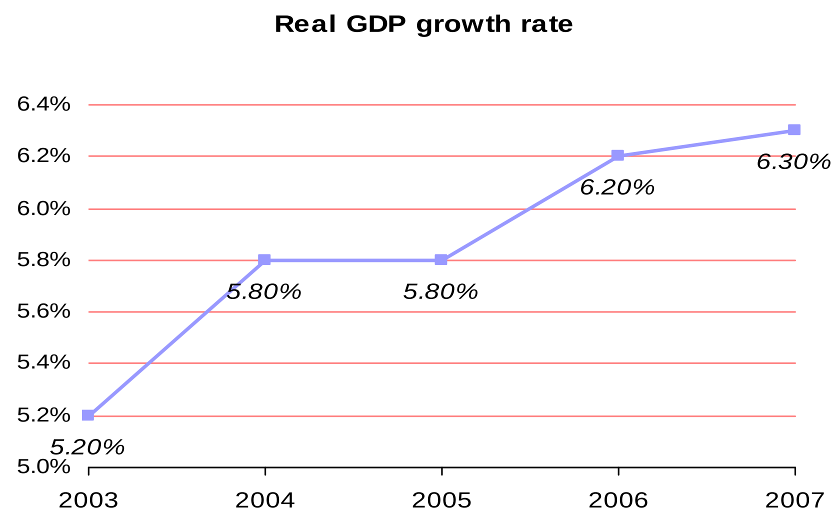
Economic growth

Ghana's economy has been fairly stable over the survey period. Of remarkable note is the steady growth of real GDP from 5.20% in 2003 to 6.30% in 2007 in spite of the significant external shocks of high – and still rising – world crude prices and the 2006/2007 energy crisis that resulted in a protracted period of power outages to virtually every productive sector of the economy.

The services sector, contributing 31% of GDP, led growth in 2007 by posting an increase of 8.2%. This growth was driven by strong performances recorded for the financial, real estate and business sub-sectors of the economy.

Ghana's largest sector – the agricultural sector contributing about 34% of GDP – recorded a slowdown in its pace of growth. It fell from 4.5% (2006) to 4.3% (2007), mainly because of poor weather conditions. First, there was a drought that led to small harvests in the country's critical food producing regions and insufficient seed for the late planting season. Next, there was severe flooding that destroyed whole farms and farm communities, livestock, food stores, and infrastructure. These happenings again emphasized the fragility of Ghana's agricultural sector and industry – insufficient irrigation and post-harvest systems and infrastructure.

Growth in industry lagged behind the other two major sectors of the economy. High crude prices means operating costs shot up especially as the domestic petroleum market was deregulated. Also, the load management exercise resulted in significant production time losses, especially in the mining and manufacturing sub-sectors. However, with Ghana's oil find and interests in utilities and infrastructure, a more robust industrial growth is anticipated soon.



The battle with money market rates has been very well fought, but hardly won yet!

Inflation

Inflation was kept under reasonable control over the survey period. However, it has not been tamed yet. A good interplay between monetary and fiscal policies generated very impressive results in the early years of the survey period, as year-on-year inflation tumbled 12% in one year, from 2003 to 2004. Subsequently, though year-on-year inflation has remained low, it has avoided Government's single digit target.

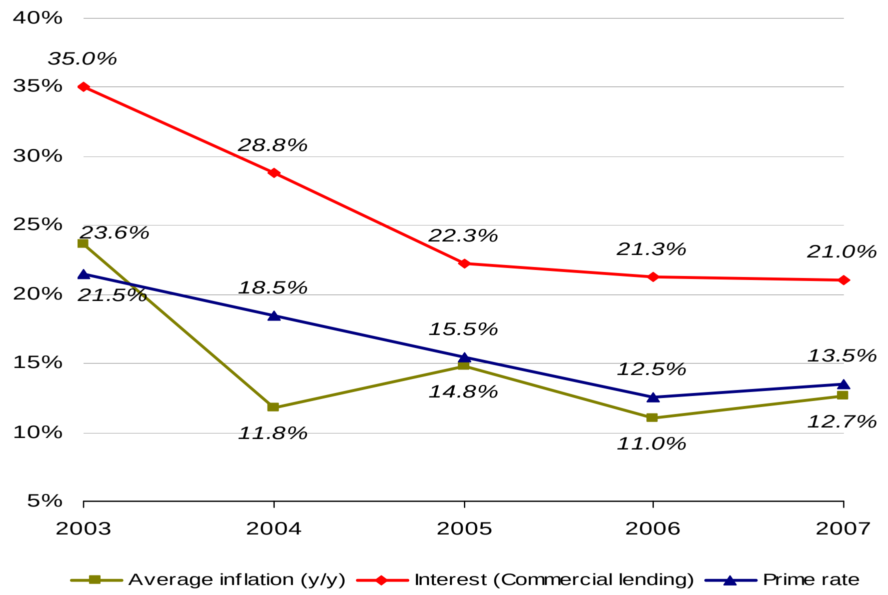
Various factors have been cited as reasons for the behaviour of domestic inflation. These include unplanned government spend resulting from wage-related pressure by specialised labour in critical social sectors, and the need for emergency power plants during the 2006/2007 energy crisis. Inflation also rode on the back of approved increases in utility tariffs, planned to better reflect the costs of production. Lately, inflation has been buoyed up by high food and fuel prices on international markets, which have weakened the country's trade balance and depleted the foreign currency reserves.

Interest rate

Over the survey period, the Bank of Ghana's (BOG's) prime rate tracked inflation for two key reasons – to promote further drops in inflation, and signal banks to reduce their commercial lending rates so as to encourage credit consumption by the economy's productive sectors.

As shown in the graph below, commercial lending rates generally fell over the period, very rapidly initially as competition grew keener with the entry of banks from Nigeria. However, a 3% increase in annual average inflation (2004 – 2005) caused banks to subsequently decrease the pace of drop in their lending rates.

Nominal inflation and interest rates



The cedi shed off some nominal value; it lost ground to even a globally weak dollar.

This slackening in banks' pace of driving their commercial lending rates down is in spite of BOG continuing its policy of lowering the prime rate in substantial amounts.

A key explanation offered by banks is that the industry is still plagued by structural weaknesses that keeps credit risk aloft, such as the absence of credit reference bureau. However, in the face of increased competition and higher liquidity resulting from the abolition of the 15% secondary reserves in 2006, the industry still dropped its loan prices a notch to encourage debt uptake by the real sectors.

Recently, sensing an imminent heating up of the economy with the impact of world crude and food prices filtering through into domestic economies, BOG's Monetary Policy Committee (MPC) has increased the prime rate to 16% in a bid to mop up liquidity and nip any inflationary pressures in the bud. It would appear, however, that the fight with inflation has just started, as there does not seem an immediate let-up in the world crude and food price rises.

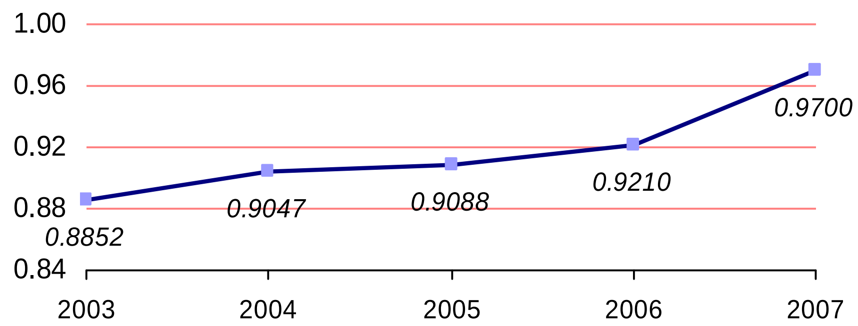
Exchange rate

Until 2006, the cedi generally held its own against the currencies of the country's major trading partners. It maintained relatively healthy parity relationships, benefiting from strong export earnings, reduced external service obligations resulting from HIPC debt relief, as well as prudent monetary and fiscal policies, which collectively worked to produce improved trade and current account balances.

However, in 2007, the re-denominated cedi did not perform as well as other African currencies, which in general appreciated against a globally weak dollar. In that year alone, the cedi depreciated by about 5.3% relative to its 2006 value – more than the aggregate depreciation experienced from 2003 to 2006.

Stressed by rather high capital goods imports, a huge import bill for oil (as part of a temporary solution for the energy crisis), low international gross reserves, and an unabated domestic appetite for foreign consumer goods, the cedi buckled against all the three major international trading currencies. Nominal depreciation recorded for the cedi in 2007 was as follows: the dollar (4.2%), the pound (5.9%), and the euro (16.6%).

Cedi-dollar exchange rate (interbank)



Bank aggression for turf intensified – 2007 saw the industry's most remarkable single year growth in branch network; but, did the industry experience any real creativity?

Banks seem ready to court the informal sector

Between 2005 and 2007, seven banks entered Ghana's banking industry. Two of them that obtained their licences in 2007 – Bank of Baroda and Sahara Bank of Indian and Libyan nationality, respectively – did not start operations during the survey period.

A look at the profit and loss accounts of these new entrants shows that the majority of them were already posting profits by the end of 2007; an indication that Ghana's economy offers a good environment for banking business, despite the intensified competition in the industry.

On-going investments by banks further underscore their high confidence in the good health of the economy and the industry, both now and in the future. It is now apparent that banks are beginning to consider themselves ready to do business with Ghana's large informal sector, as many of them have established SME desks and tailored their credit appraisal processes to better identify, evaluate, and manage the risks considered to be inherent in SME lending.

This decision could very well lead to a swelling of the banked population with the formal banking sector – a precursor to the much needed growth in savings and available loanable and investible funds, which would provide the platform for home-grown economic growth.

Branch network growth – will it be a faux pas? A regrettable fait accompli?

2007 saw the most remarkable growth in banks' network of branches. Five years after BOG introduced the universal banking licence that lifted restrictions on the type of banking business that banks could do or the type of customers that they could engage with allowing all the banks to conduct retail banking, some banks have expressed their conviction in the import of branches in the campaign to bring banking to the doorsteps of their targets in a market that is rapidly growing in its sophistication yet still have a very large un-banked population. However, could this move have come a shade too early considering BOG's introduction of the e-ZWICH smart card, which intends to promote banking without boundaries?

The table below shows the results of the branch expansion programmes of some of the banks that led this campaign:

Banks	(2006 - 2007)
BBG	+63
EBG	+11
Stanbic	+5
ABL	+5
MBG	+5
UGL	+5

Two key legislation were passed – the Credit Reporting Act (Act 726) and the Banking Amendment Act (Act 738).

As competition within the industry deepened, convenience and enhanced returns on banked funds continued to be the hallmarks of banks' marketing strategies for turf expansion.

Over the five years, many more banks introduced branded variations of the same range of products – spots of virtual banking (e.g. e-banking and m-banking products), zero balance accounts, interest-bearing current accounts, checking savings accounts, school transactions solutions, juvenile savings accounts, card-based solutions, etc.

Some of the specific products introduced to the market by banks are as follows:

- Credit card ; Ecobank Ghana Limited
- Deal of a lifetime; Intercontinental Bank
- EasySave ; Amalbank
- KiddySave ; CAL Bank

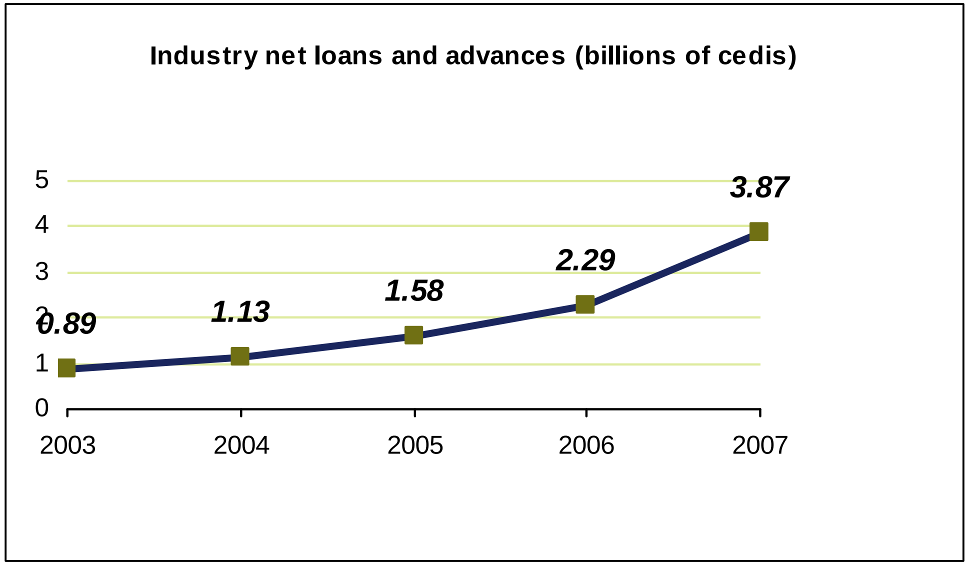
Key developments on the regulatory landscape

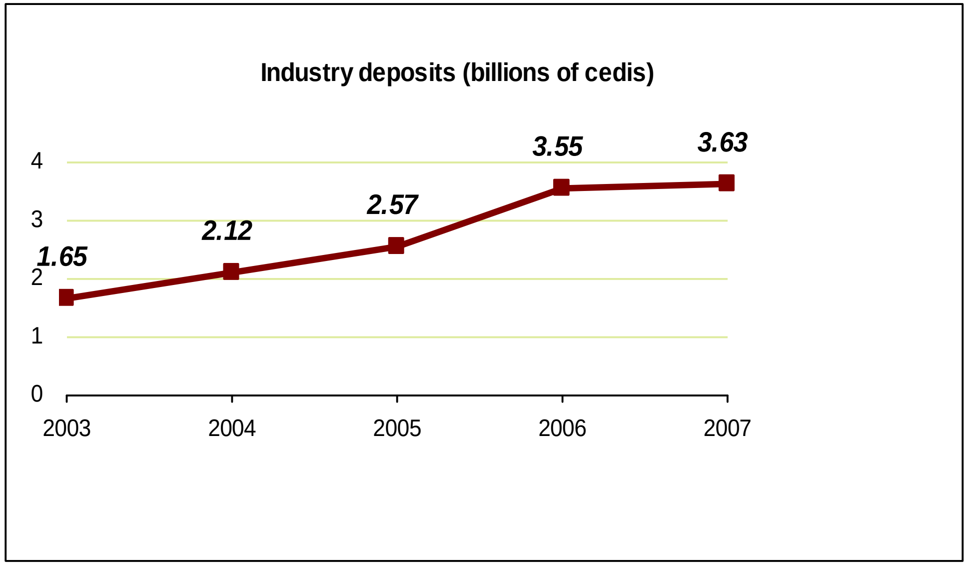
The five-year period spanned by the 2008 Ghana banking survey has seen some major developments in the banking industry's regulatory environment. A few that are notably expected to immediately impact banks' way of conducting business and reporting results have been listed below:

Year	Key developments
2003	Universal Banking Licence was introduced; banks with ¢70 billion in capital permitted to carry out any form of banking.
2003	Maintenance, transaction, and transfer fees charges by commercial banks were abolished
2004	The Banking Act 2004 (Act 673) replaced the Banking Law 1989 (PNDCL 225)
2006	Secondary deposits reserves requirement (15%) was abolished
2006	Foreign Exchange Act 2006 (Act 723) and Whistle Blowers Act 2006 (Act 720) came into effect
2007	Credit Reporting Act 2007 (Act 726) and Banking (Amendment) Act 2007 (Act 738) were passed
2007	National Reconstruction Levy was abolished
2007	Re-denomination of the cedi (¢10,000 = GH¢1)

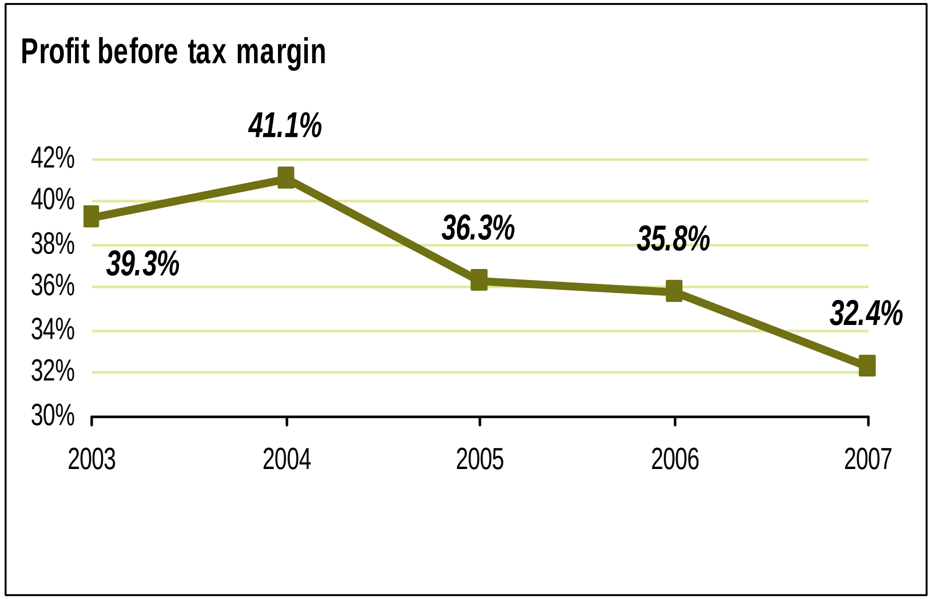
Growth in deposits and advances powered up a steep incline as new entrants joined in.

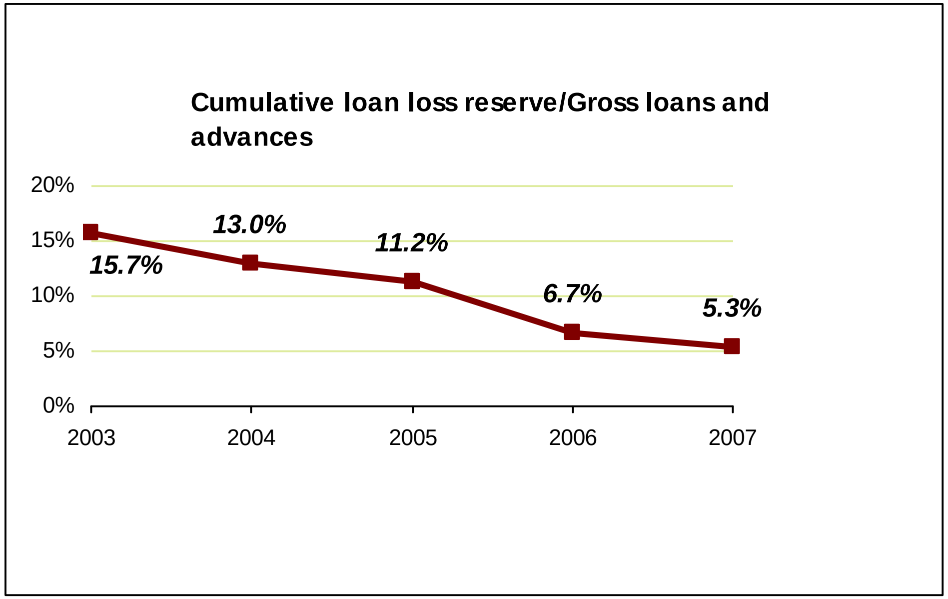
In response to the various developments at both regulatory and market levels, the industry has girded up for growth. The next few graphs tell a story of the happenings in the industry – the last five years indeed seem to have been exciting – for the economy as a whole, for banks, and for customers.





As the competition got keener, margins and returns shriveled, but remain attractive. Also, banks paid greater attention to credit risk management leading to an improvement in asset quality.





Quartile analysis

The industry's operating assets almost trebled in the five years from 2003. Stanbic led this momentum by growing its operating assets a whopping eight-fold in the period!

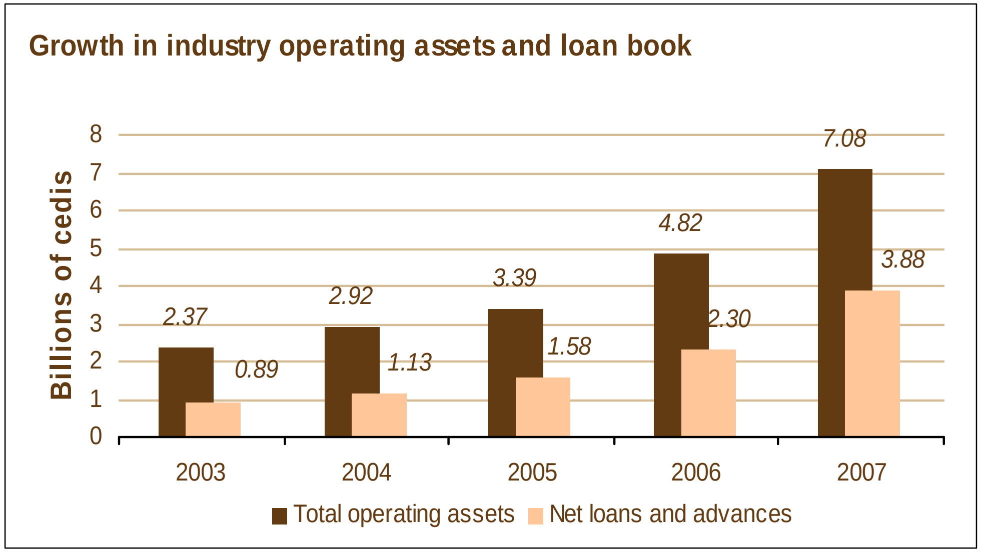
Quartile grouping

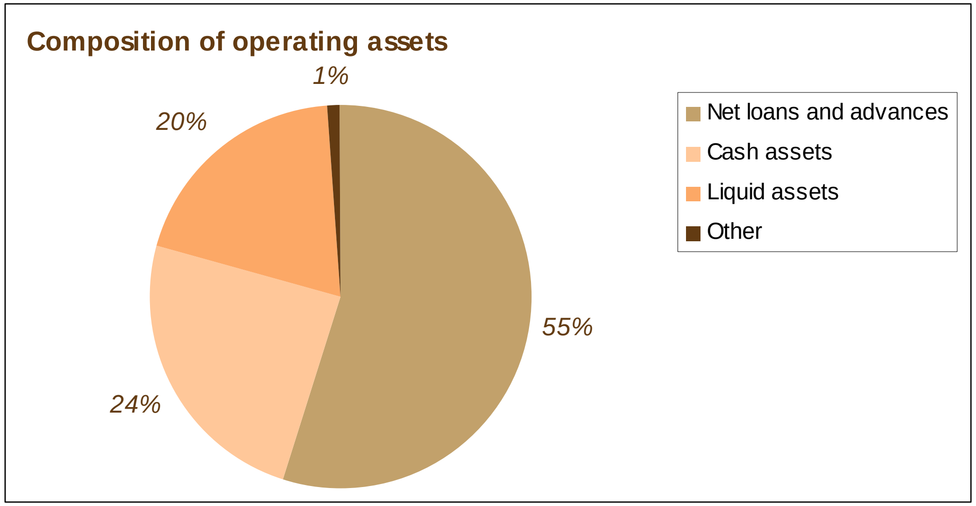
For reasonable comparison and analysis, we group participating banks into quartiles, using operating assets as the basis for grouping. We consider banks' operating assets as their core arsenal for doing business and creating value for their stakeholders, hence our choice of this metric.

The industry's total operating assets increased from a little over GH¢2.37billion (2003) to approximately GH¢7.08 (2007). As shown in the graph opposite, net loans and advances contributed significantly to this growth. As a proportion of total operating assets, the industry's loan book after provisions for bad credit grew from 38% (2003) to 55% (2007).

Over the survey period, the composition of the industry's operating assets changed markedly. In 2003, net loans and advances accounted for less than 40% of total operating assets. Liquid assets constituted the next largest component (33%), and cash assets was 28% of operating assets. The pie chart shows the industry's composition of operating assets in 2007. Many factors account for this development, including improved fiscal discipline, a moderation of BOG's liquidity reserves requirements, improved creditworthiness of the banked population, and competition

We have shown in the next few pages, a snapshot of changes in quartile arrangements and industry operating assets rankings.





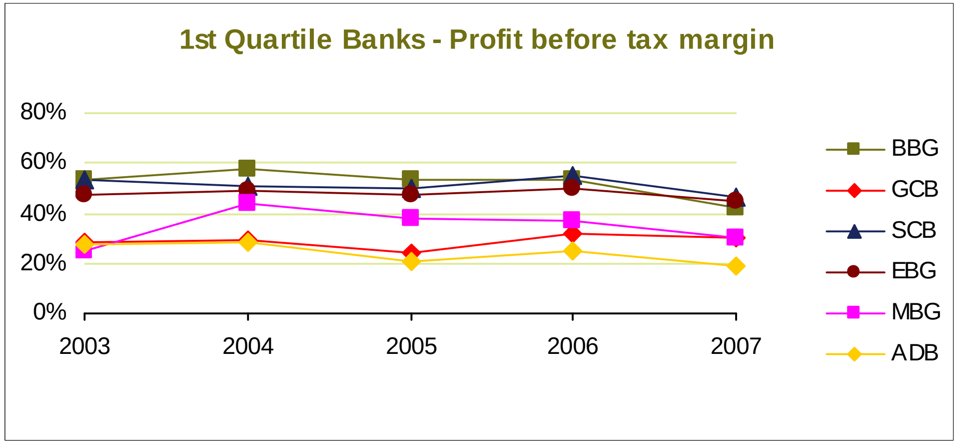
The blue eagle finally soars higher than the golden eagle – Barclays unseats GCB as Ghana's BIGGEST bank! Meanwhile, Stanbic continues its dazzling growth… but, BPI?

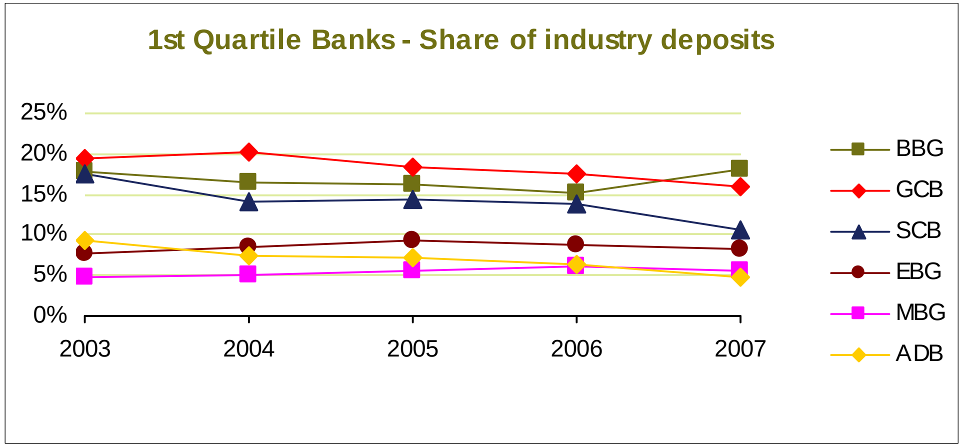
Bank	Operating assets (thousands of cedis)				Quartile group			Industry ranking		
	2003	2007	Change (GHC)	Change (%)	2003	2007	Cross-over	2003	2007	Change
BBG	356,710	1,090,673	733,963	206	1	1	None	2	1	1
GCB	466,609	1,087,686	621,077	133	1	1	None	1	2	(1)
SCB	342,642	730,913	388,271	113	1	1	None	3	3	0
EBG	159,733	595,220	435,487	273	2	1	Up	6	4	2
MBG	94,382	445,240	350,858	372	2	1	Up	8	5	3
ADB	294,872	443,707	148,835	50	1	1	None	4	6	(2)
SG-SSB	194,572	389,874	195,303	100	1	2	Down	5	7	(2)
Stanbic	40,165	334,001	293,836	732	3	2	Up	13	8	5
NIB	95,743	291,410	195,667	204	2	2	None	7	9	(2)
PBL	57,073	226,737	169,664	297	3	2	Up	10	10	0
CAL	56,912	219,167	162,255	285	3	2	Up	11	11	0
TTB	59,248	205,155	145,908	246	2	3	Down	9	12	(3)
FAMBL	38,666	160,425	121,759	315	4	3	Up	14	13	1
HFC	47,125	154,713	107,588	228	3	3	None	12	14	(2)
ZBL	n/a	145,179	145,179	n/a	n/a	3	n/a	n/a	15	n/a
FBL	n/a	142,195	142,195	n/a	n/a	3	n/a	n/a	16	n/a
ABL	28,690	133,933	105,243	367	4	4	None	15	17	(2)
InterCont	n/a	86,627	86,627	n/a	n/a	4	n/a	n/a	18	n/a
ICB	20,428	73,881	53,453	262	4	4	None	16	19	(3)
UGL	9,139	57,255	48,116	527	4	4	None	18	20	(2)
GTB	n/a	34,367	34,367	n/a	n/a	4	n/a	n/a	21	n/a
BPI	10,865	26,659	15,794	145	4	4	None	17	22	(5)

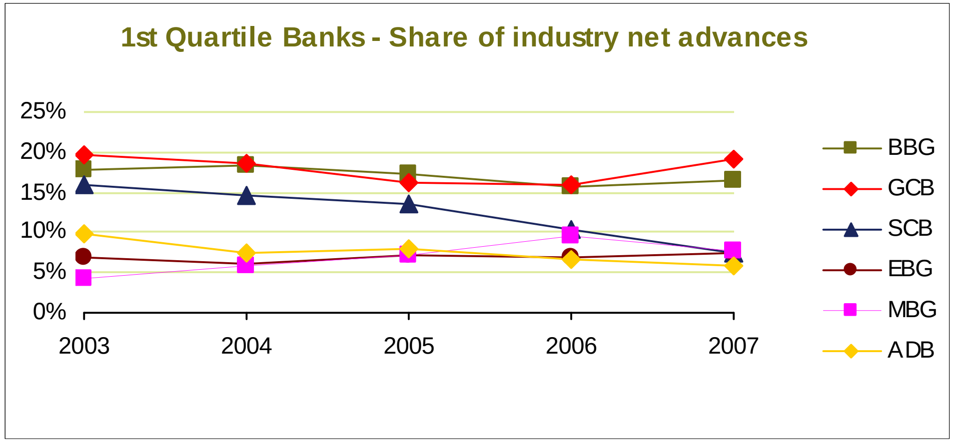
Developments at the level of quartile groupings were as interesting as that noted for the entire industry. Some banks showed real class in establishing industry presence.

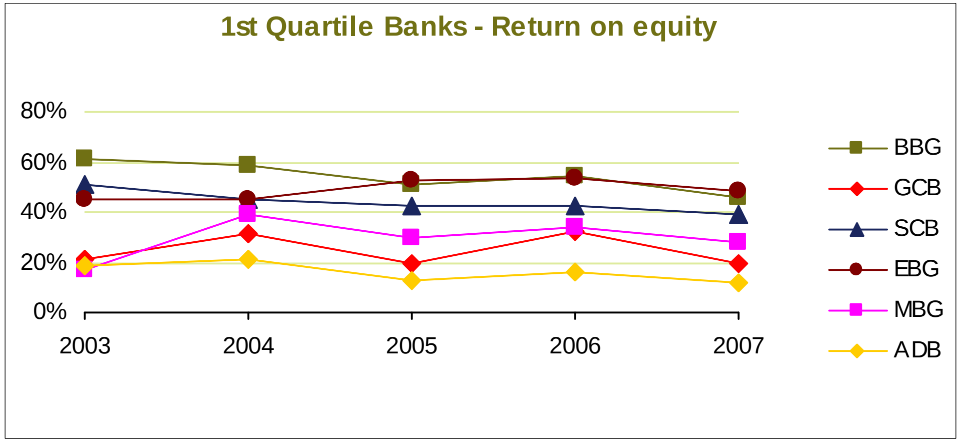
First Quartile group (Q1)	• The number of Q1 banks increased from five to six over the five-year period. Two Q2 banks – EBG and MBG – joined the ranks of the industry's prestigious big class. SG-SSB exited to Q2. • The value of operating assets of Q1 banks grew by GH¢2.74billion (i.e. 165%) from GH¢1.66billion to GH¢4.39billion. Operating assets per bank increased from GH¢0.33billion to GH¢0.73billion • BBG toppled GCB from the top; ADB tumbled down two rungs on the industry league table.
Second Quartile group (Q2)	• Q2 banks increased in number from four to five from 2003 to 2007. However, the group saw the most turbulent churn in membership – three Q3 banks entered; three Q2 banks existed – two into Q1 and one into Q3; and one Q1 bank joined • Operating assets grew in value by GH¢1.05billion (i.e. 257%) from GH¢0.41billion to GH¢1.46billion. Operating assets per Q2 banks grew from GH¢0.10billion to GH¢0.29billion. • Stanbic's strike was the most remarkable – five places up; 732% growth in operating assets.
Third Quartile group (Q3)	• Q3 banks similarly increased group membership from four to five. Three Q3 banks exited into Q2; one Q2 (TTB) and one Q4 (FAMBL) entered; and two banks incorporated during the five year-period also joined this grouping. • Q3 operating assets grew by GH¢0.61billion (i.e. 302%) from GH¢0.20billion to GH¢0.81billion. Average operating assets per Q3 banks rose from GH¢0.05billion to GH¢0.16billion. • One of the "newest kid on the block" – Fidelity – made its debut in the survey in this group.
Fourth Quartile group (Q4)	• The ranks of Q4 banks also grew by one from five to six in the five years. One member (FAMBL) exited into the Q3 grouping, while two new banks (InterCont and GTB) joined. • Q4 operating assets grew by GH¢0.30billion (i.e. 282%) from GH¢0.11billion to GH¢0.41billion. Average operating assets per Q4 banks were increased from GH¢0.02billion to GH¢0.70billion. • Over the five-year period, BPI tumbles down five places and hits the industry's rock bottom.

A general convergence was noted within the group for returns and margins. BBG wrenched deposits leadership from GCB; however, GCB still holds supremacy in net advances. SCB heads for the “cooler southern regions” of the lower Q1 sub-grouping?

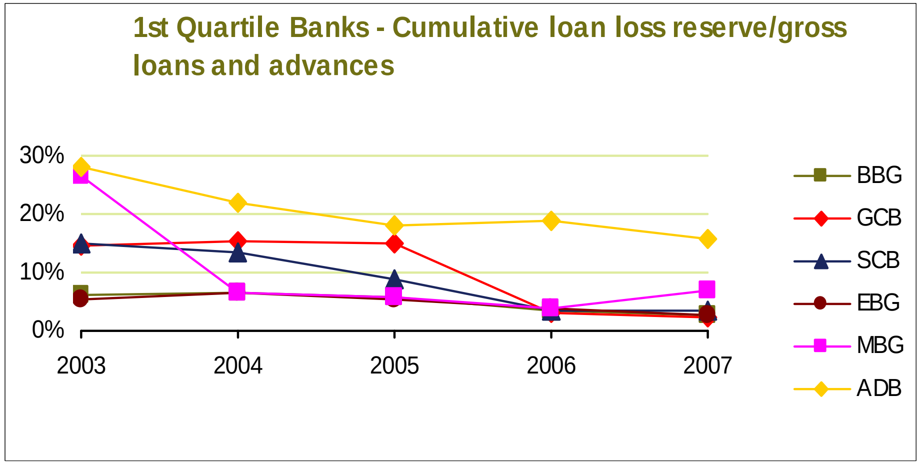


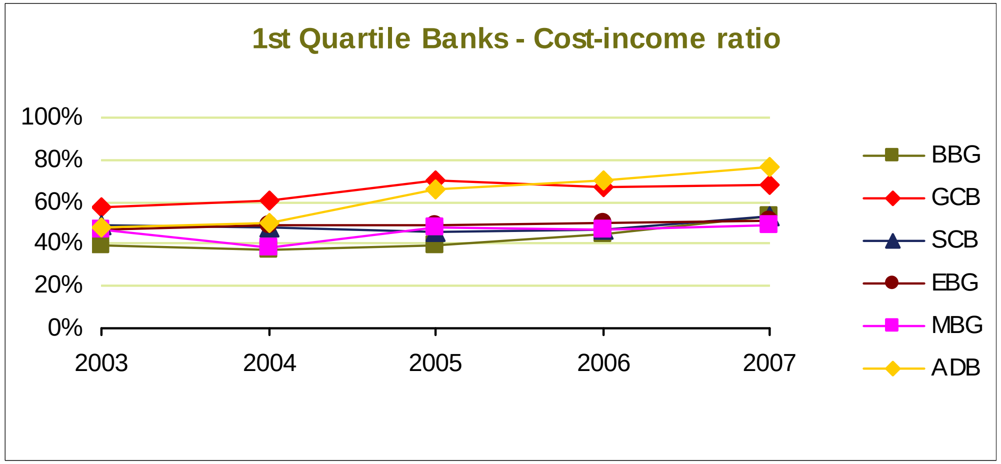




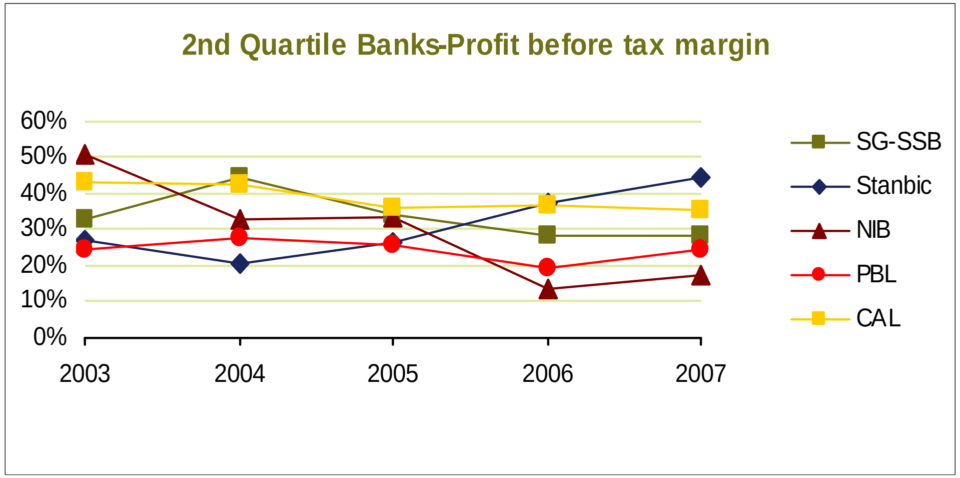


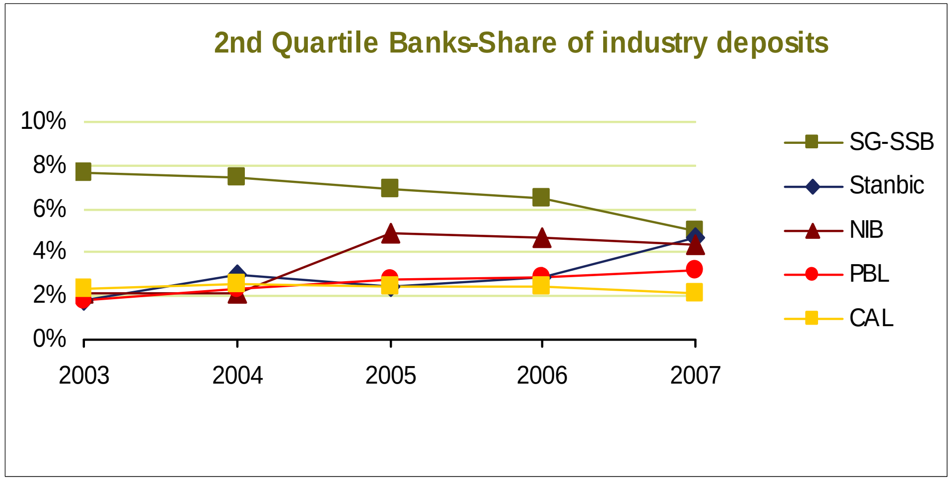
Q1 asset quality generally improved. BBG and EBG compete fiercely for the group's lowest loan loss reserve point; however, ADB's profile remains somewhat out of sync with the group. GCB and ADB lead on costs; but, has BBG opened full throttle lately?

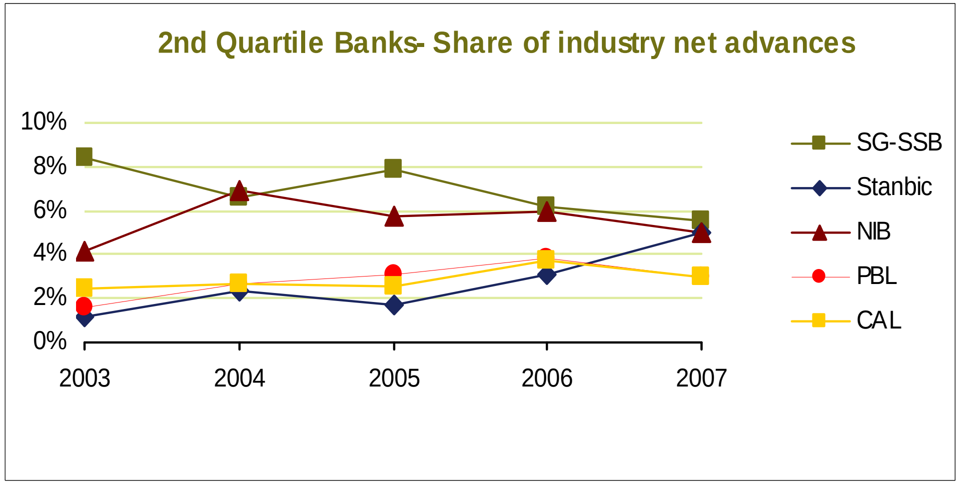


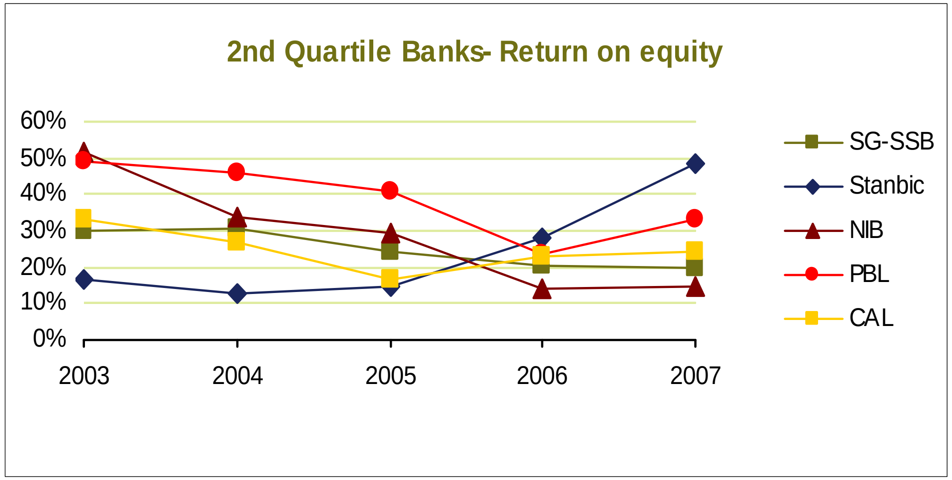


Competition in the Q2 grouping is intense and has generally driven down shares, returns, and margins. Stanbic shows class in performance and enlarges presence in group. NIB's and SG-SSB's performances lack lustre. CAL is unimpressive; seems generally lethargic.

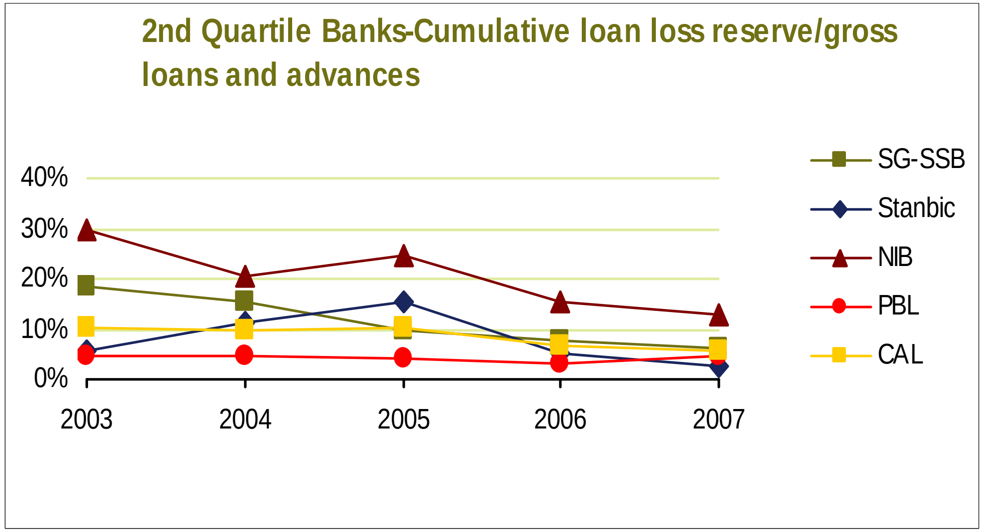


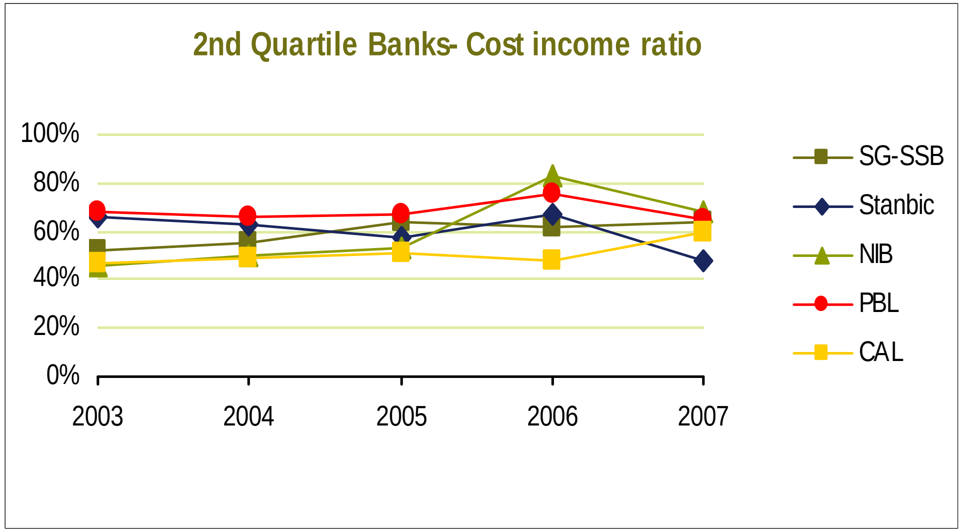




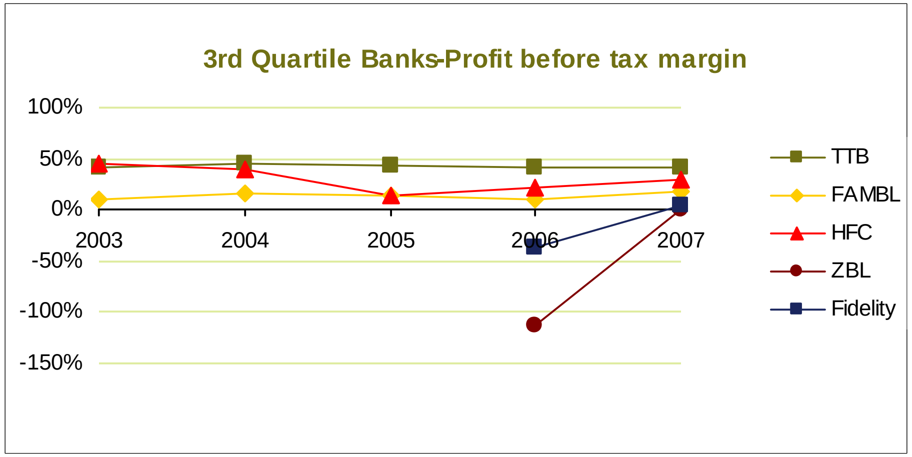


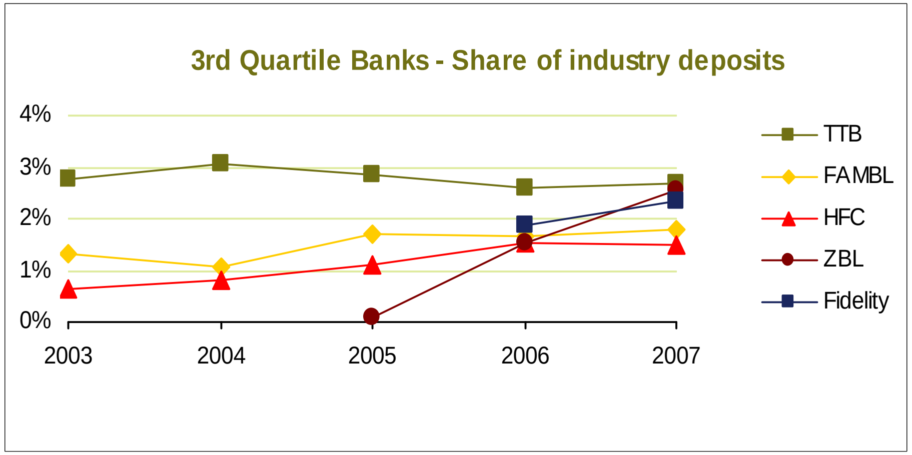
A marked improvement in asset quality was noted for Q2 banks. By end of 2007, total loan loss reserves ratios had generally dropped to between one-half and a third of 2003 levels; but, they were not as successful with cost-income ratio… except Stanbic.

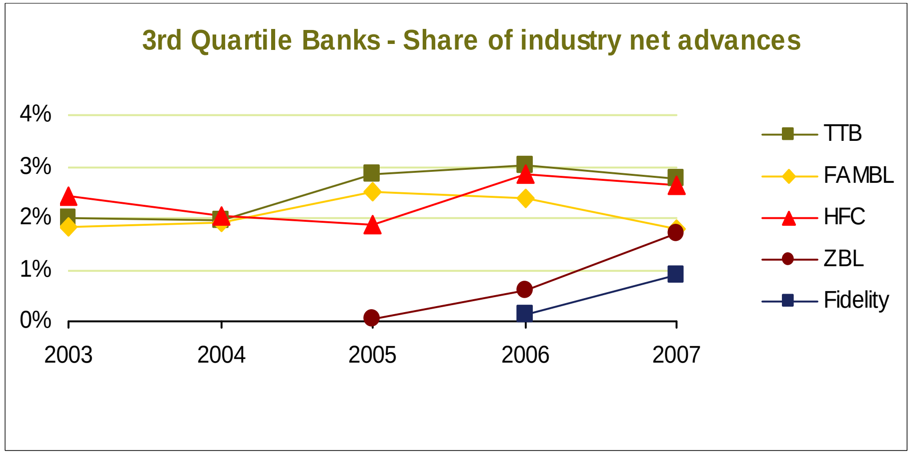


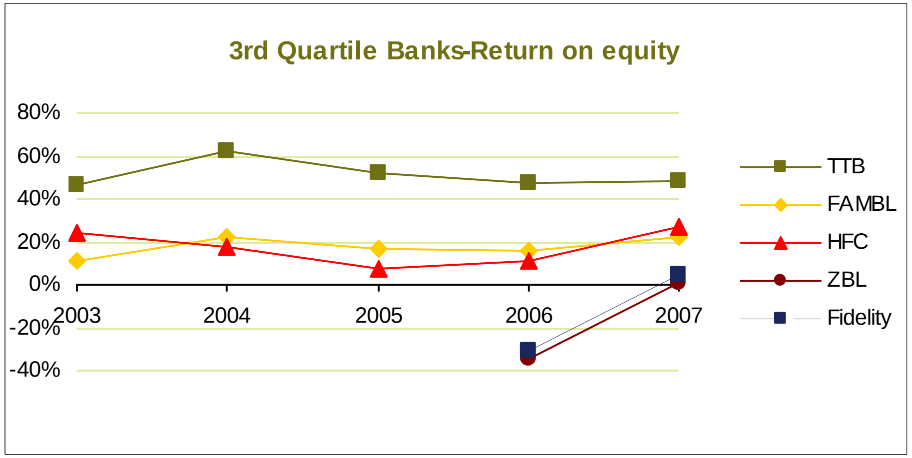


Industry share of advances and deposits for this group has picked up slightly over the period. Intra-group competition for deposits thickened as the industry's new entrants charged onstage. Returns and margins squeezed into a convergence as if held in a vice.

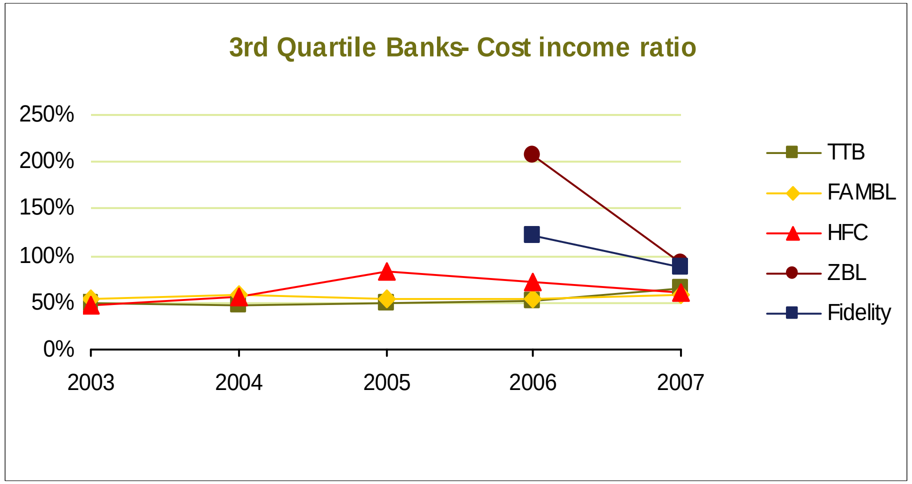


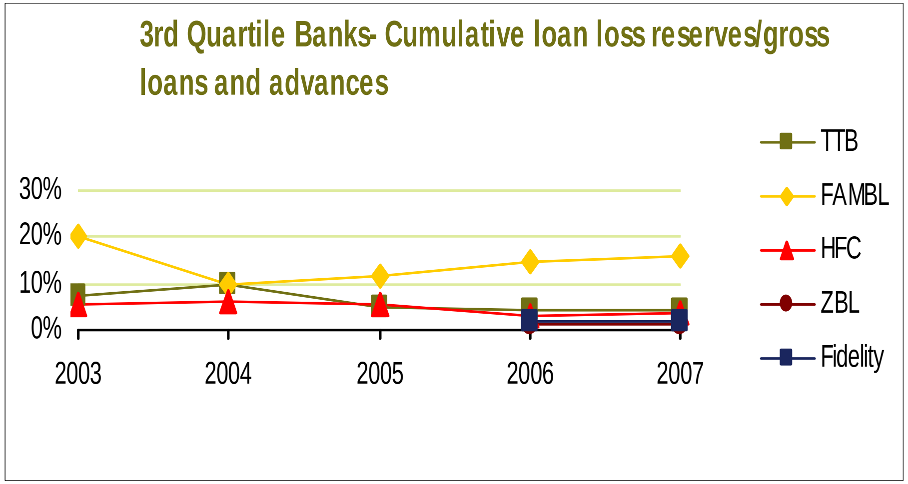




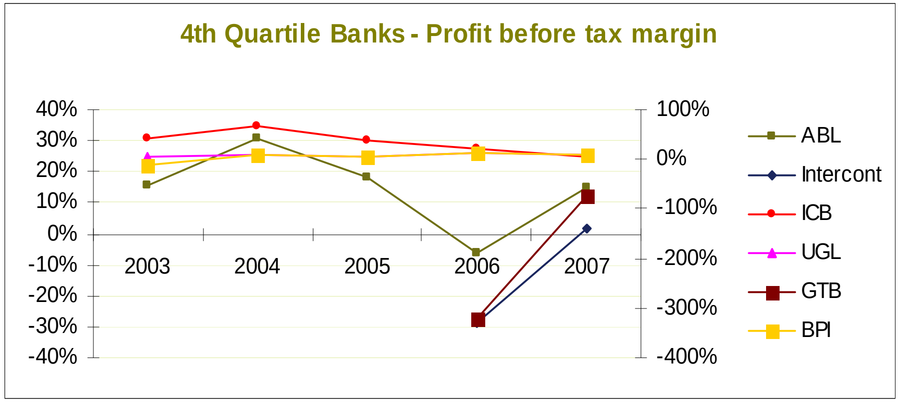


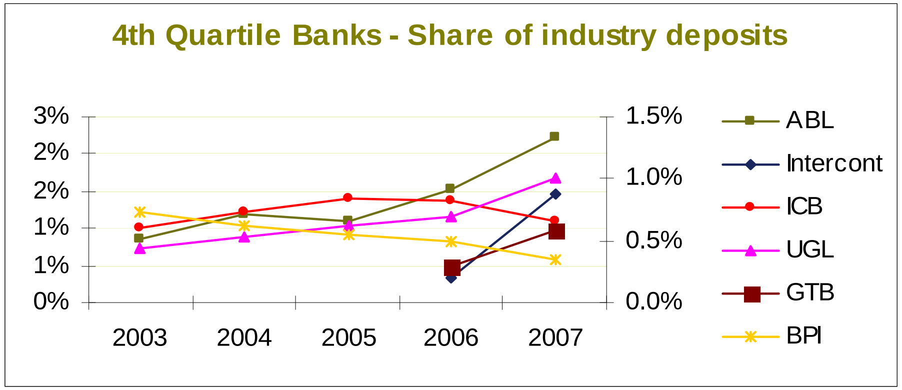
Generally, Q3 banks also improved asset quality; the odd one was FAMBL – the trajectory of the bank's loan loss reserve ratio is suggestive of trouble in the loan book. Cost-income ratio for the group also grew slightly warm; a bit hotter than warm for a few.

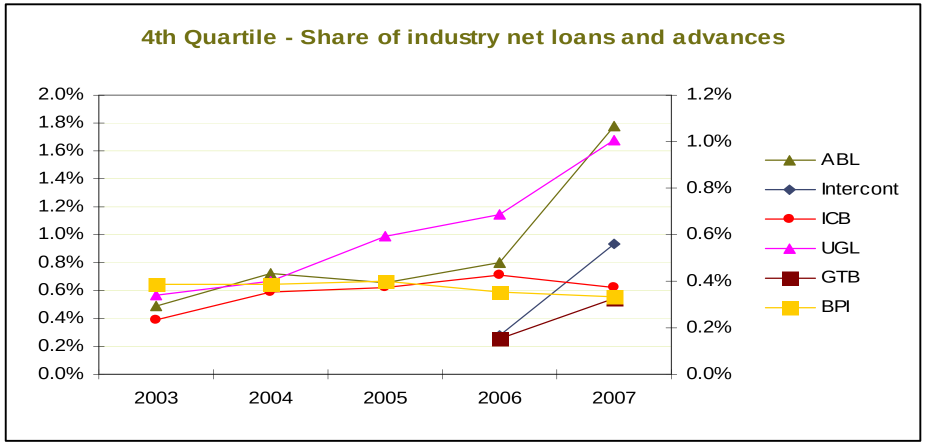


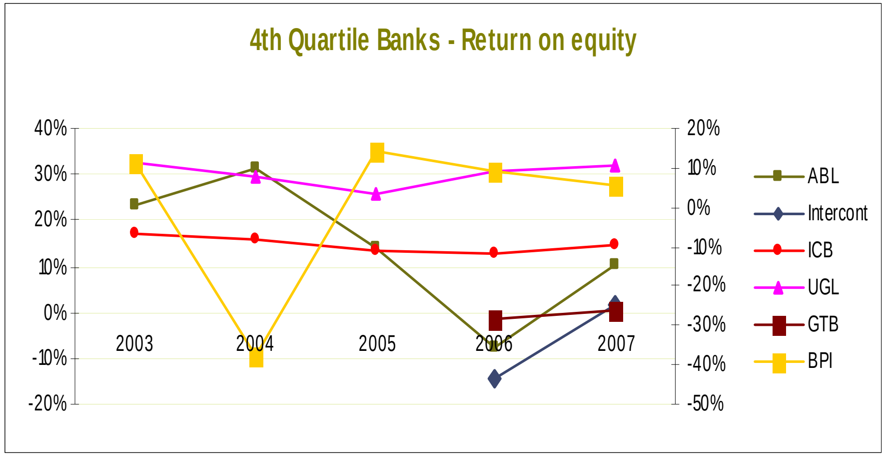


Q4 banks gained a marginal share of the industry's deposits and advances; ABL, in particular, made remarkable strikes on the deposits turf, garnering more deposits than some Q2 and Q3 banks. Returns generally trended down; but pre-tax margins stayed flat.

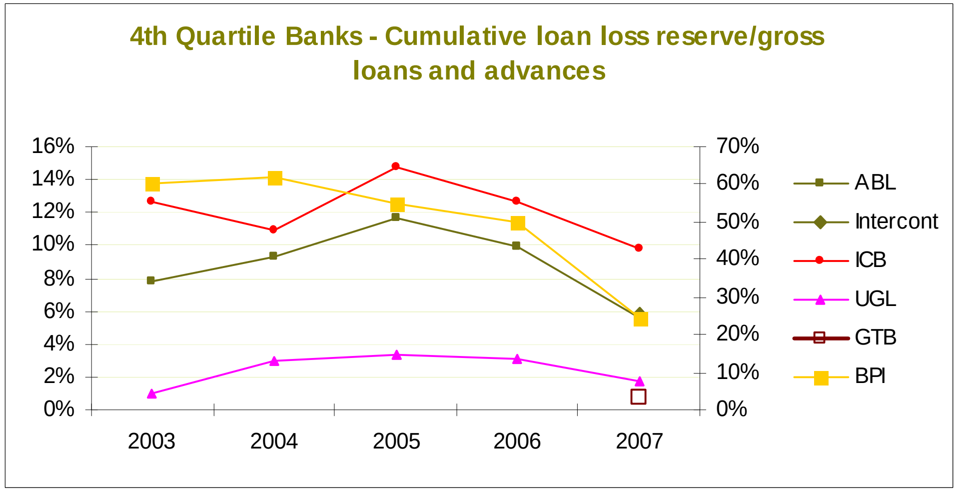


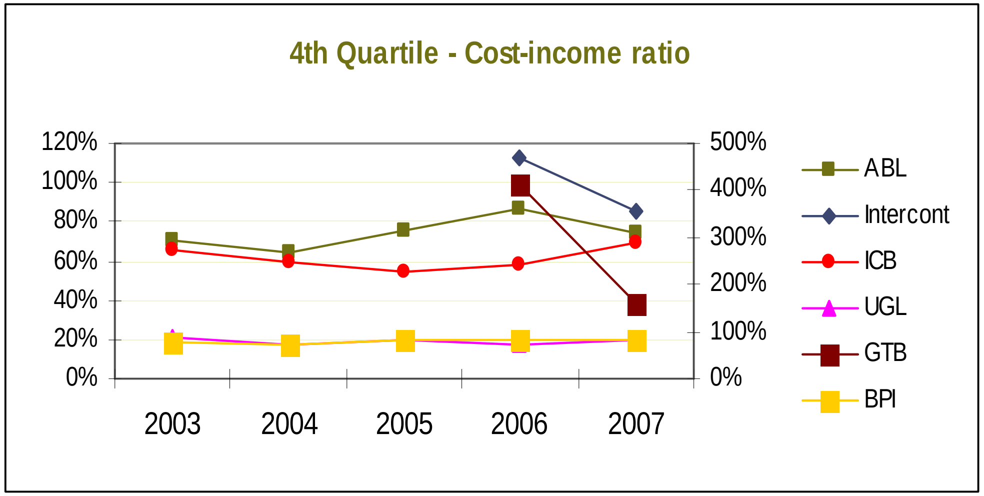






Enhancements to the quality of Q4 banks' loan book can be described as infinitesimal relative to the improvements observed for other quartile groupings; however, BPI's progress is noteworthy. But hey!.. the group generally did well with cost containment.





Market share analysis

Stanbic increased its share of the industry by the biggest margins in the industry over the five-year period. Save for deposits, MBG followed with a similar sterling performance. SCB, GCB, and ADB experienced the biggest squeezes in industry shares on many fronts.

In 2008, the industry continued its growth campaign and pushed up the industry aggregates for many of the balance sheet items mainly; net loans and advances particularly. The table below compares the industry's growth performances for two five-year periods: 2002-2006 and 2003-2007.

	2003-2007	2002-2006
	Number of times increase:	
Net loans and advances	4.36	3.91
Deposits	3.43	3.06
Operating assets	2.98	2.73
Total assets	3.01	2.70
Operating income	2.22	2.23
Pre-tax profits	1.82	1.93

On absolute cedi basis, net advances grew at the fastest pace. However, upon closer examination of the relationship between advances and deposits, it becomes clear that banks exercised some caution in creating risk-assets (loans) from each cedi they took on deposit, even as they improved credit risk management.

In the course of the jostling for industry positioning – alongside changes recorded in quartile memberships – Q1 category experienced a significant shrinkage in industry share, more so with deposits (13%) than advances (11%), confirming the importance of the size of capital in the business of credit extension. Q3 category increased its share of industry deposits by the highest margin (6%), while Q4 extended its share of industry advances the most (4%). Beneath the quartile grouping analysis of industry or market shares, the following banks experienced noteworthy changes in their industry shares of deposits, advances, operating and total assets, and pre-tax profits over the five years spanned by this year's survey:

- **Stanbic** achieved the industry's biggest growths for market shares of deposits (2.9%), net advances (3.9%), operating and total assets (about 3%), and pre-tax profits (4.5%). The bank moved up five places along the industry's operating assets league table to become a Q2 bank. In 2003, Stanbic was a Q3 bank. Indeed, it is remarkable how the bank has moved from its 1998 position at the bottom of a league of 15 banks as a Q4 bank to its current position within the industry.
- **MBG** grew its market share of operating income by 2.7% over the five years, the industry's highest. The bank also grew – by the industry's second largest margins – its shares of net advances (3.5%), operating and total assets (about 2.2%), and pre-tax profits (3.7%). In the course of that, MBG clambered into the Q1 ranks.
- **SCB** recorded the industry's biggest losses of market shares for deposits (7.4%), advances (8.5%), and pre-tax profits (4.4%). **ADB's** losses of share for operating assets (6.2%) and total assets (5.7%) were the industry's biggest. **GCB's** loss of operating income share (5%) was also the biggest.

Branch network expansion and creativity in product packaging formed core components of banks' growth strategies. Improved economic stability and greater awareness among an investment-hungry industry clientele increased popularity of time and fixed deposits.

Market share of deposits

In 2007, BBG grew its deposits by GH¢478.85million, i.e. by 87% of its 2006 deposits. This was the largest increase by one bank in a single year over the five years spanned by the industry. It was 83% higher than GCB's deposit increase of GH¢262.21million, which was the second largest of the industry, and made BBG the bank with the largest deposits in the industry. The only other time BBG has been in this very strategic position was in 2001. At the centre of BBG's deposits growth strategy was a robust drive to give the bank a very visible retail network presence. The bank added 63 new branches to its network in 2007 alone.

In absolute cedi terms, Stanbic's 2007 growth in deposits was the third largest of the industry and came ahead of EBG's, even though EBG added 11 branches to its network in 2007, six more than Stanbic's. The bank's 2007 deposits of GH¢266million, which was 4.7% of the industry was eight times the size of its 2003 deposits, which was then 1.8% of market share. In a bid to strengthen branch presence, Stanbic grew its network from 3 (2003) to 10 (2007). Its deposits per branch also rose from GH¢10.1million (2003) to GH¢26.6million (2007).

Furthermore, deposits growth seemed to have been helped along by an enhancement of the bank's product mix to attract more retail as well as corporate or wholesale funds.

Share of industry deposits

Bank	2007	R	2006	R	2005	R	2004	R	2003	R
BBG	18.19%	1	15.10%	2	16.25%	2	16.53%	2	17.70%	2
GCB	15.90%	2	17.50%	1	18.43%	1	20.13%	1	19.35%	1
SCB	10.25%	3	12.85%	3	14.46%	3	16.22%	3	17.66%	3
EBG	8.29%	4	8.74%	4	9.29%	4	8.50%	4	7.65%	6
MBG	5.69%	5	6.14%	7	5.49%	7	5.08%	7	4.85%	7
ADB	4.80%	7	6.46%	6	7.06%	5	7.55%	5	9.23%	4
SG-SSB	4.95%	6	6.52%	5	6.95%	6	7.44%	6	7.68%	5
Stanbic	4.72%	8	2.84%	10	2.50%	11	3.02%	9	1.84%	12
NIB	4.33%	9	4.68%	8	4.88%	8	2.10%	12	2.10%	10
PBL	3.15%	10	2.87%	9	2.81%	10	2.37%	11	1.86%	11
CAL	2.16%	15	2.43%	12	2.44%	12	2.55%	10	2.34%	9
TTB	2.69%	11	2.58%	11	2.87%	9	3.07%	8	2.75%	8
FAMBL	1.78%	16	1.64%	14	1.72%	13	1.08%	15	1.31%	13
HFC	1.48%	17	1.53%	17	1.09%	16	0.81%	16	0.66%	17
ZBL	2.54%	12	1.54%	15	0.10%	19				
Fidelity	2.34%	13	1.87%	13						
ABL	2.23%	14	1.53%	16	1.10%	15	1.19%	14	0.85%	15
Intercont	1.46%	18	0.33%	21						
ICB	1.10%	19	1.38%	18	1.39%	14	1.21%	13	1.01%	14
UGL	1.00%	20	0.69%	19	0.61%	17	0.53%	18	0.45%	18
GTB	0.59%	21	0.29%	22						
BPI	0.36%	22	0.49%	20	0.54%	18	0.62%	17	0.72%	16

Valuable returns, convenience banking, “presence everywhere”, satisfying banking hall experience, good customer service, and a convincing image of a strong bank would be among key factors consumers would consider in deciding where to deposit their funds.

Other banks that also increased considerably their share of industry deposits over the period of the survey include these:

- **NIB’s** share of deposits market increased by 2.2% from 2.1% (2003) to 4.3% (2007) representing GH¢210.07million. The bulk of this growth came in 2005 when the bank increased its previous year deposits by about 180%.
- In 2006, **Fidelity** held 1.9% of market deposits, the bulk of which was in deposits from other banks (49%), call deposits (22%), and time and fixed deposits (20%) – probably the results of a spillover of benefits from its discount house predecessor. In 2007, the bank increased its share of deposits market to 2.3% and “diversified” its deposits mix into more retail funds by increasing current accounts from 8% to 10% and reducing call deposits to 5%.
- **Zenith**, in 2005, held 0.1% of industry deposits, the smallest among 19 banks. Two years after, the bank multiplied its deposits 56 times over to clinch 2.5% of market and twelfth position in the industry.

Over the period of the survey, **SCB** – a bank that held the industry’s largest share of deposits in 1998 and 1999 (23% in each of these years), and the second largest share in 2000 and 2002 after GCB (20% and 18%, respectively) – saw its deposits share whittled down from 17.7% (2003) to 10.3% (2007) as the competition intensified. The bank, however, kept its third place position in the industry’s deposits share rankings. Unlike the other banks that made the most advances in deposits grounds, SCB added no new branches to its network over the survey period.

On its part, despite possessing the industry’s second largest branch network (prior to 2007), which has a country-wide presence, and having actually added 7 branches between 2003 and 2007, **ADB’s** play on the deposits field has been uninspiring. The bank progressively lost market share and industry positioning under the onslaught of less capitalised banks with branch networks smaller than half its size.

ADB’s lacklustre performance in the market could generally be the result of customers’ perception of the ineffectiveness of the bank’s investments in convenience-providing technology, and customer service. Thus even though on average, ADB’s net interest income has been below industry average and has been among the lowest in the industry, the bank has not held its own against the competition, even those that are relatively new to the industry.

Over the survey period, ADB’s deposits per has increased from GH¢3.5million in 2003 to GH¢5.4million in 2007.

Pressure to generate healthy returns for shareholders, and a fierce competition for a fixed customer base in a rates- and margins-depressed market meant that banks were willing to use credit as a carrot… and to make it attractive, the carrot often needed to be BIG!

Market share of advances

Over the five years spanned by this survey, **Stanbic** increased its share of the industry's net advances by the industry's biggest margin, i.e. 3.9%. In the course of that, the bank improved its industry standing in the advances market from the fourteenth position to the eighth, whipping past banks such as NIB, PBL, CAL, TTB, HFC, and FAMBL.

A look at the composition of Stanbic's loan book shows a reduction in exposure to the manufacturing and agricultural sub-sectors and a compensating increase in lending to the services sector. The bank, until 2007, also kept a stable proportion of its credit portfolio in loans to the commerce and finance sub-sector.

Stanbic's portfolio re-distribution was generally consistent with the trend for the industry. Beside the existence of a high demand for trade financing loans in an economy increasingly seeing domestic commerce dependent on consumer imports, this portfolio shifting might probably be encouraged by the fact that the cycle times between credit extension and repayment is relatively shorter for loans to the services and commerce and finance sub-sectors, in comparison to loans for agriculture and manufacturing. Additionally, the industry saw expensive wholesale funds (e.g. time and fixed deposits, and deposits from other banks) grow as a proportion of deposits relative to retail funds (e.g. current and savings accounts). This possibly meant a greater preference for loans with shorter terms and lower risks.

Share of industry net advances

Bank	2007	R	2006	R	2005	R	2004	R	2003	R
BBG	16.52%	2	15.78%	2	17.35%	1	18.32%	2	17.93%	2
GCB	19.16%	1	15.85%	1	16.19%	2	18.59%	1	19.73%	1
SCB	7.41%	4	10.43%	3	13.65%	3	14.52%	3	15.87%	3
EBG	7.36%	5	6.98%	5	7.31%	6	6.13%	7	7.02%	6
MBG	7.59%	3	9.50%	4	7.22%	7	5.77%	8	4.13%	8
ADB	5.75%	6	6.56%	6	7.98%	4	7.50%	4	9.73%	4
SG-SSB	5.48%	7	6.16%	7	7.84%	5	6.61%	6	8.39%	5
Stanbic	5.03%	8	3.14%	11	1.65%	14	2.32%	11	1.16%	14
NIB	5.03%	9	5.99%	8	5.70%	8	6.91%	5	4.20%	7
PBL	2.95%	10	3.88%	9	3.06%	9	2.61%	10	1.56%	13
CAL	2.94%	11	3.73%	10	2.51%	11	2.67%	9	2.45%	9
TTB	2.77%	12	3.02%	12	2.84%	10	1.98%	13	2.01%	11
FAMBL	1.77%	15	2.39%	14	2.49%	12	1.93%	14	1.81%	12
HFC	2.64%	13	2.87%	13	1.88%	13	2.05%	12	2.40%	10
ZBL	1.71%	16	0.61%	18	0.05%	19				
Fidelity	0.89%	19	0.14%	22						
ABL	1.77%	14	0.80%	15	0.65%	15	0.72%	15	0.49%	15
Intercont	0.93%	18	0.28%	20						
ICB	0.62%	20	0.71%	16	0.62%	16	0.59%	16	0.39%	16
UGL	1.01%	17	0.69%	17	0.59%	17	0.40%	17	0.34%	18
GTB	0.33%	22	0.15%	21						
BPI	0.34%	21	0.35%	19	0.40%	18	0.39%	18	0.39%	17

Banks re-assessed their tolerance of the risks inherent in the various sub-sectors they lend to. In the process, agriculture and manufacturing suffered reduced credit; mining and quarrying too, but minimally. Conversely, commerce and finance, and services gained.

Another bank that showed remarkable results in growing its share of the industry's net advances over the five years from 2003 is **MBG**. The bank, which has now joined the Q1 category as the bank with the industry's fifth largest operating assets, grew its market share of net advances by 3.5% from 2003 to 2007. It also seems to have targeted some balance in its sectoral exposures as it multiplied its 2003 net advances six times.

In the five years covered by the survey, MBG – perhaps as part of attempts to better insulate itself from the risks of sectoral concentration in loan books after its 2003 bad debt provisions (27%), the highest in ten years from 1998 to 2007 – reduced its portfolio exposures to manufacturing and commerce and service sub-sectors by an aggregate of 24%, and increased lending to mining and quarrying (by 8%), construction (by 3%), utilities (by 7%), and transport, storage, and communication (by 9%). MBG also reduced lending to the services sub-sector by 3%.

Aside 2005, when BBG topped the industry's net advances league table, **GCB** maintained its leadership in that market from 2003 to 2007. While this leadership position had seemed threatened by BBG most of the period, GCB appeared to have stamped its authority in that market in 2007 by putting a 2.6% gap between its share of the industry net advances and BBG's despite a 0.6% contraction in the bank's market share over the five years.

Between 2003 and 2007, GCB increased the size of its loan book at an average rate of 54% per annum. A look at the composition of GCB's loan book indicates that it is heavily concentrated and significantly exposed to the commerce and finance sub-sector; in 2007, the bank directed 85% of its lending to this sector, up from 64% (2003) and following an initial slump to 59% (2004). In fact, in 2007, GCB held 51% of the industry's exposure to the commerce and finance sub-sector, and has held an average of 43% of the industry's loans to this sector over the five-year period spanned by the survey. The bank, in 2007, had also lent another 10% to the services sub-sector.

Again, **SCB** – which held the industry's largest share of net advances in 2000 (27.7%) – experienced the largest attrition to its share from 2003 to 2007. The bank suffered an 8.5% contraction in its market share, much worse than ADB's 4% and SG-SSB's 2.9% contractions.

Over the five years of the survey, SCB significantly reduced the proportion of its lending to agriculture (by 10%), manufacturing (by 13%), and utilities (by 11%). Conversely, the bank increased lending to commerce and finance (by 8%), and marginally to services (by 2%). However, in 2007, SCB reported 42% of its loans as "miscellaneous" – this category was 14% in 2003.

A new culture of choice is emerging among the increasingly informed banked population, and captive custom may soon belong to history. The formula for banks' success in the future would therefore NOT include inaction or unimaginativeness.

Also worthy of comment are the performances of the three "new generation" banks, i.e. ZBL, FBL, and InterCont in the net advances market. ZBL, in 2005, held a paltry 0.05% of the market and was the last bank in the industry's league table of net advances. By the end of 2007, this share of market had risen to 1.7%, and helped the bank to displace "older" banks like UGL, the notably risk-averse ICB, and the erstwhile trouble-ridden BPI on the league table. By the end of 2007, ZBL held the sixteenth position on the net advances league table out of the 22 participating banks.

FBL's and InterCont's stories with net advances are not much different from ZBL's. Starting from "humble beginnings" – InterCont and FBL with 0.28% and 0.14% of 2006 market share, respectively – both banks have in the space of one year grown their market shares to 0.93% and 0.89%, respectively. This has shot them past ICB and BPI, and ahead of GTB with whom they started operations in 2006.

Market aggression expressed in the form of strong brand messaging, credit packaged to sound like "give-aways", and the attraction of added services/ benefits of convenience banking, as well as careful – almost opportunistic – sectoral targeting, have been central to these banks' successful campaigns to increase their market shares.

In contrast, UGL, BPI, and ICB have been relatively laid-back in marketing. However, this appears to be changing recently.

For the rest of this section, we have presented tables showing banks' market shares and industry rankings for operating and total assets, total operating income, profit before taxes, and shareholders' funds.

	Share of industry total assets										Share of industry operating assets									
Bank	**2007**	**R**	**2006**	**R**	**2005**	**R**	**2004**	**R**	**2003**	**R**	**2007**	**R**	**2006**	**R**	**2005**	**R**	**2004**	**R**	**2003**	**R**
BBG	15.67%	1	12.68%	3	13.64%	3	15.40%	2	14.90%	3	15.42%	1	12.82%	3	13.79%	3	15.44%	2	15.03%	2
GCB	14.95%	2	15.08%	1	16.23%	1	17.93%	1	19.98%	1	15.37%	2	15.39%	1	16.27%	1	18.37%	1	19.66%	1
SCB	10.59%	3	13.81%	2	14.23%	2	14.14%	3	15.08%	2	10.33%	3	14.09%	2	14.08%	2	13.23%	3	14.44%	3
EBG	8.44%	4	8.09%	4	8.73%	5	7.49%	6	6.63%	6	8.41%	4	8.06%	5	8.95%	5	7.64%	6	6.73%	6
MBG	6.18%	5	6.52%	7	5.30%	7	4.48%	8	3.91%	8	6.29%	5	6.48%	7	5.27%	7	4.45%	8	3.98%	8
ADB	6.09%	6	7.97%	5	9.50%	4	9.95%	4	11.79%	4	6.27%	6	8.36%	4	9.98%	4	10.42%	4	12.42%	4
SG-SSB	5.47%	7	7.11%	6	8.07%	6	7.84%	5	8.23%	5	5.51%	7	7.10%	6	8.17%	6	7.82%	5	8.20%	5
Stanbic	4.60%	8	2.63%	12	2.44%	12	2.84%	10	1.65%	13	4.72%	8	2.74%	11	2.52%	12	2.92%	10	1.69%	13
NIB	4.51%	9	5.44%	8	5.26%	8	4.74%	7	4.11%	7	4.12%	9	4.57%	8	4.64%	8	4.49%	7	4.03%	7
PBL	3.17%	10	3.00%	10	2.82%	9	2.81%	11	2.42%	10	3.20%	10	3.06%	10	2.85%	9	2.85%	11	2.40%	10
CAL	3.05%	11	3.05%	9	2.68%	11	2.65%	12	2.31%	11	3.10%	11	3.08%	9	2.69%	11	2.64%	12	2.40%	11
TTB	2.88%	12	2.39%	13	2.72%	10	2.89%	9	2.46%	9	2.90%	12	2.43%	13	2.76%	10	2.96%	9	2.50%	9
FAMBL	2.20%	13	2.67%	11	2.32%	13	1.62%	14	1.63%	14	2.27%	13	2.70%	12	2.28%	13	1.64%	14	1.63%	14
HFC	2.11%	14	2.08%	14	1.95%	14	1.91%	13	2.02%	12	2.19%	14	2.12%	14	1.89%	14	1.91%	13	1.99%	12
ZBL	2.05%	15	1.26%	18	0.39%	19					2.05%	15	1.17%	18	0.32%	19				
Fidelity	1.91%	17	1.54%	15							2.01%	16	1.58%	15						
ABL	1.96%	16	1.29%	17	1.11%	16	1.18%	15	1.19%	15	1.89%	17	1.20%	17	1.08%	16	1.14%	15	1.21%	15
Intercont	1.29%	18	0.38%	22							1.22%	18	0.25%	22						
ICB	1.07%	19	1.35%	16	1.25%	15	1.08%	16	0.86%	16	1.04%	19	1.33%	16	1.26%	15	1.08%	16	0.86%	16
UGL	0.91%	20	0.72%	19	0.61%	17	0.55%	17	0.38%	18	0.81%	20	0.63%	19	0.56%	17	0.52%	17	0.39%	18
GTB	0.54%	21	0.41%	21	0.26%	20					0.49%	21	0.32%	21						
BPI	0.38%	22	0.51%	20	0.49%	18	0.52%	18	0.48%	17	0.38%	22	0.50%	20	0.46%	18	0.50%	18	0.46%	17

	Share of industry total operating income										Share of industry profit before taxes									
Bank	**2007**	**R**	**2006**	**R**	**2005**	**R**	**2004**	**R**	**2003**	**R**	**2007**	**R**	**2006**	**R**	**2005**	**R**	**2004**	**R**	**2003**	**R**
BBG	15.92%	2	14.07%	2	15.59%	2	17.38%	2	17.49%	2	21.32%	1	20.88%	2	22.99%	1	24.53%	1	24.34%	1
GCB	16.57%	1	19.78%	1	19.24%	1	18.47%	1	21.61%	1	15.80%	3	17.71%	3	12.88%	3	13.20%	3	15.94%	3
SCB	11.89%	3	13.92%	3	14.52%	3	14.07%	3	15.75%	3	17.55%	2	21.35%	1	19.92%	2	17.37%	2	21.97%	2
EBG	7.89%	4	7.76%	5	7.73%	6	6.53%	6	6.49%	6	6.00%	5	6.22%	5	5.16%	5	7.75%	5	7.97%	5
MBG	6.21%	7	6.01%	7	4.96%	7	4.70%	8	3.55%	8	6.00%	5	6.22%	5	5.16%	5	5.03%	7	2.28%	10
ADB	6.33%	6	7.57%	6	7.91%	5	10.04%	4	9.18%	5	3.77%	9	5.33%	7	4.54%	7	7.00%	6	6.48%	6
SG-SSB	7.04%	5	8.18%	4	8.93%	4	8.91%	5	9.90%	4	6.33%	4	6.56%	4	8.33%	4	9.61%	4	8.48%	4
Stanbic	3.84%	9	2.20%	12	2.21%	12	1.86%	12	1.30%	12	5.44%	7	2.30%	10	1.60%	12	0.94%	13	0.92%	13
NIB	4.97%	8	4.13%	8	4.53%	8	4.99%	7	3.94%	7	2.79%	11	1.55%	11	4.21%	8	4.03%	8	3.14%	7
PBL	2.65%	12	2.46%	11	2.40%	11	2.11%	11	1.65%	11	2.04%	12	1.32%	12	1.71%	11	1.44%	11	1.06%	12
CAL	2.88%	11	2.96%	10	2.60%	10	2.28%	10	2.18%	10	3.22%	10	3.04%	9	2.57%	10	2.36%	10	2.43%	9
TTB	3.28%	10	3.12%	9	3.15%	9	3.07%	9	2.49%	9	4.29%	8	3.57%	8	3.82%	9	3.39%	9	2.66%	8
FAMBL	2.04%	13	2.18%	13	2.02%	13	1.70%	13	1.08%	14	1.19%	14	0.67%	15	0.76%	13	0.64%	15	0.28%	15
HFC	1.87%	14	1.33%	14	1.20%	14	1.33%	14	1.20%	13	1.78%	13	0.79%	13	0.46%	15	1.29%	12	1.39%	11
ZBL	1.51%	15	0.43%	19	0.10%	19					0.02%	21	-1.34%	23	-0.35%	20				
Fidelity	0.94%	19	0.11%	20							0.12%	19	-0.44%	21						
ABL	1.42%	16	0.80%	17	0.75%	16	0.76%	16	0.65%	15	0.66%	16	-0.14%	19	0.38%	16	0.57%	16	0.26%	16
Intercont	1.21%	17	0.11%	20							0.05%	20	-0.23%	20						
ICB	0.89%	20	0.90%	15	0.90%	15	0.77%	15	0.61%	16	0.70%	15	0.69%	14	0.74%	14	0.65%	14	0.48%	14
UGL	1.07%	18	0.84%	16	0.61%	17	0.45%	18	0.36%	18	0.32%	17	0.27%	16	0.06%	18	0.08%	18	0.06%	17
GTB	0.30%	22	0.11%	20	0.06%	20					-0.70%	23	-1.02%	22	0.01%	19				
BPI	0.54%	21	0.50%	18	0.58%	18	0.59%	17	0.58%	17	0.17%	18	0.18%	17	0.11%	17	0.13%	17	-0.14%	18

Share of industry shareholder funds

Bank	2007	R	2006	R	2005	R	2004	R	2003	R
BBG	11.89%	2	10.39%	4	11.74%	4	14.04%	3	13.80%	4
GCB	20.48%	1	14.76%	1	15.35%	1	15.76%	1	16.75%	1
SCB	10.98%	4	13.37%	2	14.20%	2	12.15%	4	14.43%	3
EBG	5.49%	7	6.25%	7	5.09%	6	5.53%	6	5.35%	6
MBG	5.54%	6	5.32%	8	5.04%	7	4.45%	8	3.58%	8
ADB	11.16%	3	11.52%	3	13.57%	3	15.37%	2	16.43%	2
SG-SSB	7.26%	5	9.51%	5	8.70%	5	10.11%	5	11.56%	5
Stanbic	3.11%	10	2.54%	10	2.48%	10	3.11%	10	2.90%	10
NIB	5.40%	8	6.51%	6	5.02%	8	4.66%	7	4.66%	7
PBL	1.41%	14	1.34%	15	1.40%	17	1.32%	14	1.07%	14
CAL	3.60%	9	3.53%	9	3.93%	9	4.37%	9	2.52%	11
TTB	2.46%	11	2.28%	11	2.21%	13	1.96%	12	1.68%	12
FAMBL	1.23%	16	1.36%	14	1.49%	16	0.95%	15	0.97%	15
HFC	1.62%	13	1.79%	12	2.31%	11	2.66%	11	3.15%	9
ZBL	0.90%	18	1.19%	17	2.22%	12				
Fidelity	0.83%	21	1.06%	22						
ABL	1.69%	12	1.25%	16	0.73%	18	0.80%	16	0.39%	16
Intercont	0.88%	19	1.15%	19						
ICB	1.40%	15	1.50%	13	1.63%	15	1.79%	13	1.11%	13
UGL	1.07%	17	1.18%	18	0.59%	19	0.69%	17	0.29%	17
GTB	0.77%	22	1.14%	20	1.99%	14				
BPI	0.84%	20	1.06%	21	0.31%	20	0.28%	18	-0.64%	18

Profitability and efficiency

Competition for limited custom and falling interesting rates combined to pile pressure on top-line margins…

Net spreads

A regime of declining market signalling rates and intense competition created an environment in which net spread for the industry fell. Declining prime rates over the survey period forced banks to regularly advertise ever reducing base rates; however, the aggressive competition from new generation banks set a floor below which interest rates paid on deposits could not be pushed further.

Banks such as UGL, BPI, ABL, and SCB recorded some of the industry's highest losses in net spread over the survey period. UGL's net spread dropped by some 19% over the period, probably due to a deterioration of its loan portfolio profitability and an increase in the proportion of more expensive funds in its total deposits. Loan portfolio profitability for the bank fell from 32% (2003) to 15% (2007). Over that period, current accounts shrunk from 61% to 37%, while time and fixed deposits increased in proportion from 24% to 57% of total deposits.

BPI's net spread loss was about 16%, probably the result of a steep decline in the average rate of interest charged on advances from 42% (2003) to 19% (2007), representing a 23% drop.

Net spread

Banks	2007	R	2006	R	2005	R	2004	R	2003	R
BBG	9.9%	10	12.3%	9	12.3%	9	13.0%	10	13.16%	10
GCB	7.7%	19	15.0%	4	13.0%	7	14.0%	8	10.72%	14
SCB	9.1%	15	14.1%	6	12.2%	10	12.7%	11	16.25%	6
EBG	8.2%	18	11.1%	11	9.9%	15	15.1%	7	12.66%	11
MBG	13.5%	4	8.1%	15	12.2%	12	11.5%	14	11.61%	12
ADB	9.6%	11	12.6%	8	11.7%	14	15.8%	6	11.01%	13
SG-SSB	10.1%	8	14.2%	5	11.8%	13	18.5%	5	17.17%	3
Stanbic	9.2%	14	8.5%	14	12.2%	11	6.7%	17	7.45%	16
NIB	13.6%	3	12.1%	10	17.0%	3	11.4%	15	10.58%	15
PBL	9.9%	9	9.0%	13	7.8%	17	8.4%	16	14.53%	7
CAL	10.5%	7	7.8%	16	16.6%	4	12.7%	12	13.46%	9
TTB	16.8%	1	15.3%	3	14.5%	5	21.3%	3	16.76%	5
FAMBL	9.3%	13	5.2%	17	8.0%	16	12.1%	13	5.66%	17
HFC	7.0%	20	3.0%	19	-1.4%	19	0.7%	18	-10.07%	18
ZBL	7.0%	21	4.2%	18	0.6%	18				
Fidelity	-0.8%	22								
ABL	8.2%	17	13.6%	7	20.7%	2	21.2%	4	17.13%	4
Intercont	12.2%	5								
ICB	9.4%	12	10.1%	12	12.6%	8	13.0%	9	13.55%	8
UGL	12.0%	6	18.5%	1	13.9%	6	25.1%	1	31.09%	1
GTB	8.3%	16								
BPI	14.7%	2	18.1%	2	24.1%	1	21.5%	2	30.98%	2
Industry	**9.4%**		**11.9%**		**12.2%**		**13.6%**		**12.71%**	

…but some banks figured how to keep bottom-line returns and margins afloat – even rising – when the industry averages failed to rise. Is the industry optimising non-interest and fee income sources?

HFC's 17% increase in net spread really seems to be a correction in the bank's interest rate structure, and initial overhang of borrowings in the bank's interest-bearing liabilities as it changed over from being a predominantly mortgage finance company into a bank.

In 2003, more costlier funds (borrowings) formed 73% of interest-bearing liabilities. This had fallen to 40% by end of 2007. Alongside, the bank grew its loan book from GH¢21.4million to GH¢102.5million. Average interest rates charged on loans also rose from 2% to 14%.

Profitability: profit margins and returns

Overall, in average terms, BBG was the most profitable bank over the survey period. Last year's survey (Ghana Banking Survey 2007, which covered a five-year period from 2002 to 2006) also determined BBG, on the overall, as the most profitable bank for that survey period.

For the period between 2003 and 2007, BBG had the industry's best average scores for return on assets (5.5%), pre-tax profit margin (52%), and profit after tax margin (34%). SCB came second place for all three metrics – ROA (4.8%), PBT margin (51%), and PAT margin (34%).

Return on assets (ROA)

Banks	2007	R	2006	R	2005	R	2004	R	2003	R
BBG	3.9%	4	5.5%	1	5.5%	1	6.2%	1	6.57%	2
GCB	2.6%	9	3.7%	5	2.2%	12	3.1%	10	1.93%	13
SCB	4.3%	2	5.0%	3	4.9%	2	4.7%	4	5.15%	3
EBG	3.7%	5	4.4%	4	4.2%	4	4.0%	8	3.99%	7
MBG	2.7%	8	3.5%	7	3.5%	5	4.3%	6	1.88%	14
ADB	2.1%	11	2.9%	10	2.3%	11	3.6%	9	3.25%	9
SG-SSB	3.0%	7	3.0%	9	3.5%	7	4.7%	3	4.62%	4
Stanbic	4.0%	3	3.3%	8	1.9%	13	1.9%	15	2.59%	11
NIB	1.9%	13	1.9%	11	3.5%	6	4.1%	7	7.76%	1
PBL	1.6%	14	1.3%	16	2.4%	9	2.4%	13	2.46%	12
CAL	3.1%	6	3.6%	6	3.1%	8	4.4%	5	4.16%	6
TTB	4.7%	1	5.1%	2	4.8%	3	4.9%	2	3.54%	8
FAMBL	1.3%	16	1.1%	17	1.3%	14	1.5%	16	0.82%	17
HFC	2.4%	10	1.4%	15	1.1%	16	3.0%	11	4.20%	5
ZBL	0.1%	21	-7.6%	21	-9.7%	19				
Fidelity	0.3%	19	-2.4%	19						
ABL	1.0%	18	-0.8%	18	1.1%	15	1.9%	14	0.98%	16
Intercont	0.2%	20	-5.2%	20						
ICB	1.9%	12	1.8%	12	2.4%	10	2.8%	12	2.67%	10
UGL	1.6%	15	1.6%	14	0.5%	18	1.0%	18	1.00%	15
GTB	-5.5%	22	-14.7%	22						
BPI	1.3%	17	1.6%	13	1.0%	17	1.0%	17	-1.57%	18
Industry	**2.9%**		**3.5%**		**3.5%**		**4.1%**		**3.94%**	

EBG, TTB, and CAL also performed creditably in these three profitability indicators over the survey period, swinging in an out of and interchanging positions for the third, fourth, and fifth places.

In 2007, specifically, SCB had the industry's best profit margins (35.6% PAT margin and 46.6% PBT margin), and the second best ROA. TTB had the best ROA in 2007. BBG's performance at profitability was relatively uncharacteristic, though still better than the industry averages.

Between 2006 and 2007, BBG actually grew its net interest and total operating incomes at paces higher than the industry's. However, the increase in the bank's non-interest operating expense from 2006 to 2007 was almost twice that of the industry's and is attributable to the expansionist campaign embarked on by the bank.

At the industry level, PBT margin fell from 39.3% (2003) to 32.4% (2007); PAT margin remained fairly flat between 2003 (25%) and 2007 (24%); and ROA dropped from 3.9% (2003) to 2.9% (2007).

Net interest margin

Bank	2007	R	2006	R	2005	R	2004	R	2003	R
BBG	9.41%	6	11.14%	5	11.65%	3	12.20%	1	13.25%	1
GCB	9.82%	4	13.52%	2	12.89%	1	11.93%	2	12.80%	3
SCB	9.09%	9	9.98%	7	10.22%	7	9.66%	7	10.93%	4
EBG	7.63%	13	8.77%	9	8.97%	12	8.76%	10	9.04%	9
MBG	8.20%	11	7.63%	18	9.26%	11	8.64%	11	6.10%	16
ADB	7.33%	15	8.36%	12	7.00%	18	6.90%	17	8.61%	10
SG-SSB	9.45%	5	10.18%	6	11.24%	4	11.62%	5	13.09%	2
Stanbic	7.73%	12	8.54%	11	7.37%	16	6.98%	16	8.42%	11
NIB	9.15%	8	8.26%	13	10.00%	8	11.63%	4	10.16%	7
PBL	7.50%	14	8.64%	10	8.56%	14	8.03%	12	7.67%	12
CAL	6.21%	19	7.86%	15	9.58%	10	7.29%	15	6.97%	14
TTB	10.09%	3	12.41%	4	10.90%	5	11.89%	3	10.86%	5
FAMBL	6.98%	16	8.04%	14	10.58%	6	9.02%	9	4.50%	18
HFC	9.33%	7	7.80%	16	8.63%	13	9.79%	6	10.17%	6
ZBL	5.15%	20	3.91%	22	4.29%					
Fidelity	3.66%	22	5.89%	20						
ABL	6.90%	17	6.75%	19	7.09%	17	5.54%	18	6.37%	15
Intercont	8.75%	10	19.07%	1						
ICB	6.73%	18	7.70%	17	8.26%	15	7.35%	14	6.98%	13
UGL	10.68%	2	13.44%	3	9.92%	9	9.21%	8	9.84%	8
GTB	3.89%	21	4.08%	21						
BPI	11.50%	1	9.97%	8	12.45%	2	7.94%	13	4.80%	17
Industry	**8.53%**		**9.93%**		**10.28%**		**10.10%**		**10.82%**	

Returns to shareholders

Lower interest rates and competition chipped away at returns on equity through narrowing spreads and rising costs. However, ROE still remains attractively high.

Return on equity

Over the survey period, industry ROE fell significantly from 34.8% (2003) to 26.5% (2007). Our analysis of the components of ROE (i.e. net spreads, cost efficiency and leverage) suggests that the decline in ROE was as a result of a combination of the declining interest rate regime and increased costs.

Declining interest rates mean that banks have reduced opportunities for high top-line margins – net spreads narrowed from 12.7% (2003) to 9.4% (2007), and net interest margins similarly shrunk by a little over 2% from 10.8% to 8.5%over the same period. The yields on government treasury bills, which used to be a hugely attractive investment for banks, have slumped and are no longer alluring.

To further squeeze profit margins, the recent competition experienced within the industry has driven up costs as a proportion of income. Industry cost-income ratio opened full throttle and powered up a steep incline of 12% over the five years from 2003. Net operating margin for the industry has similarly fallen from 13.7% to 10.7% in the same period.

In contrast to spreads and costs, industry leverage (i.e. total assets/ equity) picked up slightly over the period covered by the survey. Equity reduced relative to non-equity funds used in financing banks assets. Total assets/ equity inched up by about 50 basis points from 9% in 2003 easing pressure on ROE.

Return on equity (RoE)

Bank	2007	R	2006	R	2005	R	2004	R	2003	R
BBG	45.8%	4	54.3%	1	51.4%	3	58.8%	2	61.5%	1
GCB	19.6%	12	32.1%	6	19.9%	9	31.2%	9	20.9%	11
SCB	39.1%	5	42.3%	4	42.6%	4	45.3%	5	51.3%	3
EBG	48.4%	2	53.3%	2	52.8%	1	45.5%	4	45.0%	6
MBG	28.0%	7	33.7%	5	29.6%	7	38.7%	6	17.3%	13
ADB	11.6%	15	16.4%	11	12.7%	16	21.6%	13	18.5%	12
SG-SSB	20.0%	11	20.4%	10	24.3%	8	30.6%	10	30.0%	8
Stanbic	48.4%	1	27.8%	7	14.6%	12	12.5%	16	16.8%	15
NIB	14.5%	13	14.2%	13	29.7%	6	34.1%	7	51.4%	2
PBL	33.3%	6	23.9%	8	41.2%	5	46.2%	3	49.1%	4
CAL	24.0%	9	23.2%	9	16.6%	11	26.9%	11	33.1%	7
TTB	48.2%	3	47.1%	3	52.6%	2	62.5%	1	46.1%	5
FAMBL	22.4%	10	15.6%	12	16.8%	10	22.7%	12	10.7%	18
HFC	26.9%	8	11.4%	15	7.1%	17	17.5%	14	24.5%	9
ZBL	1.0%	21	-34.4%	22						
Fidelity	4.7%	19	-30.2%	21						
ABL	10.1%	17	-7.7%	18	14.0%	13	31.3%	8	23.3%	10
Intercont	1.8%	20	-14.6%	19						
ICB	14.4%	14	12.7%	14	13.3%	15	15.9%	15	16.9%	14
UGL	10.7%	16	9.4%	16	3.5%	18	8.0%	17	11.2%	17
GTB	-26.5%	22	-28.1%	20						
BPI	5.3%	18	9.1%	17	14.0%	14	-37.6%	18	11.4%	16
Industry	**26.5%**		**28.4%**		**28.4%**		**35.8%**		**34.8%**	

Stanbic tops the 2007 ROE ranking on the back of improved spreads, reduced cost-income ratio, and increased leverage. 2006 ROE pole position holder BBG slipped to fourth position.

However, it is expected that the palliative influence of the increasing leverage would lift soon as banks increase their stated capital to enable them to comply with BOG's recent directive on the increase of minimum capital by banks operating in Ghana.

It is anticipated that such increase in capital would have a significant dampening effect on ROE, at least in the short term.

In terms of which bank made the best returns on equity over the five-year survey period, BBG had the industry's highest five-year average ROE of 54.4%. This was followed by TTB and SCB with 51.3% and 44%, respectively.

In 2007 though, Stanbic made the best returns on its shareholders' funds. The bank made 48.5% ROE when the industry average was 26.5%, and was followed closely at the heels by both EBG (48.4%) and TTB (48.2%). Stanbic's performance was remarkable in particular, since the bank improved from the industry's seventh place ranking in ROE (27.8%) to first place.

A look at the relevant ratios of the bank tells the story behind this performance: the bank increased net spread by almost 180 basis points when the industry recorded a drop; it successfully reduced its cost-income ratio substantially from 66.2% to 48.2%; and multiplied the multiplier effect of its equity by increasing total assets/ equity from 5.1 times to 14.1.

GTB and ZBL, both relatively new entrants in the industry continued to perform dismally on the ROE scale recording ROE of -26.5% and 1%, respectively. Notable, however, is the fact that with the exception of GTB, all the banks surveyed recorded positive returns to shareholders. This is an improvement over the previous survey period where five out of the 22 banks surveyed recorded negative returns to shareholders.

Shareholders are typically rewarded for the time value of their investments as well as the potential risks through (1) capital gains when the market value of their stocks or shares appreciate; and (2) dividends.

Capital gains

- Capital gains for the six banks listed on the Ghana Stock Exchange (GSE) averaged 63.8% in 2007. This sector growth was approximately double the average GSE market index return, which was 32% for that year. SG-SSB had the highest gain of 108% followed by CAL, which had a 100% appreciation.
- The listed banks traded at P/E and P/B multiples of 16.1and 4.1 respectively.
- EBG and GCB came first and second on the dividend yield metric at 3.44% and 3.37%, respectively.

GSE listed bank shares out-performed entire market index by over 100%.

It is anticipated that more banks will be listed in the GSE to meet the increased minimum capital requirements. This will enable shareholders of other banks to evaluate the capital gains component of equity holdings. The table below provides a snapshot of the performance of listed bank shares.

Capital Return Analysis(2007)

Bank	Capital Gain(%)	P/E multiple	P/BV multiple	Div. Yield
EBG	48%	18.2	6.3	3.37%
SCB	65%	17.6	6.7	5%
HFC	0%	24.8	4.5	1.02%
CAL	100%	12.7	2.5	1.70%
SG-SSB	108%	16.9	3.0	6%
GCB	62%	8.9	1.8	3.44%
Industry	**63.8%**	**16.5**	**4.1**	**3.4%**

Dividend payout

Banks, in recent years, have consistently reduced the portion of their income distributed to shareholders in the form of dividends. This is evidenced by the decrease in dividend pay-out ratio from 61.8% in 2005, 51.5% in 2006 and to 37.5% in 2007. The systematic reduction in industry payout could possibly be attributed to retain more of earnings as a result of:

- Banks being required to increase their minimum capital following the issuance of a BOG directive in 2003;
- Greater opportunities for bank growth as the economy expands; and
- Increased industry competition compelling banks to develop more innovative products, invest in business and service support infrastructure, and increasing spend on marketing.

In 2007, SG-SSB distributed 90.8% of its earnings. SCB and EBG were the second and third highest dividend payers for that year, distributing 72.9% and 67.5% respectively. Stanbic and MBG, on the other hand, did not distribute any of its earnings despite their earnings being relatively high. These banks seem to have maintained a zero dividend payout policy over the survey period.

GTB, BPI, UGL, InterCont, FBL, and ZBL have not declared dividends in recent years, possibly due to their relatively low level of returns. All six banks reported less than 10% ROE in 2007 compared to an industry average of 28.5%.

Industry dividend pay-out ratio has declined in recent years from 61.8% in 2005,51.5% in 2006 and to 37.5% in 2007.

Dividend Payout Ratio

Bank	2007	R	2006	R	2005	R	2004	R	2003	R
BBG	13.8%	11	79.3%	1	92.9%	1	51.9%	4	60.1%	2
GCB	36.5%	5	25.8%	11	52.1%	7	37.9%	6	44.2%	6
SCB	73.0%	2	69.2%	2	87.2%	2	87.5%	1	87.5%	1
EBG	67.5%	3	66.9%	3	66.2%	4	30.6%	8	40.3%	7
MBG	0.0%	15	0.0%	14	0.0%	14	0.0%	13	0.0%	14
ADB	10.8%	12	30.0%	9	20.0%	11	13.1%	11	6.3%	12
SG-SSB	90.8%	1	64.5%	4	69.1%	3	60.4%	2	56.7%	3
Stanbic	0.0%	15	0.0%	14	0.0%	14	0.0%	13	0.0%	14
NIB	28.9%	7	0.0%	14	29.3%	10	0.0%	13	13.0%	11
PBL	0.4%	14	0.7%	13	0.7%	13	1.0%	12	1.5%	13
CAL	28.6%	8	26.1%	10	30.8%	9	25.1%	9	16.9%	10
TTB	25.0%	9	35.0%	8	35.0%	8	35.0%	7	45.0%	5
FAMBL	14.8%	10	17.0%	12	11.6%	12	0.0%	13	26.1%	9
HFC	31.7%	6	45.8%	7	63.8%	5	52.8%	3	39.6%	8
ZBL	0.0%	15	0.0%	14	0.0%	14				
Fidelity	0.0%	15	0.0%	14						
ABL	10.5%	13	0.0%	14	0.0%	14	15.9%	10	0.0%	14
Intercont	0.0%	15	0.0%	14						
ICB	0.0%	15	55.3%	5	0.0%	14	0.0%	13	0.0%	14
UGL	0.0%	15	0.0%	14	0.0%	14	0.0%	13	0.0%	14
GTB	0.0%	15	0.0%	14						
BPI	0.0%	15	0.0%	14	0.0%	14	0.0%	13	0.0%	14
Industry	**37.5%**		**51.5%**		**61.8%**		**43.3%**		**49.3%**	

Asset quality

The trend suggests an impressive improvement in the quality of credit banks have on their books… what happened? A re-balancing of sectoral focus of lending?...

Asset quality is open to a high degree of subjectivity due to judgmental calls that management of banks have to make on their loan portfolios. It is likely that some banks may be reluctant or presumably be too optimistic to recognise the full scale of potential default risk carried within their loan book.

The proportion of cumulative loan loss reserve to gross loans for the industry improved significantly from 15.7% (2003) to 5.29% (2007). The gross loan book over the same period grew three times in value. Most banks improved the quality of their portfolios compared to 2003, hence the reduction in the overall industry average.

Despite the marked improvements made by most banks during the survey period, BPI seemed to have had some challenges with its loan book and has consistently finished last on the loan book quality league table. The bank, however, managed to improve its loan loss rate from 60.08% in 2003 to 24.44% in 2007. An analysis of BPI's loan distribution showed a 25% allocation to miscellaneous and 20% to commerce and finance (the favourite of the industry). This may be due to the bank's strategy to grow its retail business.

Industry average growth in operating assets during the review period was 46.69%, an improvement over prior year's 42.41%.

This can be attributed to the aggressive marketing embarked on by banks to increase interest income. Stanbic, ZBL, ABL, GTB, and InterCont grew their operating assets by more than 100%, driven mainly by increases in loans and advances. InterCont increased its liquid assets and loans by six and five times, respectively. ADB, with the exception of 2003, and GCB under-performed the industry's average growth in operating assets between 2003 and 2007.

In 2007, commerce and finance, transport, storage and communication, services, and personal loans grew their percentage share of the industry loan portfolio compared with 2006.

The industry loan was distributed among the sub-sectors as follows: agriculture (5.08%); mining and quarrying (2.5%); manufacturing (12.96%); construction (7.23%); electricity, gas and water (4.21%); commerce and finance (31.25%); transport, storage and communication (3.84%); services (17.05%); personal loans (14.99%); and housing (0.89%).

… an improvement in the entire machinery of credit appraisal and facility monitoring?... an improvement in general creditworthiness? … or optimistic provisioning?

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ADB continues to be the major financier of the agricultural sector, which represented 30.08% of the bank's total gross loan portfolio with 34.32% granted to the service sector. 17% of the industry's portfolio granted to the service sector was financed by EBG.

Commerce and finance continues to be the most supported sector by the banks. About 31% of the total industry loans and advances was granted to this sector recording an increase from 29% in 2003. Between 2003 and 2007, the agriculture and manufacturing sectors recorded the highest drop from 11% to 5%, and from 20% to 13%, respectively.

GCB and InterCont have high exposures in the commerce and finance sector with more than 80% of their loan portfolio granted to it. Generally, this sector is considered, historically, to have carried smaller systemic risk.

The improved asset quality may be a combined result of the change in the portfolio mix, increased monitoring activities of the banks and improved appraisal processes.

Although BPI significantly improved on its cumulative loan provision over gross loans from 49.76% (2006) to 24.44% (2007), the bank's loan book was considered to be in a condition that was the industry's weakest in 2007. FAMBL with 4.43% was the worst for new loans provision in 2007, although it showed an improvement from 6.84% (2003).

About 52.54% of BBG's portfolio comprised other personal loans, which is in line with the current market trend of growing the retail business. In contrast, MBG supported the manufacturing sector the most.

The following banks deteriorated in their cumulative loan loss provisions during the year: SCB at 3.53% from 3.51% (2006); MBG, 6.84% from 3.75% (2006); PBL, 4.84% from 3.14% (2006); FAMBL, 16.01% from 14.9% (2006); and HFC, 3.49% from 3.29% (2006).

EBG in 2003 had cumulative loan provision of 5.57%, but managed its loan book over the period and improved to 2.72% in 2007, although it shot up to 6.67% in 2004.

The following banks, over the survey period, also under-performed the industry average for cumulative loan provisions: ADB, NIB, and BPI, while FAMBL and ICB under-performed with the exception of 2004 when they were above the industry average. Although all these banks have improved in 2007 compared to that of 2003 they should continue to keep an eye on their loan books for effective management of credit risk.

Ghana Banking Survey 2008

	New loan loss provision/ gross loans and advances										Cumulative loan loss reserves/ gross loans and advances									
Bank	**2007**	**R**	**2006**	**R**	**2005**	**R**	**2004**	**R**	**2003**	**R**	**2007**	**R**	**2006**	**R**	**2005**	**R**	**2004**	**R**	**2003**	**R**
BBG	0.84%	2	0.92%	6	2.64%	9	2.04%	5	3.08%	9	2.57%	5	3.44%	5	5.86%	7	6.35%	3	6.11%	6
GCB	1.09%	5	0.44%	16	2.44%	7	3.98%	11	5.48%	11	2.35%	4	3.10%	2	15.13%	15	15.33%	14	14.75%	11
SCB	0.60%	1	-0.58%	2	4.87%	15	0.32%	1	-0.85%	1	3.53%	9	3.51%	6	8.93%	8	13.48%	13	15.06%	12
EBG	1.20%	6	0.19%	3	1.31%	4	0.96%	3	2.01%	3	2.72%	6	3.76%	8	5.21%	4	6.67%	5	5.57%	3
MBG	3.17%	19	2.79%	12	2.97%	11	5.18%	14	7.25%	16	6.84%	16	3.75%	7	5.78%	6	6.46%	4	26.57%	15
ADB	4.27%	21	7.17%	19	4.74%	14	9.76%	18	8.38%	18	15.95%	20	18.86%	18	17.98%	17	21.84%	17	28.07%	16
SG-SSB	3.42%	20	3.01%	13	0.98%	2	3.76%	10	7.20%	15	6.23%	15	7.94%	12	9.65%	9	15.53%	15	18.46%	13
Stanbic	1.08%	4	-0.82%	1	5.68%	16	5.73%	15	2.71%	6	2.31%	3	5.21%	10	15.26%	16	11.52%	11	5.75%	4
NIB	2.99%	17	0.70%	5	6.21%	18	3.68%	9	6.25%	12	12.68%	19	15.38%	17	24.57%	18	20.47%	16	29.76%	17
PBL	1.90%	12	0.94%	8	1.60%	5	1.87%	4	3.02%	7	4.84%	11	3.14%	3	4.08%	2	4.46%	1	4.65%	2
CAL	0.92%	3	3.02%	14	3.73%	12	2.36%	6	3.07%	8	5.66%	13	6.69%	11	10.34%	10	9.73%	9	10.23%	9
TTB	2.09%	13	2.16%	11	2.47%	8	4.41%	12	3.74%	10	4.12%	10	4.22%	9	4.61%	3	9.50%	7	7.53%	7
FAMBL	4.43%	22	6.88%	18	7.23%	19	8.00%	17	6.84%	14	16.01%	21	14.90%	16	11.50%	11	9.55%	8	20.28%	14
HFC	1.44%	10	0.93%	7	0.51%	1	0.93%	2	1.99%	2	3.49%	8	3.29%	4	5.77%	5	6.16%	2	5.76%	5
ZBL	1.27%	7	0.94%	9	0.99%	3					1.49%	1	1.00%	1	0.99%	1				
Fidelity	1.32%	8									1.53%	2								
ABL	2.12%	14	5.13%	17	2.76%	10	2.73%	7	6.75%	13	5.56%	12	9.94%	13	11.70%	12	9.35%	6	7.85%	8
InterCont	3.12%	18									5.89%	14								
ICB	1.45%	11	3.52%	15	6.20%	17	2.96%	8	2.14%	4	9.76%	18	12.59%	14	14.79%	14	10.89%	10	12.66%	10
UGL	1.38%	9	3.69%	16	4.49%	13	7.62%	16	2.57%	5	7.51%	17	13.42%	15	14.77%	13	12.78%	12	4.59%	1
GTB	2.89%	16									3.00%	7								
BPI	2.85%	15	1.32%	10	1.95%	6	4.61%	13	7.49%		24.44%	22	49.76%	19	54.55%	19	61.64%	18	60.08%	18
Industry	**1.80%**		**1.72%**		**2.79%**		**3.42%**		**4.28%**		**5.29%**		**6.65%**		**11.24%**		**12.96%**		**15.74%**	

Loan portfolio profitability

Bank	2007	R	2006	R	2005	R	2004	R	2003	R
BBG	11.47%	14	13.81%	7	11.88%	13	13.09%	13	12.33%	11
GCB	9.02%	21	16.69%	4	13.04%	9	13.11%	12	9.49%	13
SCB	12.86%	10	17.87%	3	14.57%	6	15.94%	9	17.88%	8
EBG	9.39%	17	13.80%	8	11.75%	14	17.07%	7	13.68%	10
MBG	15.86%	2	9.02%	17	12.74%	10	10.01%	15	8.93%	14
ADB	9.38%	18	10.36%	15	10.31%	16	7.56%	16	4.53%	17
SG-SSB	9.11%	19	12.98%	11	12.60%	11	17.33%	6	12.11%	12
Stanbic	9.81%	15	12.18%	13	8.75%	17	4.24%	17	8.35%	15
NIB	13.38%	9	15.59%	5	10.89%	15	11.76%	14	5.51%	16
PBL	14.33%	7	13.59%	9	13.88%	8	15.58%	11	24.82%	2
CAL	15.06%	4	9.98%	16	18.89%	3	17.69%	5	20.12%	5
TTB	16.60%	1	15.38%	6	15.32%	4	20.61%	3	19.42%	6
FAMBL	14.23%	8	12.11%	14	14.88%	5	21.08%	2	14.78%	9
HFC	12.33%	12	6.14%	18	3.19%	18	3.70%	18	0.02%	18
ZBL	9.41%	16	4.59%	19	-0.22%	19				
Fidelity	5.42%	22								
ABL	12.49%	11	13.52%	10	22.96%	2	24.15%	1	18.00%	7
Intercont	11.67%	13								
ICB	14.77%	5	12.21%	12	14.41%	7	16.63%	8	21.20%	4
UGL	14.61%	6	18.07%	2	12.16%	12	20.34%	4	32.02%	1
GTB	9.09%	20								
BPI	15.37%	3	19.74%	1	25.68%	1	15.61%	10	23.25%	3
Industry	**11.18%**		**13.60%**		**12.69%**		**13.58%**		**11.94%**	

Liquidity

Competition will get keener, branches will sprout on each street corner; deposits will grow further, but deep strategic thought is required for positive returns on the liquidity.

Liquid funds/ total deposits

Bank	2007	R	2006	R	2005	R	2004	R	2003	R
BBG	0.44	19	0.46	18	0.46	18	0.70	16	0.68	17
GCB	0.38	21	0.59	12	0.62	15	0.77	15	0.91	10
SCB	0.75	4	0.91	3	0.70	11	0.65	17	0.69	16
EBG	0.66	7	0.71	8	0.77	9	0.85	13	0.77	14
MBG	0.47	18	0.42	19	0.46	19	0.60	18	0.72	15
ADB	0.61	12	0.86	5	0.81	7	1.06	5	1.17	5
SG-SSB	0.63	9	0.85	6	0.85	5	0.97	8	0.95	9
Stanbic	0.52	16	0.57	14	0.90	4	0.90	11	0.96	8
NIB	0.39	20	0.49	17	0.53	17	1.19	2	1.69	3
PBL	0.63	10	0.56	15	0.66	12	1.07	4	1.41	4
CAL	0.86	2	0.71	10	0.81	8	0.86	12	0.91	12
TTB	0.63	11	0.50	16	0.65	13	0.98	7	0.91	11
FAMBL	0.89	1	1.23	1	0.83	6	1.11	3	1.04	6
HFC	0.61	13	0.64	11	1.21	1	1.84	1	2.24	1
ZBL	0.55	15	0.74	7	0.74	10				
Fidelity	0.79	3								
ABL	0.52	17	0.71	9	0.92	2	1.00	6	1.74	2
Intercont	0.58	14								
ICB	0.75	5	0.95	2	0.92	3	0.97	9	1.02	7
UGL	0.32	22	0.59	13	0.60	16	0.95	10	0.83	13
GTB	0.64	8								
BPI	0.68	6	0.90	4	0.64	14	0.77	14	0.62	18
Industry	**0.55**		**0.67**		**0.67**		**0.82**		**0.88**	

The industry liquid assets to deposits ratio fell from 0.88 to 0.55 over the survey period, suggesting that more of deposits are loaned out rather than placed in less risky assets.

Still, the industry's liquid assets have also grown. Between 2003 and 2007, the industry's liquid assets grew from GH¢1.4billion to GH¢3.1billion, representing a more than 100% jump. However, the rate of increase over the last few years has been relatively slower. Perhaps, the returns from placing funds into liquid assets are not as attractive as during a period in the past when yields on Government treasury bills were pretty high in the range of 45% to 50%, when there were a real treasure; or banks do not consider credit risk to be as risky as before.

As shown in the opposite table, by the end of 2007, two of the third quartile banks, i.e. FAMBL and FBL, had about 80% and 90%, respectively, of their deposits placed in liquid assets. About 45% of FAMBL's liquid assets were held in its Nostro accounts and 37% in Government securities. FBL, on the other hand, had about 55% of its liquid assets in Government securities and 28% in its Nostro accounts.

BBG and GCB, the top banks in the first quartile category, had less than 45% of their deposits in this "safe haven". UGL had the least liquid assets to total deposit ratio in 2007, as it rapidly built its asset base.

Capital structure and financial risk

The industry's equity cushion seems to have been worn thin, as the competition thickens and banks intensify market share.

Total assets/ equity

Bank	2007	R	2006	R	2005	R	2004	R	2003	R
BBG	12.50	8	10.42	6	9.20	7	9.36	9	9.72	9
GCB	6.93	19	8.72	13	8.37	8	9.71	8	10.73	7
SCB	9.15	13	8.82	11	7.93	12	9.93	7	9.40	10
EBG	14.59	5	11.04	4	13.56	2	11.55	6	11.13	6
MBG	10.58	12	10.46	5	8.33	9	8.60	11	9.83	8
ADB	5.18	21	5.90	18	5.54	17	5.53	16	6.45	14
SG-SSB	7.15	18	6.38	17	7.34	14	6.62	14	6.40	15
Stanbic	14.05	6	8.82	10	7.79	13	7.79	12	5.10	17
NIB	7.91	16	7.13	16	8.30	10	8.67	10	7.92	12
PBL	21.42	3	19.10	1	15.99	1	18.17	1	20.41	2
CAL	8.05	15	7.38	15	5.41	18	5.19	17	8.24	11
TTB	11.10	10	8.96	9	9.73	6	12.56	5	13.19	4
FAMBL	16.95	4	16.82	2	12.28	4	14.63	3	15.01	3
HFC	12.37	9	9.91	7	6.69	15	6.11	15	5.75	16
ZBL	21.57	2	9.02	8	1.38	19				
Fidelity	21.79	1	12.46	3						
ABL	11.00	11	8.81	12	11.93	5	12.58	4	27.36	1
Intercont	13.95	7	2.82	22						
ICB	7.22	17	7.66	14	6.08	16	5.13	18	7.00	13
UGL	8.07	14	5.20	19	8.18	11	6.78	13	11.71	5
GTB	6.65	20	3.10	21						
BPI	4.30	22	4.09	20	12.71	3	15.52	2	-6.71	18
Industry	**9.49**		**8.53**		**7.91**		**8.54**		**8.99**	

By the end of 2007, industry leverage (total assets to equity ratio) had climbed to the industry's highest over the past five years. It would appear that banks are getting less risk averse.

In 2007, the industry's equity grew by 33% from GH¢603million (2006) to GH¢806million. The industry stated capital also increased by GH¢63million, due mainly to GCB's right issue of GH¢60million.

Total assets grew from GH¢5.1billion (2006) to GH¢7.6billion (2007), representing 48%. Most of the growth in total assets was driven by lending activities. The industry's net loans and advances in 2007 was 67% bigger the 2006 loan book, much higher than average annual growth rate of 45% over the survey period. This growth signals the banks' increased confidence in Ghana's macroeconomic state and prospects.

Over the five year period, smaller banks like FBL, ZBL, PBL and FAMBL recorded the highest total assets to equity ratios due to the increase in the size of their loan books, perhaps in efforts to increase their market share of loans and advances.

Though higher leverage usually improves ROE in good times, it also subjects banks to a disproportionate risk of failure in economic downturns. BPI had the lowest leverage in 2007. It had a negative income surplus over the survey period, mainly as a result of provisions for non-performing loans in 2001 and 2002. ADB, with the next lowest leverage, revalued landed property by GH¢12million in 2007. This increased the bank's asset by 3% and equity by 17%.

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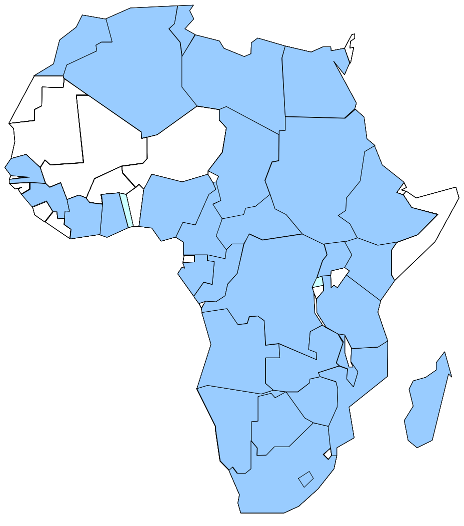

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