

# ***2013 Ghana Banking Survey***

## **Harnessing the SME potential**

June 2013



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# A message from our CSP



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## **SME: Optimising their potential**

Global markets are flat and commodity prices are dropping including oil and gold, yet banks in Ghana have experienced a good year. National economic growth rate remains higher than past trends and prospects for the economic outlook appears promising.

Nominal GDP has expanded rapidly when that of our global partners including buyers of our commodities is growing at a much slower pace, in some cases even contracting. There are clear indications that Ghana has great potential, if it can convert its economy from an extractive to a production one. High growths could then be sustained over the medium to long term.

It is no surprise that banks have experienced significant growth in 2012. The industry operated in a high interest rate environment for the best part of fiscal year 2012, shored up by government's rather steep demand for

liquidity, which led to a steep rise in Treasury bill rates, compared to the 2011 levels.

The economy of Ghana is projected to grow by 8% in 2013 and 8.7% in 2014. One of the key indicators of a booming economy is a vibrant Small and Medium Enterprises (SMEs) sub-economy and how well they contribute to GDP. In Ghana, the bulk of SMEs are within the Services sector, particularly hotels, restaurants, transport and storage, business and real estate. The Services sector contributed 49.3% to GDP in 2012, having grown at an annual rate of 8.8% over its 2011's contribution.

Clearly this sector has the potential to contribute to national prosperity and is one of the key employment generating sectors in Ghana.

In our view, how effectively that potential is harnessed for adequate contribution to the national socio-economic aspirations depends to some extent on the level of SME's financial inclusion. The subject of SME financial inclusion has been debated for a while, but SMEs continue to decry the level of access to finance they enjoy and the cost of borrowing to them. During our 2013 banking survey, we tried to obtain some understanding of what could be some of the key issues that beleaguer business relationships between banks and SMEs to derive some insights into what could be done to achieve better financial inclusion of SMEs.

The results of the survey are very illuminating. Without a doubt, banks do recognise SMEs as very good contributors to their own businesses. Still, banks engage with SMEs, treading

rather very cautiously because of the higher-than-average risks SMEs carry, and hedging against these risks by allowing relatively small credits at high interest rates.

The causative factors for SMEs' higher risks profiles are very well known and have been very well documented. But knowledge or awareness of these risks has not, by itself, led to increased financial inclusion for SMEs. The fact remains that SMEs remain in competition with larger and better organised corporate customers and Government too.

With the existence of such high demand from alternative customers that also have more acceptable risk profiles, banks generally seem to have avoided investing themselves (financial resources, risk management systems, and capacity building) into better understanding the SME market, preferring to take and keep their deposits on low or no interest accounts.

In our view, there must be transformational change to harness the SME potential. SMEs must be helped. Banks have a role to play; Government too has a role to play. At PwC, we are willing to contribute to a national effort to organise SMEs into a galvanised economic force. Surveys like this are good evidence of our readiness. We hope that when you read our report, you feel inspired to make your own contributions to help increase financial inclusion for our own "Missing Middle".

**Happy reading!**

A handwritten signature in blue ink that reads "Felix".

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## ***A message from the Executive Secretary of the Ghana Association of Bankers***



***The industry witnessed significant growth in 2012, which could be attributed to pressures on the banks to show significant returns from the investment made by shareholders to meet the minimum capital requirement. However, can this growth be sustained?***

Majority of these banks saw growth in their loan portfolios from credit facilities granted to the Small and Medium Enterprises (SMEs) falling under the commerce, finance, transportation and storage sectors.

Globally, the contribution of SMEs to the growth of national economies is significant. In Ghana, it is estimated that about 90% of companies registered are micro, small and medium enterprises. They have evolved to become key suppliers and service providers to large corporations, including multinational and transnational corporations. About 49% of Ghana's GDP in 2012 was generated from SMEs and they therefore have an impact on economic growth, income and employment.

SMEs are now exposed to greater opportunities than ever before as expansion and diversification across different sectors continue. However, they face a number of challenges including good governance, technical knowledge in their industry, non-availability of highly skilled labour and the availability of timely finance.

The Government put measures in place to boost the SME sector and ensure adequate financing including the Venture Capital Trust; even though support for this institution has weakened over time.

Within the banks, SME departments have been strengthened to meet the demands of SMEs and to ensure that all risk management procedures have been adhered to, making it easier for SMEs to access funds. One of the problems banks face is how to separate credit facilities for the SME from the personal funds of the entrepreneur.

The SME sector is currently expanding at a high rate and requires proper structuring to attract financial services from the banking sector in order to financially equip and support transactions to meet the growing competition from foreign multinationals.

The banking industry will experience accelerated growth if an agenda for greater financial inclusion of SMEs is seriously supported by all stakeholders.

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## *The “Missing Middle”*

**Isn't it remarkable that one economic constituent is publicly credited with so much potential, yet seems deprived of many of the opportunities that will enable it realise that potential? That is precisely the circumstances of SMEs.**

Anytime and everywhere in the world, when the spotlight is turned on this rather large group of diverse economic players, very interesting patterns emerge. Decision-makers in governments, policy makers and implementers, international development agencies, including bilateral and multilateral organisations, multinational companies whose value chains are littered with many SMEs, bankers, insurers, etc. have all mounted the podium around the world at different times and spoken of potential, successes, failures and challenges of SMEs.

They have also spoken of the good experiences and the frustrations of entities that have conducted business with SMEs.

A common theme that is consistently re-echoed, however, is the firm belief that, for most economies, SMEs represent sprawling fields of economic resources waiting to be discovered and tapped.

The above picture is no different from Ghana. Across different government administrations in our country's history, SMEs have held a special place in the political or national dialogue. Indeed, various programmes have been designed and implemented by government and the country's development partners in the past. Many of such programmes are still being implemented today. These programmes have yielded dividends of different forms and scale. But the general view is that the power of the SME has barely

been unleashed and its ability to contribute to national development largely remains unharnessed. Many times, limited access to finance and the high associated cost of funding have been blamed as key obstacles to effective realisation of SME power.

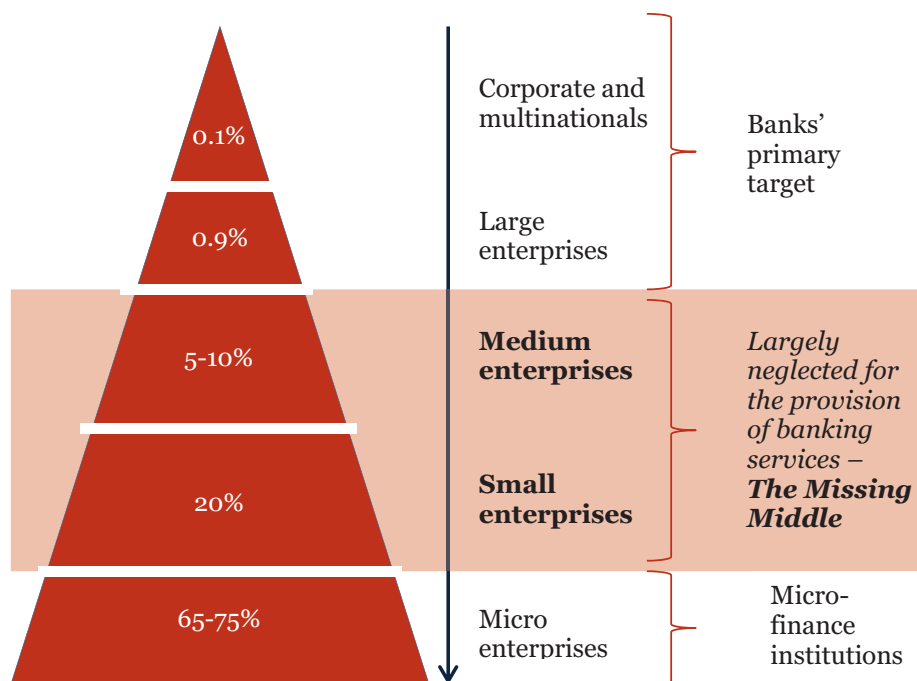
In Ghana, lately, SMEs seem to have occupied "front of mind" of many persons put in office to develop economic and business policy and regulations, as well as those individuals and stakeholder organisations that have SME advocacy or support mandates.

In the first quarter of 2013 especially, hardly a month passed without a city in the country playing host to a conference or workshop with an SME focus or slant; neither was there a shortage of press attention on SMEs. This kind of attention is indicative of increased interest in SMEs at the country's highest decision-making levels.

We have been listening keenly to the conversations on the economy and markets. We have been trying to gauge the areas of interest of both domestic and international players, whether in business, government or in the socio-economic development industry. And it is the insights that we have gleaned from such conversations that have informed our choice of thematic focus for our 2013 Ghana Banking Survey: *Harnessing the SME potential*.

### **SMEs as the "Missing Middle"**

SMEs are often referred to as the Missing Middle in the context of Financial Inclusion or access to financial (including banking) services. The reason for this is demonstrated in the schematic below.



Source: AccessFinance, A World Bank bi-monthly newsletter. Issue No. 30, Jan-2010



The phenomenon described in the diagram above has been found to be the typical situation existing in the financial services industry in most developing economies. Generally, SMEs are thought of as comprising or contributing to between 25-30% of the “formal” component of national economies. In Ghana, it is believed that up to 90% of annual business registrations recorded by the Registrar-General’s Department are SMEs.

With the recognition that successful SMEs hold the key to a vibrant and broad-based (in other words, sustainable) economic growth, we hold the opinion that it is worthwhile for suitably pre-disposed organisations to invest some veritable resources as a contribution to the on-going global exercise to figure out the appropriate models to implement to afford SMEs improved financial inclusion, enabling them to unleash their energy.

As part of our banking survey this year, we interviewed a number of stakeholder organisations to sample their views on SMEs, especially with the aim of determining the extent to which they deem SMEs financially included or excluded. The questions we posed touched on different areas of interest, including those listed below:

- Market definition and segmentation;
- The perceived strategic value and potential profitability of SMEs;
- Apparent opportunities and challenges;
- The level of engagement between SMEs and the banking industry;
- The gap between SMEs’ demand for financial services and what the banking industry is prepared to provide; and
- Banks’ risk management systems.

We have presented the aggregated outcomes from the bank interviews in the sections that follow. But first, to help create context for the discussion outlined by interview outcomes, we have sought to define the term Financial Inclusion, both generally and within the context we have used it for the survey.

### **Financial inclusion defined**

Various definitions exist for “financial inclusion”. Generally, it is described as *“the state in which all people have access to appropriate, desired financial products and services in order to manage their money effectively. It is achieved by financial literacy and financial capability on the part of the consumer and access on the part of financial products, services, and advice suppliers<sup>1</sup>”*.

Financial inclusion is of significant interest internationally because of the close linkage it has to social inclusion. It must be emphasised that financial exclusion (i.e. the reverse of financial inclusion) is not a developing economy phenomenon. Research conducted at different times and by different organisations has confirmed that there exists a good number of people in both the UK and the USA that are financially excluded, sizeable enough to attract significant attention from policy makers.

To lend focus to our discussion on financial inclusion, we have focused on SMEs only, though we recognise that the subject of financial inclusion applies to a much broader section of the society, including poor and, often illiterate, individuals and households. We have also slightly amended the definition of financial inclusion as stated above to make it more relevant to the Ghana context. This is because we recognise that, in Ghana, SMEs are not totally excluded from the wider financial services sector. It would, however, seem that their stiffest challenge lies with institutions with commercial or

universal banking licences. And this situation matters because that sector in the wider financial services industry currently controls a huge pool of resources, including loanable funds.

Hence, for the survey, we have defined financial inclusion as *“the degree to which SMEs have access to desired financial products, services, and/or advice that (1) have been appropriately tailored for their needs, (2) supplied by institutions with commercial or universal banking licences, and (3) at prices that are reasonably affordable”*.

It is within this context that we have considered the subject of optimising financial inclusion for SMEs through the banking system.

### **Bank interview outcomes**

In total, we had more than 50% of banks operating in the country participating in the survey. At all of the participating banks, we had direct access to senior executives who also have very good knowledge of the business their banks were doing in the SME space.

Consequently, we trust that the feedback documented in the graphs and charts in this section of the report fairly represent how majority of the general population of bankers in senior management positions perceive SMEs. They are also indicative of how relationships between these two communities are likely to evolve in the future, assuming no change in current trends.

For purposes of logical discussion, we have broadly structured the feedback into the following areas:

- Markets, opportunities, and strategic value;
- SMEs’ banking needs and available products, services and channels;
- Fit of banks’ internal systems, including risk management systems; and

<sup>1</sup>Credit to Resolution Foundation. See [http://www.resolutionfoundation.org/media/media/downloads/Financial\\_Inclusion\\_Financial\\_Capability\\_Explained.pdf](http://www.resolutionfoundation.org/media/media/downloads/Financial_Inclusion_Financial_Capability_Explained.pdf)



- Key challenges associated with SMEs.

### **Markets, opportunities and strategic value**

The questions posed to the banks in respect of this area sought to gauge what the general perceptions of banks are regarding the commercial feasibility and profitability of SMEs, and to ascertain whether the banking industry considers SMEs as holding strategic value for it to warrant the investment of financial resources considering the opportunity costs.

Firstly, we asked the banks what variables or factors they consider as important in their characterisation of business enterprises as SMEs.

#### **Q: How does your bank define SMEs for segmentation purposes?**

All the participating banks noted that annual turnover is the principal variable

they consider in their classification of their business enterprise customers as SMEs or otherwise. Generally, banks classify their business customers into corporate and commercial, and establish separate business units to serve these distinct customer groups.

While some banks serve SMEs out of their commercial banking units, others create a separate business unit with distinct reporting lines to executive management positions. This arrangement has important implications for the strategic value that such banks place on SMEs, as they are accorded an elevated visibility at strategic decision-making levels.

Different banks use different thresholds of annual turnover in their SME classifications. The lowest value, given by one bank, is US\$50,000 (approximately equivalent to

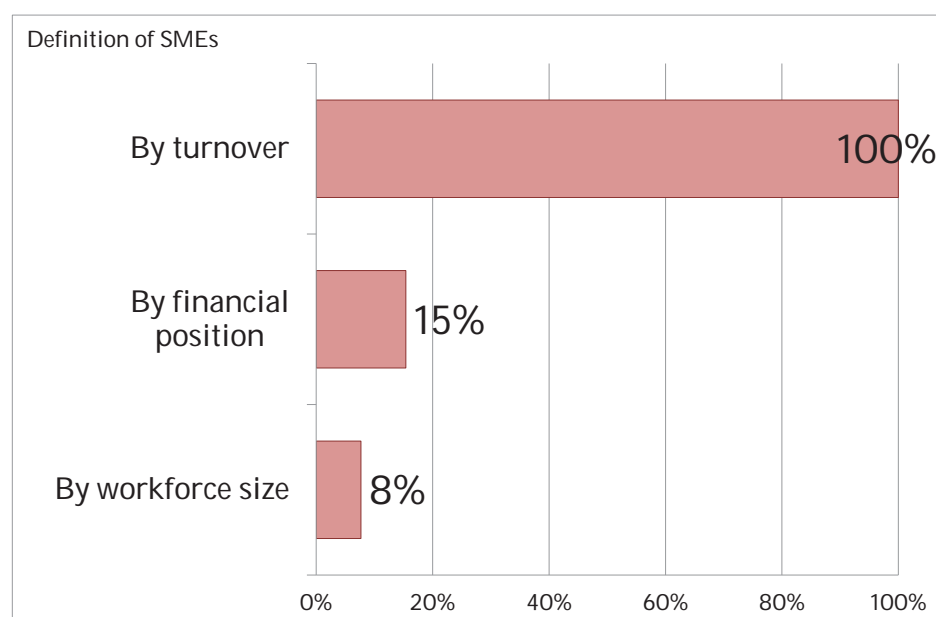
*non-individual customers that post annual turnovers or incomes of between US\$2m and US\$3m as SMEs in their customer portfolio.*

We also found out some banks further segment their SME customer portfolio into small enterprises and medium enterprises, still on the basis of turnover, and interact with these different segments using differentiated approaches and providing differentiated products and services. For instance, one bank had noted that for some type of SMEs, they cap the amount given as credit and would ordinarily approve such credit upon request within a very short time after the applying SME has satisfactorily passed a brief assessment test. For other SMEs, their requests for credit might be subjected to processes similar to those applied to the bank's commercial banking clients, though the amounts granted would be smaller than loans extended to commercial banking clients.

Another basis banks use for segmenting their SME portfolio is the nature of business that enterprises engage in. For example, one bank noted that it classifies its SME customer base into NGOs, professional organisations, distributors and dealers, etc.

Interestingly, the survey uncovered the fact that, it is not common practice among banks to use a customer relationship management (CRM) tool for customer acquisition and relationship mining in respect of this customer category.

77% of the participating banks noted that they only rely on approaches built around teams of relationship officers and relationship managers to manage relationships and optimise sales on both portfolio and individual enterprise bases, as they deem appropriate. In our view, this might not be as cost-efficient as having an electronic CRM platform that pulls and analyses data from a



GHS100,000). Another bank noted that it classifies all businesses earning up to US\$25m (approximately equivalent to GHS50m) in annual turnover as SME.

*The majority of banks, however, noted that they classify business customers or*

bank's core banking system/database.

15% of respondents also noted that they consider enterprise size – typically asset values – in their classification of customers as SMEs. 8% also noted that they may consider the size of the workforce.

38% remarked that they would take into account the type and sophistication of the legal vehicle used for conducting business when concluding on what to classify as SME. For example, such banks are more likely to classify businesses or enterprises registered as sole proprietorships and partnerships as SMEs.

A bank also mentioned that the location of an enterprise within the country is among the factors that it considers in profiling and classifying a business as an SME customer. However, when asked further, many of these banks noted that these additional considerations were more the products of practice rather than dictated by internal policies.

#### **Q: Is your bank's current focus on SMEs strategic or tactical?**

77% of banks responded that they have a deliberate focus on the SME segment of the economy. This focus is informed by a considered strategic decision to enhance their development of the SME market, increase their penetration, and improve their respective positions in a market that is believed to have significant commercial potential.

However, the responses to a further question that sought to clarify banks' strategic focus vis-à-vis the SME economy suggest that, for the majority of banks (i.e. 77% of participating banks), their business with the SME economy originates from their need to ensure an enhanced banking and service experience for their bigger corporate and commercial customers with operations in the telecoms, petroleum, and construction sectors, especially. These banks fill this need by

ensuring that they extend a carefully selected and risk-managed bouquet of banking products and services to smaller enterprises that dot the supply chains of larger customers.

Variably called "value chain banking", "supply chain banking", or "total business banking", we consider this approach more tactical than strategic.

54% of the participating banks, however, explained that their current focus on the SME segment of the economy is the result of a strategic decision taken to cultivate this market. 38% of the respondent banks (included in the afore-mentioned 54%) noted that they either were originally set up to have an SME focus or have had that focus for a period longer than five years. The remaining 15% admitted that their SME focus is not more than two years old. One bank conceded that although it was originally established to have a predominantly SME thrust to its business, this focus has largely been lost over time, distracted by higher returns

generated from corporate and commercial banking.

#### **Q: What do banks see as the biggest opportunities presented to them by SMEs?**

Banks were asked what attracts them the most to SMEs currently. They were also asked where they think the best and most profitable opportunities are likely to come from in the future with regard to this market segment.

The graph that follows presents what banks' views are of the most important benefits they derive from SME banking today.

#### **Opportunities today**

Note: The horizontal sum of values in the table above does not add to 100% because some banks declined to indicate a ranking for all six variables.

The table suggests that the majority of banks responded that they currently

	Most important ← → Least important					
	1	2	3	4	5	6
Cost efficiency			18%			36%
Higher profitability		18%	9%	18%	27%	
Cross-selling		18%	18%	27%	18%	
Non-interest income	18%	18%	27%	9%	27%	
Interest income	36%	27%	18%	18%		
Deposits	36%	18%	9%	9%		

**Note:** The horizontal sum of values in the table above does not add to 100% because some banks declined to indicate a ranking for all six variables.

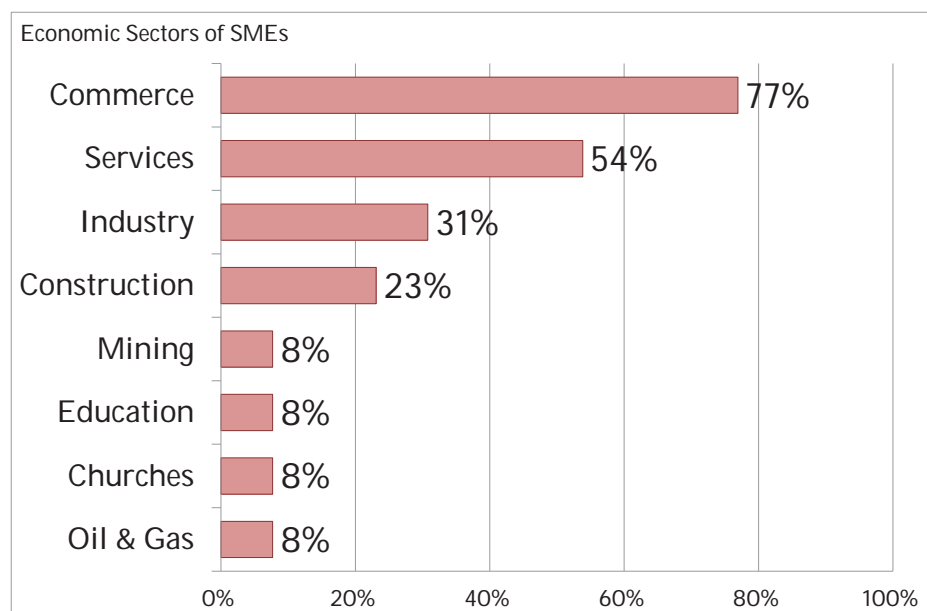
earn most of their income from SME banking in the form of interest income, i.e. from loans and advances provided to this economic group. 64% of banks selected interest income as the number 1 or the number 2 contributor to the total operating income they generate from the SME segment of their customer portfolio.

55% of banks also selected deposits as being among their top 2 sources of economic opportunities. They explained that SMEs are better sources of cheap deposits, as relative to larger corporate customers, they are less likely to place funds with a bank with a primary aim of making a return.

Instead, SMEs will often make lodgements with their bank with the objective of building sufficient cash in their accounts to finance a transaction, often one that involves foreign currency and requires the bank to assist with trade documentation, such as letters of credit.

Another 36% of banks selected non-interest income for first and second places, in terms of what they consider as the most important source of opportunities for them in the SME economy. The predominantly (import) trade slant to the businesses of SMEs is the reason banks attribute the importance of non-interest income to SMEs.

Indeed, the banks' responses to a question about the economic sector they conduct most of their SME banking business generated the pattern illustrated in the graph below.



competition with the government, multinational companies, and other large corporate organisation for the limited credit funds available by the banking industry.

Without a doubt, Commerce (Trade) constitutes the principal economic sector that their SME banking business is exposed to.

Still on current economic opportunities for banks involved in SME banking, when the question was expanded to cover the top 3 sources of economic opportunity presented to banks by SMEs, the proportion of banks that chose interest income as their most important source increased to 82%.

Non-interest income also drew even with deposits; 64% of responding banks named these two variables among their top 3 sources of economic benefit generated by SME banking.

Many of the banks described SMEs as being price insensitive. We do not find surprisingly that most banks found SMEs to be insensitive to price (i.e. interest rates and fees). Indeed, in our opinion, that description is symptomatic of SMEs' Financially Excluded status. The fact remains that SMEs are in

This naturally compels them to take credit facilities at relatively higher interest rates.

Besides the "SME crowd-out" effect induced by the competition from larger market players aside, banks generally associate SMEs with higher risks.

The often underdeveloped organisational structures and relatively smaller income streams of SMEs mean they are unable to develop comprehensive internal financial management and treasury systems that will allow them to negotiate tough terms with the banks in a way that government institutions or larger corporates do. The alternative to banks is savings and loans companies and loan sharks, whose interest rates are prohibitive.

A result of the above-described circumstances is that SMEs generally tend to show a great deal of loyalty to the banks that attempt to provide them with some of the products and services

they have demand for. One would have expected that the loyalty could be factored into considerations to increase the financial inclusiveness of SMEs.

Still, we recognise that some SMEs do not fit the general description given above. A very small minority indicated that they find SMEs to be price sensitive. They explained that even marginal differences in rates quoted by different banks can cause SMEs to shift their whole business (or cash flows/receivables) elsewhere without regard for the other characteristics of the service they might be receiving, or despite the existence of agreements between the bank and the SME.

An interesting point that emerged from the survey is the fact that 82% of banks interviewed stated that SMEs contribute between 5% and 25% of their annual operating income. Applied to the industry's 2012 operating income, the percentage values correspond to between GH¢167 m and GH¢836.5m.

A similarly interesting result from the survey is that 91% of participating banks reported that 5% to 50% of their gross loan book was in the form of "SME loans". 55% of this group reported that SME credit facilities constituted 5% to 25% of their gross loan book value.

In our view, the above statistics are indicative of both the significant economic and commercial potential that lies with the SME sector, as well as the high cost burden that the banking industry imposes on this promising economic group.

### **Opportunities in the future**

When asked, in the medium term, banks saw good business/commercial prospects for banks emanating from the SME sector, they all responded in the affirmative.

In supporting their view, many of the banks pointed out that they expect the recent oil and gas find and promulgation of local content legislation to help create

opportunities for SMEs. In their view, the 14.4% growth in GDP in 2011, the recent achievement of lower-middle income status by the country, and the growing evidence of an emerging middle income consumer class all indicate that economic opportunities are expanding in the country.

Banks noted that SMEs represent important links in the supplier and consumer distribution chains of larger corporates, and are relied on by these larger businesses for their own success. One bank captured this aptly: *"SMEs form the anchor of the economy and occupy a strategic role in the growth prospects"*.

Banks also hastened to add that the crystallisation of these economic opportunities for SMEs is significantly dependent on the manner in which government conducts itself in the fiscal and monetary space, and the effective implementation of local content policy and legislation, one that is properly crafted to benefit a broad base of indigenous SMEs.

While praising the potential embedded in SMEs, banks remain wary of the risks doing business with them entails. A few banks admitted that, in recognition that SME banking is increasingly becoming a key strategic option for the industry to consider, it is important to invest the right level of resources to better understand this sub-economy, and to help credible players with potential to strengthen their organisational structures, including governance and internal controls.

In this regard, one bank remarked: *"There is the need to understand that economy better. It is also necessary [for banks] to have a workable model... one that looks beyond simply lending to building capacity. Because of the diversity and sheer range in SME sizes, it is important to create models that incorporate flexibility to deal with differences in management and governance complexities"*.

Asked where they see the best and most profitable opportunities coming from in the future with regard to SMEs, banks noted a pattern illustrated by the diagram that follows.

In the future, banks see deposits and transaction banking as the most important sources of economic benefit for them.

For the majority of banks, deposits will replace lending to SMEs as the most important factor that will generate the highest benefits for the banking

From the diagram, it will appear that the banking industry does not believe that mobile banking is set to generate revenues of a significant scale from the SME market segment to merit sufficient attention and investment. *80% of surveyed banks ranked mobile banking as being of the least importance in terms of generation of economic benefits for banks.* Some banks remarked that they are not convinced that the banking population (least of all SMEs) is ready to adopt the alternative channel afforded by mobile banking.

Level of importance

	Highest			Least
Deposits	31%	46%	15%	8%
Transaction banking	42%	25%	33%	
Lending	38%	15%	47%	
Mobile banking		20%		80%

industry. *77% of banks participating in the survey ranked the importance of deposits to their business as number 1 or 2.*

The proportion of banks counting transaction banking among their most favoured or important sources of economic/commercial benefits for banks increased marginally from 63% (top 3, at present) to 67% (top 2, in the future).

Lending to SMEs dropped in relative terms as an important source of economic benefits for banks, as *54% of respondents ranked this source to be of high importance. This contrasts with the current much higher proportion of 82% of survey respondents.*

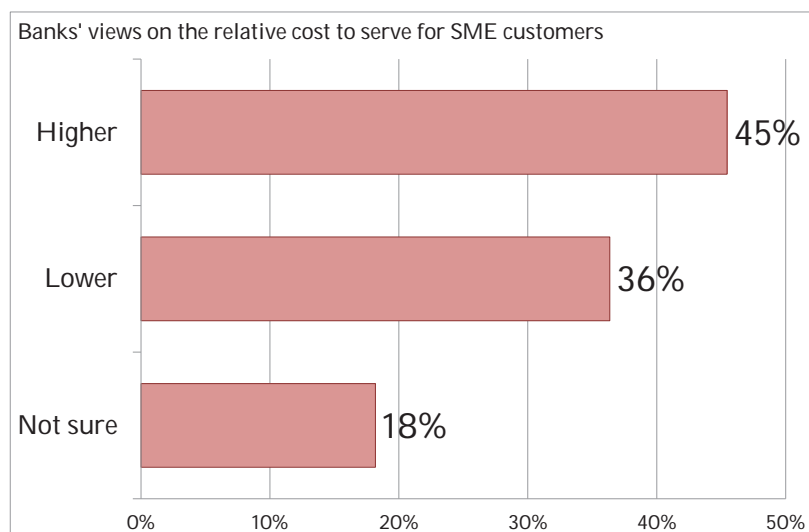
For us, the above pattern does not suggest that banks expect (or are readying themselves to support) a transformational change in the business nature of SMEs in the country.

Despite banks' assertion that the way forward with regard to successful SME banking comprises banks investing resources into building SMEs' governance and internal control systems, their responses about the future betray their lack of confidence that the risk profiles of SMEs are likely to improve.

Banks appear to expect that the SME economy will remain predominantly trade focused; they seem to lack the confidence that the SME economy could



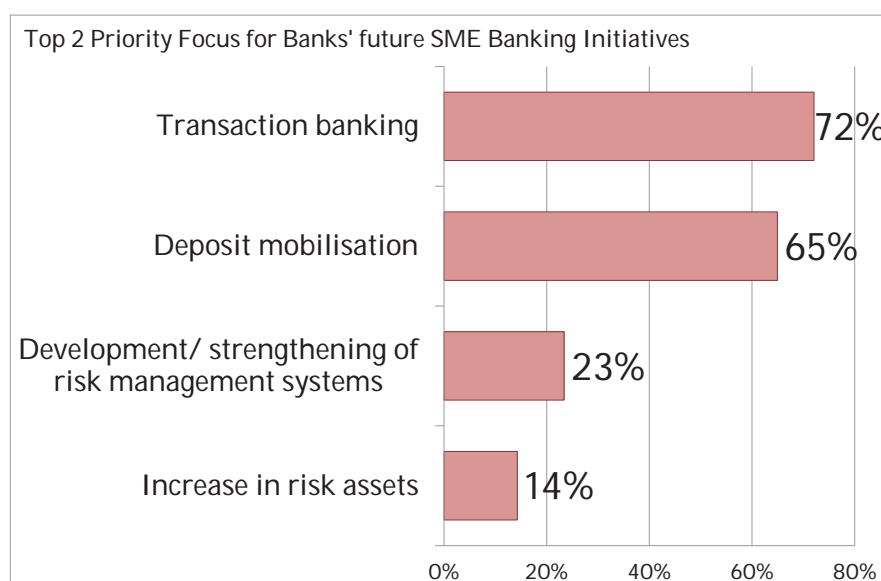
make a transition to larger businesses, probably with a manufacturing orientation, which will have need for sizeable, medium-to-long term credit at reasonable prices for accelerated and sustainable development and growth.



With regard to the type of products and services that banks aim to provide to the SME sector in the future, it would seem from their responses that banks plan to continue to take deposits from SMEs to facilitate trade for which they charge fees, and give them minimal credit.

We do not see any game-changing strategy that will result in increased financial inclusion for SMEs in this approach.

Though frequently mentioned by banks during interviews, it does not appear that SME advisory services are favoured highly by banks in the medium term, but this could be a very critical element in the support that needs to be extended to SMEs if they are going to be supported to make the transformation that will accelerate their effective financial inclusion.



### **Associated costs of SME banking today**

A majority of banks noted that, generally, the SME economy was more costly to serve in comparison to larger corporate and commercial customers. Interestingly a sizeable number (36%) of banks too noted that it is indeed cheaper, from the angle of portfolio profitability, to service the SME economy, compared to larger corporates and similar sized organisations.

### **Q: What is likely to form the core focus of banks' SME banking strategy in the future?**

When asked, the majority (i.e. 77%) of banks participating in the survey remarked that they have documented or are in the process of documenting strategic plans, which are aimed at increasing [banks'] penetration of the SME economy and expanding their wallet shares.

In contrast, a few banks noted that they do not have documented strategies, but deem the sub-economy important enough to warrant one to guide future go-to-market strategies.

When asked further, banks responses produced the pattern below in terms of their top two priority strategic focus with regard to the future of their SME banking.

The majority of banks do not believe that the current economic structure of the country will change in a manner that will support a transformation of the SME economy from being predominantly trade-driven.

Consequently, in their responses, 72% of participating banks selected transaction banking as their top 2 priority area of strategic interest. Specifically, trade (payments and collections) and cash management were two bank products that the majority of banks felt would be of importance to their strategies to optimise value derived from the SME economy.

As a result, some banks spoke of their consideration of plans to strengthen capacity internally to be able to cost-effectively provide value-added trade finance support services to SMEs as the latter scale up their participation in an increasingly complex international trade arena that is fraught with national and international legislation and regulations that diversely seek to protect national economies or ease trade flows across national borders.

### **SMEs' banking needs and available products, services and channels**

In this section, we have reported on the survey findings with regard to the needs of the SME market, as perceived by banks.

For SME financial inclusion to be increased, it is expected that banking products and services availed to the SME market must be "tailored" to suit the peculiar needs of the players in that sub-economy. Without a doubt, that could be challenging because of the diversity of players in that segment. Still that is what is required, if financial inclusion is going to be effective.

Multiple factors, e.g. bank capital and associated shareholder returns expectations, risk management needs, prudential requirements of the regulator, SMEs' internal structural weaknesses, a narrow suite of banking products and services offered at

"supplier's prices", etc. have combined to create a situation of exclusion for SMEs.

### **Q: What products do banks see SMEs as currently having the most demand for?**

In answering this question, 54% of banks participating in the survey selected "Access to finance" as what they perceived to be SMEs' most prioritised

the former compared to 46% selecting the latter as SMEs' top 2 priority needs.

The diagram below illustrates the findings described above. Banks' perception of SMEs' needs is formed through their knowledge of the volumes of product or service enquiries or requests that they (i.e. banks) received from customers classified as SMEs.

Perceived demand			
	High	Low	
Access to finance	54%	46%	0%
Access to advisory services	31%	15%	54%
Access to transaction banking services	17%	33%	50%

need, in terms of banking products and services. 31% were of the view that "Access to advisory services" represents SMEs' next highest need. 17% selected "Access to transaction banking services" as the number 1 priority need of SMEs.

Considering what banks had indicated as their top 2 choices with regards to their perceptions of SMEs' highest needs in respect of banking products and services, 100% of the banks participating in the survey selected access to finance. Access to transaction services overtook access to advisory services, as 50% of the banks selected

The banks were then asked: *What are the main product types/ categories you sell or offer to SMEs?*

The responses to the above question have shown a very interesting pattern that further underscores a fundamental fact that must be tackled head on, if any headway will be made in increasing financial inclusion for the SME economy.

Looking at the diagram above, it would seem that credit products are the most popular with banks, as 50% of banks interviewed had noted that credit products (loans and overdrafts) form the main product types they offer or sell to SMEs. This compares favourably to the smaller percentage of banks (i.e. 33%) that selected deposits (or liability products, e.g. fixed or time deposits or some other investment account, savings account, current account) as the bank product they sell relates to SMEs.

The interesting pattern emerges when we expand our analysis of banks' responses to beyond the narrow band of "the product that is sold the most by banks to SMEs". Considering what constitute the top 2 products that banks

Frequency of sale			
	More	Less	
Credit products	50%	10%	40%
Deposits	33%	40%	20%
Transaction banking products & services	17%	50%	40%



sell or offer to their SME customers, then credit products is overtaken by deposit products.

However, in terms of priority the frequency of sale for deposits diminished to 20% while credit products and transaction banking products remained fairly stable.

Where banks extend credit to SMEs, it is often at relatively higher interest rates. Additionally, banks will often insist on SMEs accumulating deposits as cash collateral and at no or minimal cost to the bank, in advance of a transaction to be executed by a bank on behalf of an SME.

It is almost as if banks are leveraging the knowledge that SMEs generally find themselves between a rock and a hard place, and have little elbow room to negotiate the terms given to them by banks in their patronage of products and services.

### ***The suitability of banks' internal systems to handle the SME market.***

We had sought to establish the existence and maturity of banks internal structures and systems created to assist them deal with the SME economy in a manner that is mutually beneficial to the banks and SMEs. The questions centred on two main areas: customer relationship management tools, and risk management tools. We have reported the main findings in this section.

### ***Customer relationship management (CRM)***

Of the minority that reported their implementation of computerised CRM platforms in their engagement with SMEs (i.e. 23% of respondent banks), we found that they understood their

customer profiles, were able to segment their SME customer base into more granular groups, and engage with them using different approaches.

For instance, for some banks, the products served are dependent on what customer segment a SME belongs to, as determined by the CRM platform. Thus, some SME segments are focused on how to drive deposits, as that was what their risk profiling allowed, while other SME segments are focused on both lending and account servicing for balance sheet drive. SMEs in the latter segment are often mid-tier local corporate that have turnover in excess of US\$5m and significant cash movement for deposit mobilisation targeting.

Going forward, the question is what CRM platforms are available for banks to better segment and understand SME customers in order to serve them efficiently? We are of the view that the answer to that question does not only remain with banks, but technology players as well.

We believe strongly that there is a need for banks to implement an architecture within their core banking environment which assists them to better understand their customers, by collecting and manipulating customer (behavioural) data for business intelligence.

### ***Risk management systems***

On the subject of risk management systems, out of the total number of banks surveyed, 77% confirmed that they have established specific risk profiles to support their business in the SME sub-economy.

Although, traditionally, SMEs are characterised as having inadequate governance structures, and that their operations are fairly unstructured, the banks in this bracket felt optimistic that they have successfully designed and are implementing appropriate tools and systems that enable them to accurately identify early when an SME's business is changing in a manner that heightens default or similar or related risks. These systems enable these banks to prompt actions to curtail their exposure to losses from SME default.

When asked a question about the maturity levels of their risk management systems or processes, and how well such systems and processes facilitate their ability to identify and deal with different elements of risks in their SME banking businesses, banks responses showed that the majority of banks that have implemented such systems (manual or automated) operate fairly developed or advanced risk management systems. This is illustrated in the table below.

	Discovery or Initial Stage	Developing Stage	Satisfactory Stage	Perfect/ Best-In-Class
Default risk	8%	23%	38%	23%
Industry/ environmental risk		38%	38%	15%
Asset conversion cycle risk		46%	38%	15%
Operational risk	8%	46%	31%	15%

It would seem that banks' systems enable them to deal very well with the credit and default risks associated with lending to SMEs. 77% of respondent banks described their systems for dealing with credit risk as being at either "satisfactory" or "best-in-class" stages in the maturation process. 61% of Banks describe their systems as "satisfactory" or "perfect/best-in-class".

Almost 85% of banks that indicated that they have implemented appropriate risk management systems engineered to have special focus for the SME sector also noted that the risk systems, which facilitate their understanding of SME asset conversion cycles are at fairly developed stages, developing or satisfactory stages.

Banks generally admitted that they need to improve on their capacity to deal with the operating risk inherent in SMEs' businesses, which because of the usual unstructured nature of the majority of SMEs, is rather crucial for sustainable banks-SMEs relationships, and therefore very important to the financial inclusion question.

### Key challenges of SMEs

Banks were asked to indicate what, in their view, were the key challenges that SMEs face. Challenges that impact on their business adversely, that constrain their capacity to grow and succeed, and which, as a result, limit the type of interactions they can have with the banking industry.

Banks, invariably, work with "other people's money" and therefore have a relatively low tolerance for risk. In our view these challenges faced by SMEs also work against the financial inclusion agenda aimed at the missing middle. It should therefore be in the interest of most stakeholders to try and help eliminate these challenges, or at least reduce their impact on the SME economy.

We think a pattern emerges from banks' indication of what, in their view, are SMEs' top 3 challenges which should provide a picture of where emphasis should be focused when seeking medium-to-long term solutions.

In that context, it would appear that unstructured governance and management systems and the usual lack

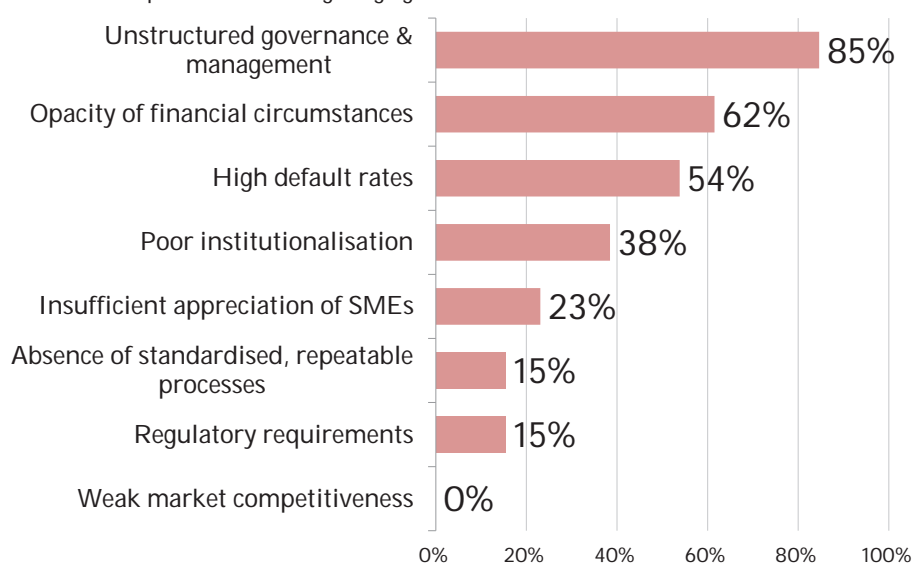
of good and reliable financial management systems are among the hottest buttons to press in any programme to increase SME financial inclusion.

That noted, it would appear that the solution lies more with SMEs than with other stakeholder institutions, though it is also true that capacity building support from such stakeholder institutions, including government, will help to accelerate institutional strengthening.

SMEs are commonly family owned or they are owned by one entrepreneur. Management control and decision-making in respect of every aspect of the business and organisation rest with one individual or a very small number of people.

Major business decisions taken are informal. There is hardly any documentation evidencing the processes followed to reach a decision or the decision that was taken at the end of the process. The only documentation that you might find in such enterprises might relate to a banking transaction or some trade transaction.

Perceived Top 3 obstacles mitigating against SME financial inclusion



Such enterprises also hardly spend money to hire competent people to manage key functions, especially in relation to financial management - often leading to a mismanagement of resources availed to them through poor prioritisation of needs.

Banks could play a leading role in helping SMEs acquire the institutional stature that reduces their risk profiles for banks, allowing them to do more business with them. Where there is direct support (in the form of grants or credit with concessional rates) from the government or other development organisations with interest in private sector growth/entrepreneurial development, this will be helpful.

Still, in the absence of such support, banks could still benefit in the medium-term by assisting today's SMEs to grow and transition into local large corporates. They could fully recover the costs of providing such support to SMEs through the fees they charge to SMEs for the products and services they sell to them, only ensuring that they structure payments in a way that eases the burden on SMEs' cash flows.

## **Conclusion**

There is a general agreement that SMEs hold a lot of potential and could serve as a powerful catalyst for economic growth, employment, broad-based wealth creation, women empowerment, and poverty reduction. Today, in Ghana, that potential is being stifled because of the lack of financial inclusion.

Banking in Ghana is one industry that continues to experience significant growth and remains one of the most profitable.

Effective inclusion of the missing middle in the "formal" financial economy is most likely what is needed to unlock the power of the SME segment.

In our view, it behoves all stakeholder institutions to join the debate on achieving financial inclusion for the missing middle. Government should show leadership and produce and implement appropriate policy and programmes that will encourage private capital (especially, the banks) to engage.

One area where government's lacklustre performance draws criticism from banks and that serves as a reference point for some banks in their decision not to invest resources into the SME sub-economy to help it realise its full potential is taxation.

As one banker put it, "Before the government asks that banks lend to SMEs, it should demonstrate that it has successfully developed and implemented a framework and infrastructure that enables it to collect taxes from that segment of the economy".

In his view, only when government is able to effectively collect or expand the tax bracket for PAYE and corporate tax into the SME sub-economy will a bank find it really worthwhile to consider very serious business with the SME segment, characterised by the extension of credit.

This view sounds austere; however, it drives home the point that banks are uncomfortable with existing infrastructure, which makes them willing to engage with SMEs only when the margins being made on individual

transactions are large enough to collectively cushion portfolio risk.

We also encourage the country's development partners to revisit their programmes of support to determine whether there are any ways to further improve the design and/or implementation of direct capacity improvement interventions targeted at SMEs.

Areas of priority interest include designing and implementing good (even if basic) governance and management systems, functional record keeping, accounting, and financial management systems, and training or coaching of key enterprise personnel, including the manager and accountant.

We would also recommend that banks invest in acquiring a good understanding of the workings of SMEs, document carefully thought-out strategic plans, and install simple but effective CRM and business intelligence (BI) tools that allow them to overtime build a very good understanding of the risks profiles of SMEs, irrespective of the industries or economic sectors they operate in or the scale of their operations.

Without a doubt, Ghana, considered as being on the threshold of a high economic growth trajectory over the next medium term, will experience accelerated growth with the resultant dividends being enjoyed by a broader cross-section of the country's populace, if an agenda for greater financial inclusion of the missing middle is more aggressively supported by all.





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## *Overview of the economy*

## Overview of world economic growth

The IMF's World Economic Outlook (WEO, Jan. 2013) reported 2012 global economic growth to be 3.2%. Comparative growth rate for 2011 was 3.9%. The decline is due to the global economic crisis.

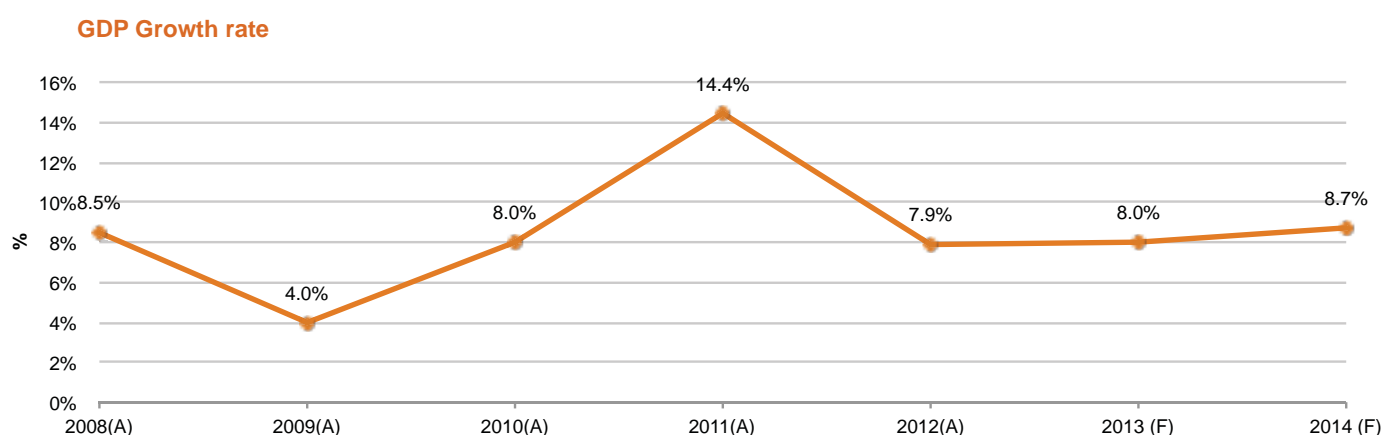
## Macro-economic performance in Ghana

### Gross domestic product

Gross domestic product (GDP) growth slowed from 14.4% in 2011 to 7.9% in 2012.

lowest growth of 2.6% below the target rate of 4.8%

The information and communications sector led the growth in the services sector recording a growth of 23.4%, followed by finance and insurance which grew by 23.0%. The attractive



Source: Bank of Ghana Statistical Bulletin (February 2013)

The global economy has experienced slow growth since the 2008-2009 U.S. financial crises which exposed the unsustainable fiscal policies of countries in Europe and around the globe. Greece, which spent heartily for years and failed to undertake fiscal reforms, was one of the first to feel the pinch.

Emerging economies led global growth at a moderate 5.1%, helped by relatively high commodity prices. Economic growth in Sub-Saharan Africa remained firm at 4.8% in 2012. Excluding South Africa, the region's largest economy, GDP output expanded by 5.8%, with a third of countries growing by at least 6% in 2012. Projections point to an acceleration in growth of around 5.5% in 2013 - 2014, reflecting a gradually strengthening global economy and robust domestic demand.

Uncertainties in the global economy are the main risk to the region's outlook, but plausible adverse shocks would likely not have a large effect on the region's overall performance.

The peak of economic growth in 2011 was due to the inclusion of oil production in the last quarter of 2010. The growth performance in 2012 was achieved despite lower cocoa and oil production. Projected outlook remains healthy, with real GDP growth estimated at 8.0% and 8.7% in 2013 and 2014, respectively.

### Sectorial growths and contribution to GDP

The services sector remains the largest with a share of 50.0% of GDP, followed by industry (27.3%) and agriculture (22.7%).

The growth was driven mainly by the services sector which grew by 10.2%, followed by the industry sector (7.0%), with the agriculture recording the

financial and insurance products offered by the banking and non-banking financial services partly accounted for the growth in this sector.

The influx of foreign investors as a result of the boom in the oil sector of the economy contributed to the growth in the real estate, professional, administrative and support service activities subsector and hotel and restaurants subsector which grew by 13.1% and 13.0% respectively. All other subsectors in the services sector recorded growth below 10%.

In the agriculture sector, crops subsector (including cocoa) recorded a 1% growth rate as a result of good staple harvests and the prolonged and favourable food season, while the Forestry subsector

declined by 1.4 %. Fishing and livestock subsectors grew by 4.7% and 5.0 % as a result of scaling-up of the fertilizer subsidy, agriculture mechanization and livestock and fisheries development programmes.

Construction and electricity subsectors recorded relatively high growth rates of 11.2 % and 11.1 % respectively in the industry sector, while mining and quarrying recorded 5.0% growth, Manufacturing grew by 5.0%, and Water by 2.0%. Though solid minerals grew significantly as well as crude oil production, drastic reduction in investment in the development of oil wells in 2012 compared to 2011, contributed to the low growth of the mining and quarrying subsector.

### Monetary sector

Broad money supply including foreign currency deposits (M2+) grew by 24.3% in 2012, compared with 33.2% in 2011. By the end of December 2012, M2+ equalled GH¢22,620.5m, compared to GH¢18,195.1m at the end of 2011.

The slower growth in broad money may be attributed to the higher rates for treasury bills and Government notes and bills, which were more attractive than demand deposits or savings. With Government having bid up lending rates through their activities in the Open Market Operations, credit to the private sector became more expensive.

Net Foreign Assets (NFA) of the banking system declined by 9.1% in 2012, compared to a growth of 37% in 2011. Net Domestic Assets (NDA) of the banking system grew by 51.9%, compared with 30.4% in 2011.

### Inflation

Headline inflation inched up from 8.6% in 2011 to 8.8% in 2012. Although the inflation rate for the 2012 missed the target of 8.5%, it remained within the target band of 8.5±2% in spite of the exchange rate and fiscal challenges. In

2012, inflationary pressures remained largely subdued by low food price increases explained by the prolonged harvest season. Food inflation peaked at 5.5% in July 2012, but declined to an end of year rate of 4.6%.

Inflation rate stood at 10.9% as at May 2013 from 10.6% in April, 10.4% in March and 8.8% in January. The upward movement in inflation is partly explained by the continued effect of the upward adjustment of petroleum prices in February, coupled with seasonal effects and key inflationary risks including the underlying pressures on government expenditure.

### Interest rates

The Bank of Ghana policy rate stood at 13.5% in February 2012 and increased to 14.5% in April 2012. The rate was revised upwards to 15% in June 2012 and remained unchanged till it was revised to 16% in May 2013 as a result of the elevation of the inflation outlook risks.

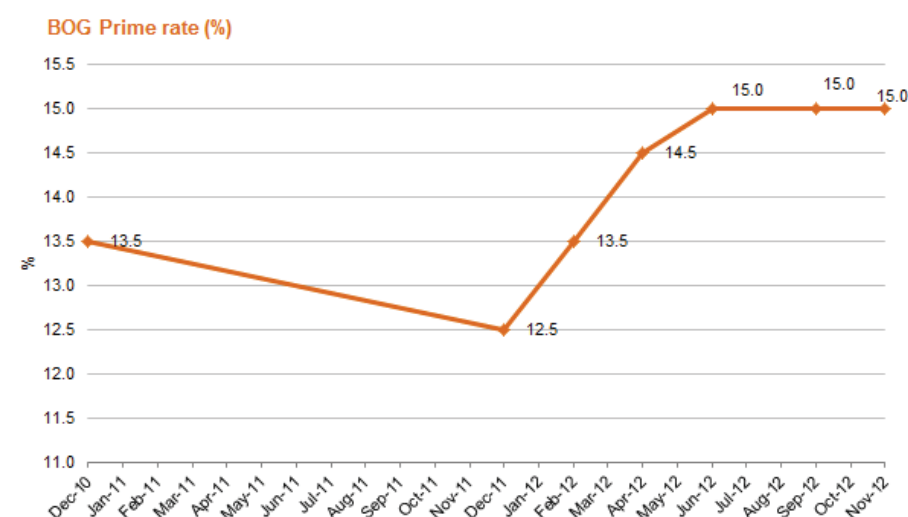
Interest rates on 91-day Treasury bill rate rose from 10.7% in December 2011 to 22.4 % in June 2012 and increased marginally in the second half year to 23.1%.

The 182-day bill increased from 11.1% in December 2011 to 22.0% in June 2012 and increased to 22.7% in December 2012.

Similarly, rates on 1-year and 2-year fixed notes increased from 11.3% and 12.4% at the end of December 2011 to 22.9% and 23% at the end of December 2012, respectively.

The Interbank weighted average rates moved up from 6.6% in 2011 to 17.1% in 2012. The average 3-month deposit rate of banks also went up from 7.8% in December 2011 to 12.5% in December 2012. The weighted average rate increased to 18.7% in January 2013.

The average bank lending rates, however, declined from 25.9% in December 2011 to 25.7% in December 2012, effectively narrowing the interest rate spread to 13.2% in December 2012, compared with 18.2% in the same period of 2011.



Source: Ghana Statistical Services Bulletin (April 2013)



### **Exchange rates**

On the currency market, the cedi recorded mixed outturns against the world's major trading currencies. Between January and May 2012, the value of the Ghana cedi fell in the face of intense demand pressures for foreign exchange fuelled by strong import demand and premature redemption of portfolio investments by non-residents.

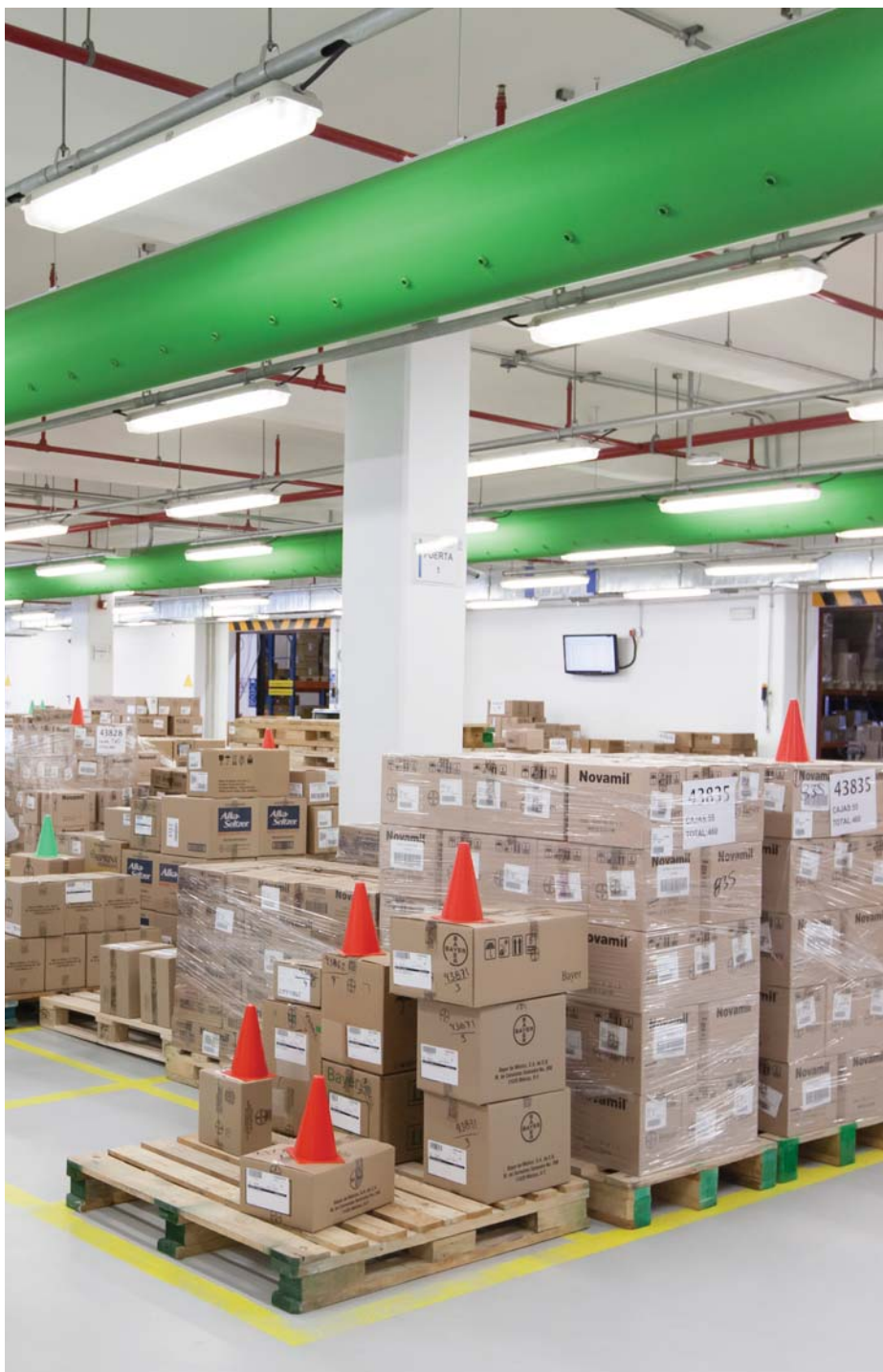
The cedi depreciated on the Interbank Market by 17.5% against the US dollar in 2012, compared to 4.97% in 2011.

### **Ghana Stock Exchange (GSE)**

2012 witnessed increased stock market activities, driven mainly by equities in the finance, food and beverage, distribution and energy sub-sectors. The bullish performance also followed impressive financial performance by most of the listed companies in the second half of the year. Consequently, the GSE Composite Index ended the year at 1,199.711 points (a cumulative gain of 23%), compared with an index level of 969 points in 2011.

The GSE Financial Stocks Index similarly closed 2012 at 1039.9 points (a cumulative gain of 20%), compared with 863.1 points in 2011. Total market capitalisation increased by 20.9 % from GH¢ 47.3b in 2011 to GH¢ 57.3b in 2012.

Source: [www.bog.gov.gh](http://www.bog.gov.gh)



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## *Industry developments*

### **Measures on foreign deposits**

To curb the effects of the depreciating Ghana Cedi, initially, the Monetary Policy Committee (MPC) of the Bank of Ghana (BOG) increased the policy rate and reduced the limits on Net Open Position (NOP) of banks. The measures were intended to improve the attractiveness of cedi assets and increase the supply of foreign exchange to the market. To reinforce the monetary policy stance and restore stability and transparency in the foreign exchange market, the Central Bank has recently also decided on the following measures:

- The re-introduction of Bank of Ghana Bills in the following tenors – 30 days, 60 days and 270 days. This is intended to support the monetary operations of Bank of Ghana and provide additional avenues for cedi investments.
- Revision in the application of the statutory reserve requirement of banks to include foreign deposit liabilities in cedis only. All banks will now be required to maintain the mandatory 9% reserve requirement in Ghana cedis only. Consequently, banks will no longer hold the reserves in foreign currencies.
- Provision of cedi cover for vostro balances. All banks are required to provide 100% cedi cover for their vostro balances, to be maintained at Bank of Ghana. This is in line with the provision in the Operational Guidelines Pursuant to the Foreign Exchange Act, 2006 (Act 723) that precludes foreign investor participation in the short end of the money market.

### **Circulation of the upgraded GH¢50 Banknotes**

The initial GH¢50 banknotes ceased to be legal tender after 30 September 2012. The Bank of Ghana upgraded the GH¢50 banknotes which was circulated to the general public from 21 August 2012. The upgraded banknote had a more secure and technologically advanced public recognition feature called “Spark”, among other features.

### **Business combination**

The transactions between Ecobank Ghana Limited and The Trust Bank Limited (TTB) and between Access Bank Ghana and Intercontinental Bank Ghana, prompted by an acquisition of the latter’s parent company in Nigeria by Access Bank Plc, were concluded in 2012.

### **Rebranding and change of names**

Shareholders of the Ghana Commercial Bank Limited (GCB) endorsed a proposal by the Board of Directors of the Bank for a change of the Bank’s corporate name from Ghana Commercial Bank to GCB Bank Limited. It is the Bank’s strategy to reposition itself as a world class financial institution and in particular the realisation of expansion beyond the borders of Ghana.

First Atlantic Merchant Bank Limited was rebranded First Atlantic Bank Limited after the acquisition by the Kaderi Group, in a bid to respond to keen competition and reposition itself in the banking industry.

BSIC (GH) Limited changed the company’s colour from green to blue as part of its rebranding process. SG-SSB Bank Limited was also rebranded to Société Générale Ghana Limited to confirm with the Group’s name, Société Générale S.A.

### **New entrants**

Royal Bank Limited, a wholly owned Ghanaian Bank started operations on 10 December 2012. The Royal Bank becomes the 26th bank and 14th domestic bank to be registered to operate in the country.

### **Minimum capital regulatory requirements**

All banks in Ghana were able to meet the 31 December 2012 deadline for the GH¢60m minimum capital requirement set by the Bank of Ghana. The Central Bank is advocating for a further increase of the minimum capital to GH¢100m.

### **Bank of Ghana sanctions**

As part of the Bank of Ghana’s regulatory procedures of monitoring foreign exchange transactions by commercial banks and forex bureaus, some irregularities were identified and sanctions imposed. Subsequently, the sanctions imposed were revoked after reviewing the internal control measures put in place to forestall the recurrence of these breaches.

### **Redemption of GOG 5-Year Golden Jubilee Savings Bonds**

The Bank of Ghana announced to the general public that the redemption dates for Government of Ghana 5-Year Golden Jubilee Savings Bonds issued to resident and non-resident Ghanaians between 27 December 2007 and 11 July 2008, commenced on 25 December 2012 and will end on 10 July 2013.

### **Issue of securities for government borrowing**

At the end of the year, a total of GH¢10,000m was raised from the issue of securities to finance Public Sector borrowing requirements and restructure the domestic debt.

### **Unauthorised deposits – taking by a number of institutions**

As part of the Bank of Ghana’s regulatory measures, BoG advised the general public to be mindful of a number of institutions engaged in unauthorised and illegal deposit-taking from the general public without licensing by the Bank of Ghana as required under the Banking Act, 2004, Act 673 as amended under the Non-Bank Financial Institution Act, 2008 (Act 774).

### **Confirmation of Governor**

Dr. Henry Akpenamawu Kofi Wampah was confirmed Governor of Bank of Ghana by His Excellency President John Mahama on 28 March 2013. He was appointed as Acting Governor following the nomination of Paa Kwesi Amisshah Arthur, then Governor of Bank of Ghana by President John Mahama as Vice President of the Republic of Ghana in July 2012.

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## *Quartile analysis*

**For a reasonable comparison and analysis of the industry, we group participating banks into quartiles, based on the value of their operating assets.**

We consider banks' operating assets to be a key business performance indicator as well as the basis for which stakeholder value is derived, hence our choice of this metric. All participating banks have been grouped based on the carrying amounts of their operating assets held as at 31 December 2012. Refer to appendix A, quartile grouping page 62.

Operating assets are defined to include all assets that are directly deployed to generate interest income or related fee income. These include cash and liquid assets, including investments, loans and advances. It excludes investments in property, plant and equipment that provide a platform to facilitate a bank's business.

Industry operating assets grew from GH¢19.9b in 2011 to GH¢25.8b in 2012.

Even though net industry loans and advances continue to be the most

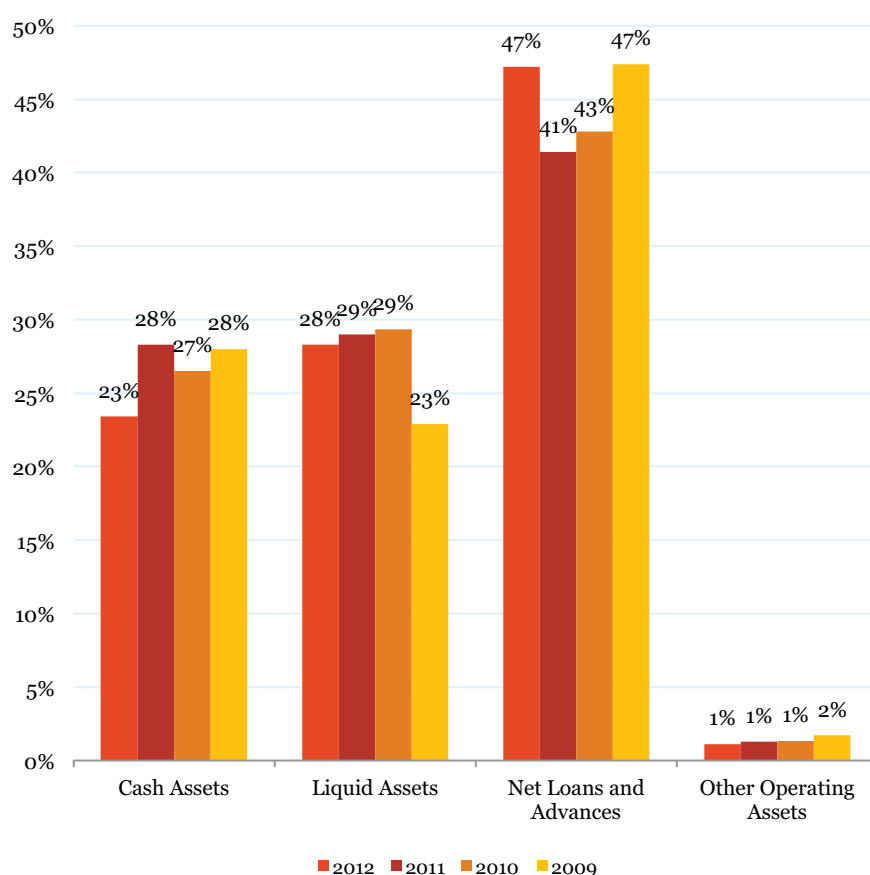
significant component of the industry's earning assets, as a percentage of total operating assets, it only started trending up in 2012 after a consistent decline over the last three years; having declined from 47% in 2009 to 41% in 2011.

According to the Bank of Ghana, the tightening of credit stance by the banks during that period reflected a number of factors including banks' expectation of economic activity, their ability to access market financing, risks related to the performance of the 50 largest borrowers, changes in adversely classified loans in banks' portfolio, cost of funds and balance sheet constraints (Bank of Ghana Monetary Policy Report – Financial stability Volume 5: No. 1/2012). That period was also characterised by the Global financial crises with most banks preferring to adopt a wait and see attitude and thus resorted to investing relatively more in liquid assets.

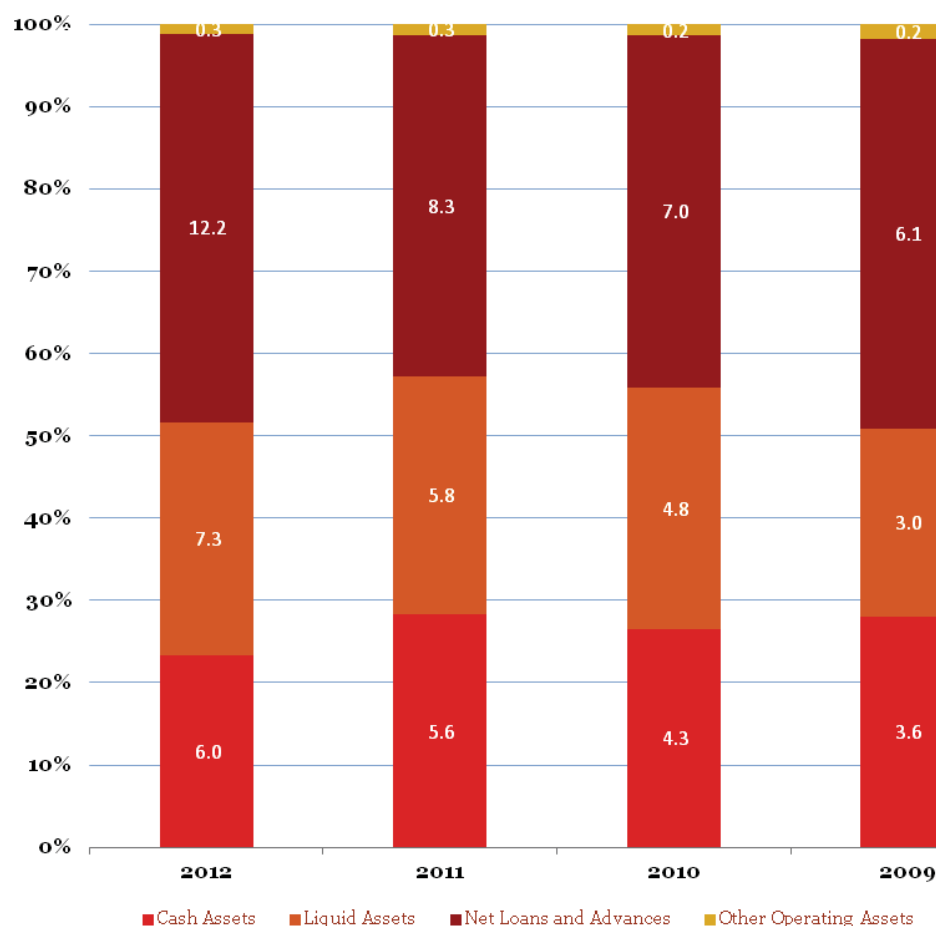
Net industry loans and advances grew by GH¢3.9 b (44%) compared to 2011. Notwithstanding that interest rates on treasury bills increased from 10.3% in FY11 to 23% as at end of 2012, the relative proportion of bank investment in cash and liquid assets as a percentage of industry operating assets declined as all the banks grew their loan portfolios in 2012.

We believe the strong growth in credit in 2012 after a downward trend over the last four years is driven by demand side factors, a reflection of banks' expectation of short to medium term economic prospects as well as renewed confidence of banks in their own internal credit appraisal and monitoring processes.

### Composition of industry operating assets



### Operating Assets (% composition & GH¢bn)

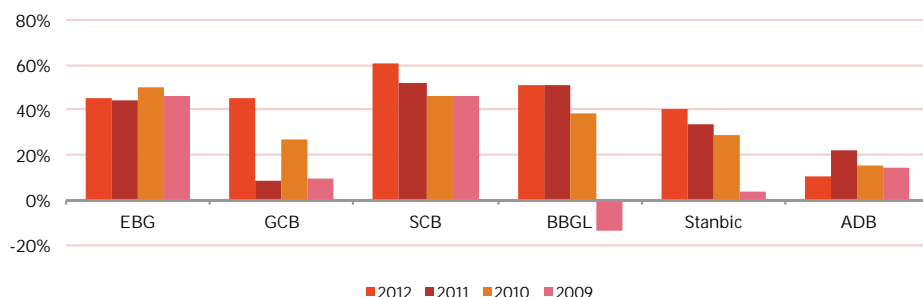


Industry operating assets have doubled since 2009 having increased from GH¢12.9b in 2009 to GH¢25.8b in 2012. The increase over that period was mainly due to a growth in deposits and the rallying by banks to meet the minimum capital requirement of the Bank of Ghana.

EBG completed its run to become the largest bank in terms of operating assets following the merger with TTB. Its market share in the process grew from 10.2% in 2011 to 12.4% in 2012. EBG's financial position indicates a significant growth in the loan book by 69%.

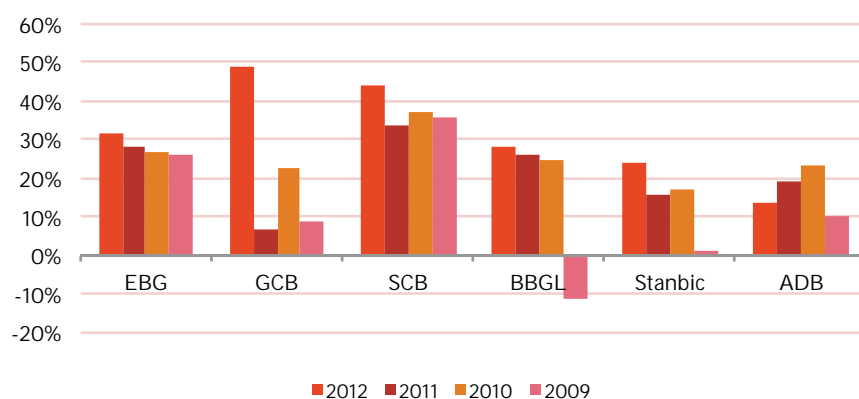
Industry deposits increased from GH¢9.8 b in 2009 to GH¢20.7 b in 2012. Bank's stated capital increased from GH¢1.2b in 2009 to GH¢2.1b in 2012.

### First Quartile Banks - Profit before tax margin



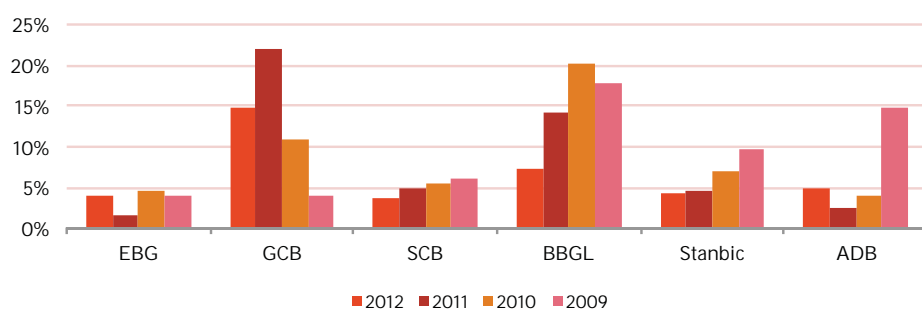
SCB consistently posted high profit before tax margin over the period 2009 to 2012. This trend is perhaps indicative of the Bank's focus on servicing stable wholesale or "high value" deposit clients.

### First Quartile Banks - Return on equity



GCB posted the highest ROE of 48%; having increased its profit for the year by 731% compared to that in 2011. This was largely driven by an increase in interest income from Government securities.

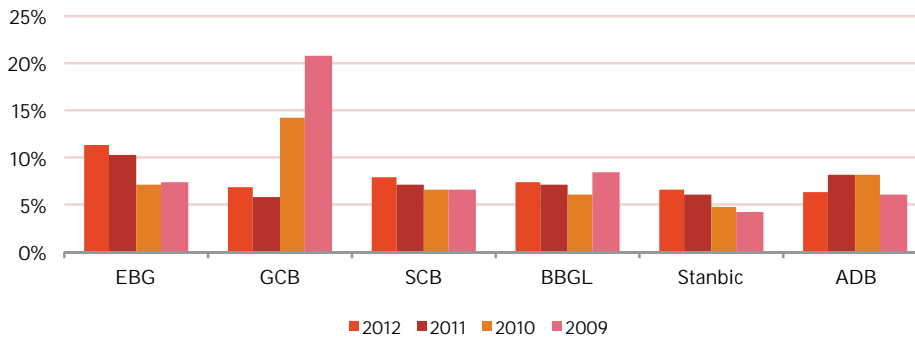
### First Quartile Banks - Impairment allowance/gross loans and advances



In general, first quartile banks show a trend towards an improvement in the quality of the loan portfolios. EBG's ratio may have been adversely impacted by the merger with TTB. The quality of ADB's portfolio declined.

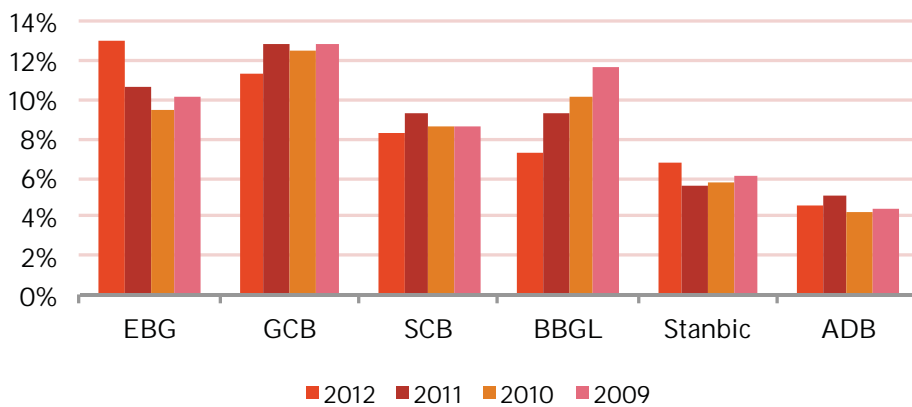


### First Quartile Banks - Share of industry advances



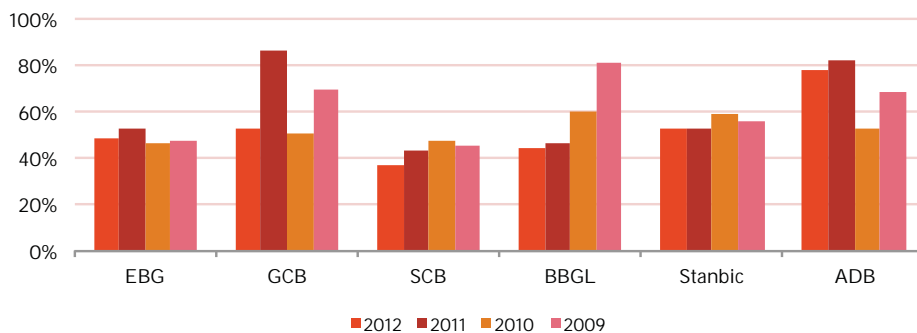
In 2012, EBG became the industry's largest lender with 11.7% of industry loans and advances. However, in 2011 EBG and TTB controlled a total of 14.4% of 2011 industry loans and advances.

### First Quartile Banks - Share of industry deposits



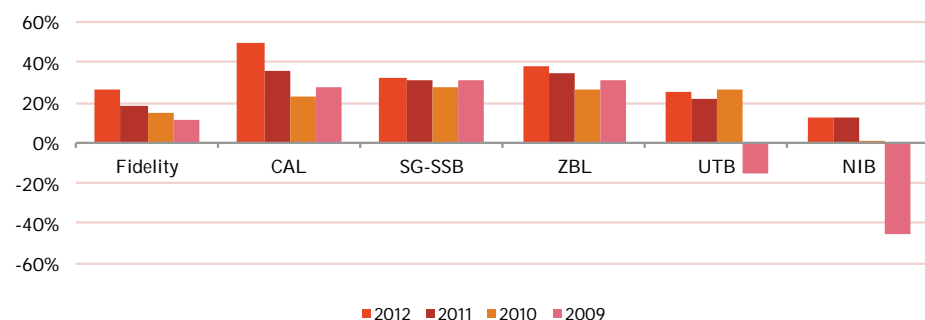
EBG overtook GCB in 2012 to hold the largest share of industry deposits. BBG continued to lose industry share having dropped from 2nd position in 2010 to 4th position in 2012.

### First Quartile Banks - Cost income ratio



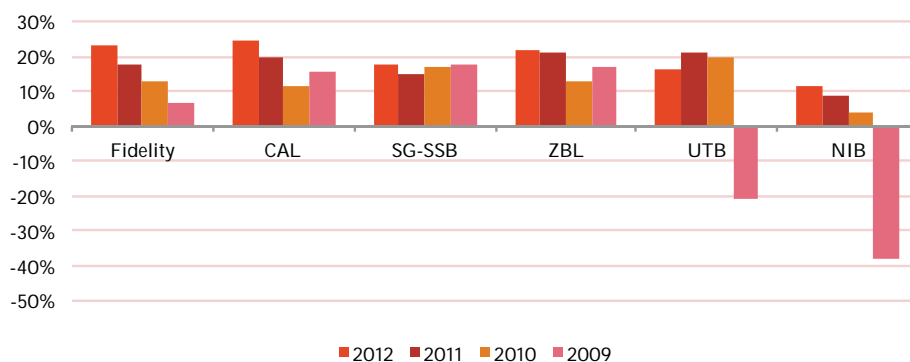
SCB is the only tier 1 bank to have achieved a cost to income ratio of below 40% and the only bank that has consistently maintained a below 50% cost income ratio over the period 2009 to 2012.

### Second Quartile Banks - Profit before tax margin



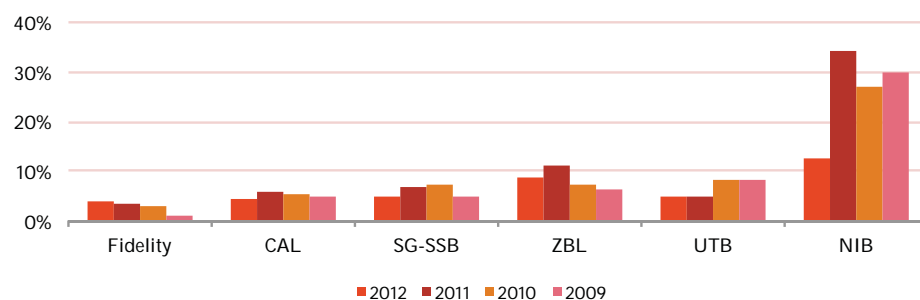
All the second quartile banks except UTB bank have maintained a trend of increasing profit before tax margin over the last three years.

### Second Quartile Banks - Return on equity



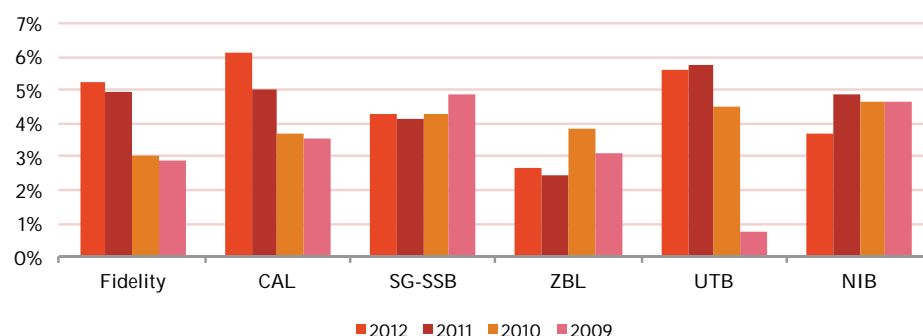
Fidelity has in the last three years shown consistent improvement in the ROE for its shareholders. CAL posted the best ROE for 2012 in the quartile.

### Second Quartile Banks - Impairment allowance/gross Loans and advances



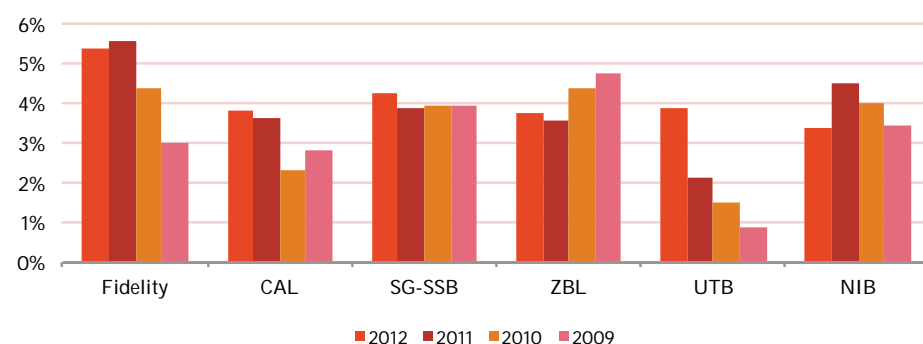
NIB continues to improve on the quality of its loan portfolio even though it still appears to have a relatively poor quality loan portfolio compared to its peers but as the only investment bank in this group this may partly be a reflection of the inherent risks associated with its core business.

## Second Quartile Banks - Share of industry advances



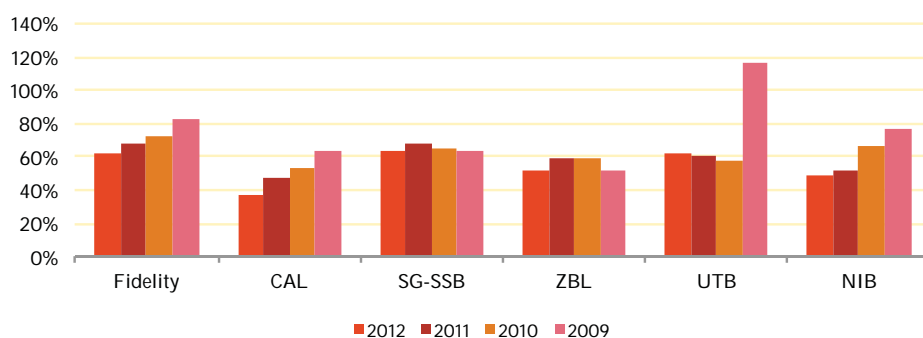
All the banks, except NIB have consistently grown their market share of loans and advances over the period 2009 to 2012. ZBL and SG-SSB's performance have been mixed over the same period. CAL shows a significant increase in the loan book in the second quartile arising from deposits, debt and equity funding raised which enable them underwrite larger transactions.

## Second Quartile Banks - Share of industry deposits



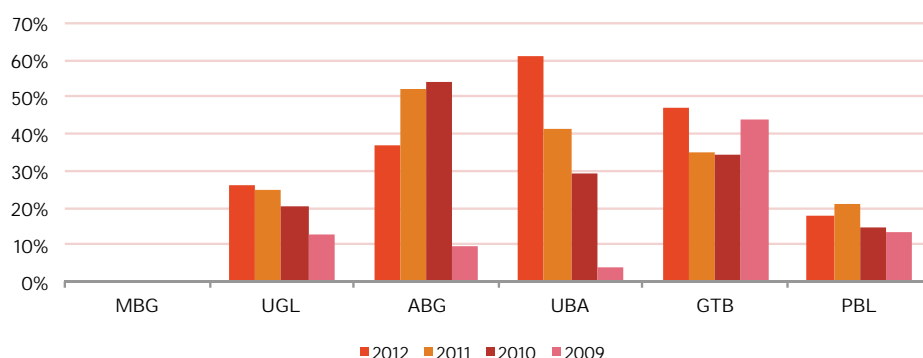
Fidelity is the best performer in this category with 5.4% of industry deposits. UTB has been consistent in growing its market share and almost doubled its share in 2012. This growth was driven by growth in current account and term deposit balances by 162% and 22% respectively and may have been driven by an intensive marketing and deposit mobilisation efforts following its consolidation with UT Financial Services Limited in 2010.

### Second Quartile Banks - Cost income ratio



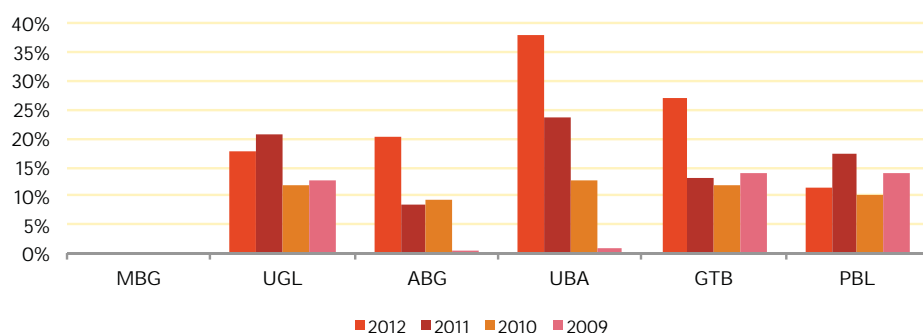
Fidelity, CAL and NIB have all been consistent in reducing their cost income ratio over the period 2009 to 2012. Despite almost doubling operating income CAL Bank was successful in reducing its cost income ratio to below 40%.

### Third Quartile Banks - Profit before tax margin



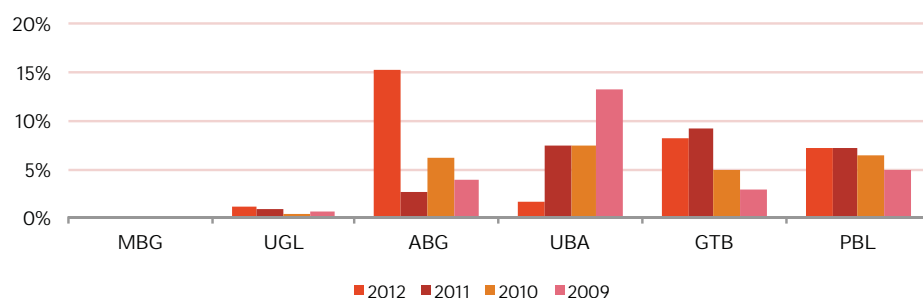
UBA and GTB showed strong performance in 2012. ABG's performance has been diluted following the merger with IBG.

### Third Quartile Banks - Return on equity



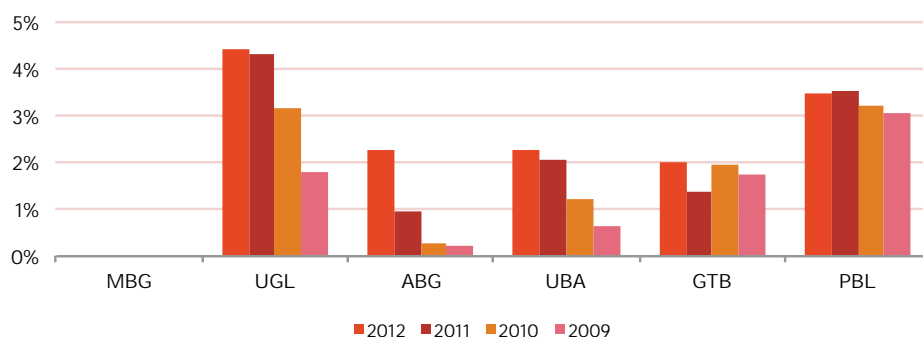
UBA posted the highest return on equity having made the highest profit before tax margin for this group.

### Third Quartile Banks - Impairment allowance/gross loans and advances



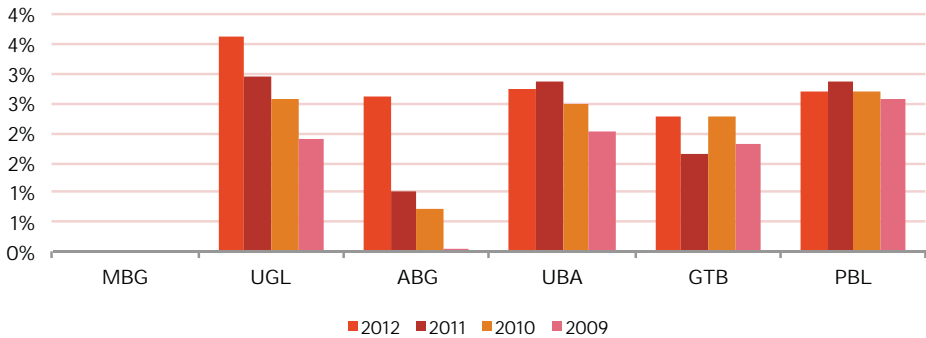
Except for UBA, there is a general increasing trend in this ratio for this group which can be contrasted with the general declining trend in the ratio for the tier 1 banks.

### Third Quartile Banks - Share of industry advances



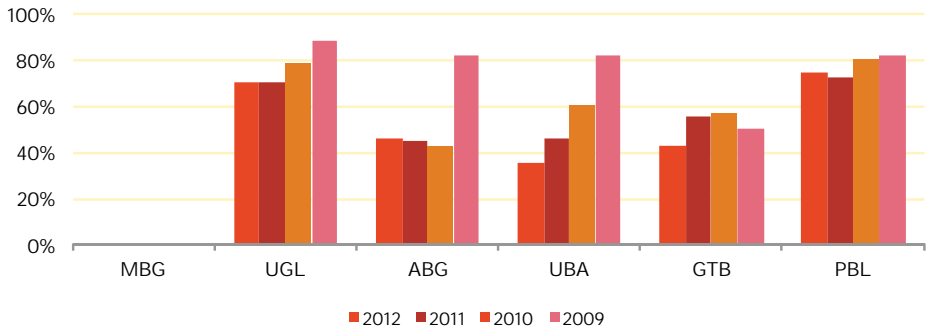
UGL has been consistent in growing its share of the industry advances in line with the growth in its deposits. As a group, these banks hold 17.7% (2011: 21.2%) of the market share in loans and advances to customers.

### Third Quartile Banks - Share of industry deposits



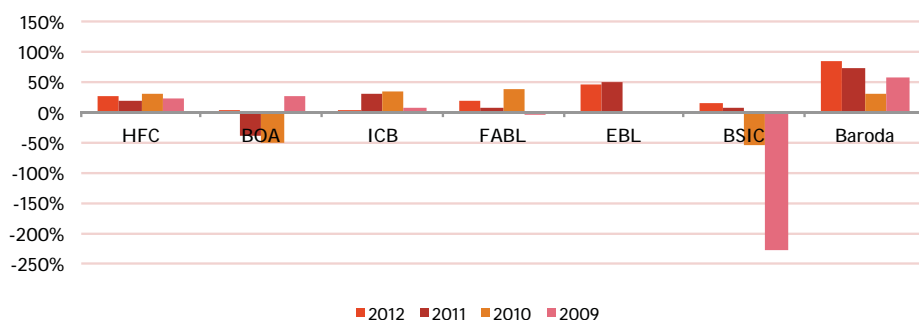
UGL has been consistent in growing its deposits over the period 2009 to 2012. This can be attributed to the attractive rates offered on time and fixed deposits to attract deposits.

### Third Quartile Banks - Cost income ratio



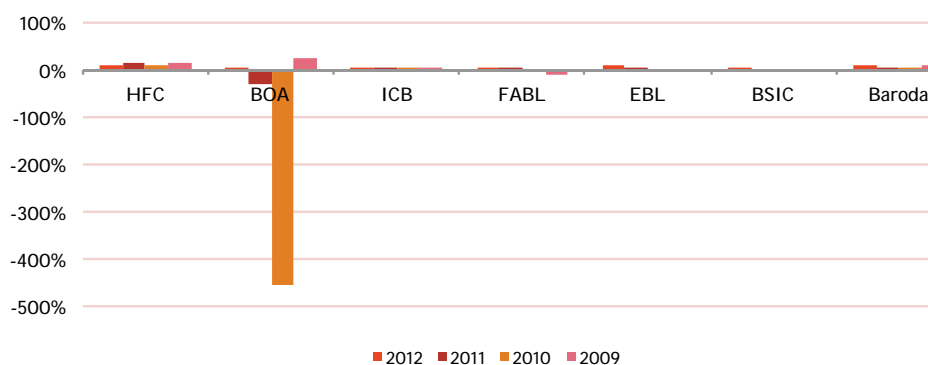
Except for ABG, the trend is that third quartile banks are adopting cost reduction strategies as the cost income ratio continues to improve.

#### Fourth Quartile Banks - Profit before tax margin



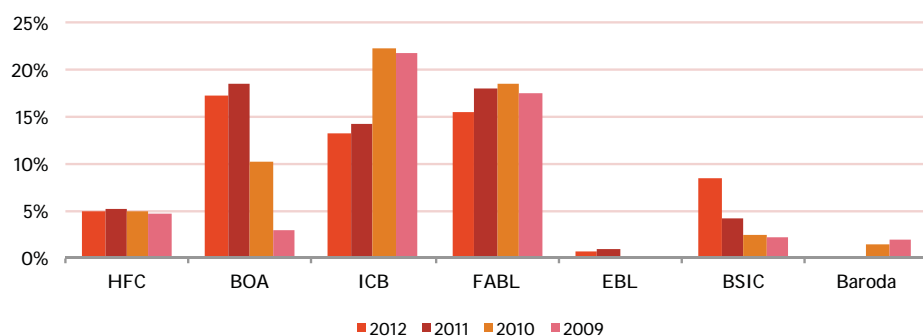
With only two branches, Bank of Baroda generated the highest profit before tax margin in this group. BOA reported a positive profit before tax margin for the first time since 2010.

#### Fourth Quartile Banks - Return on equity



Return to equity in this group are below the industry average and may create concerns for shareholders especially with the additional capital injection.

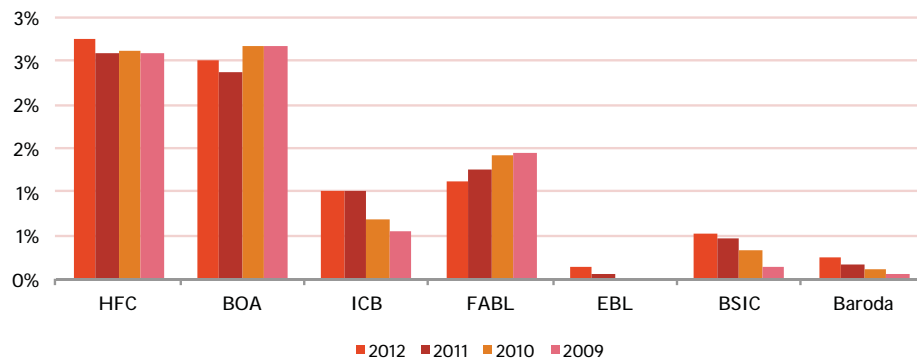
#### Fourth Quartile Banks - Impairment allowance/gross Loans and advances



BSIC reported a significant decline in the quality of its loan portfolio and the quality of BOA's loan portfolio is still low compared to its peers.

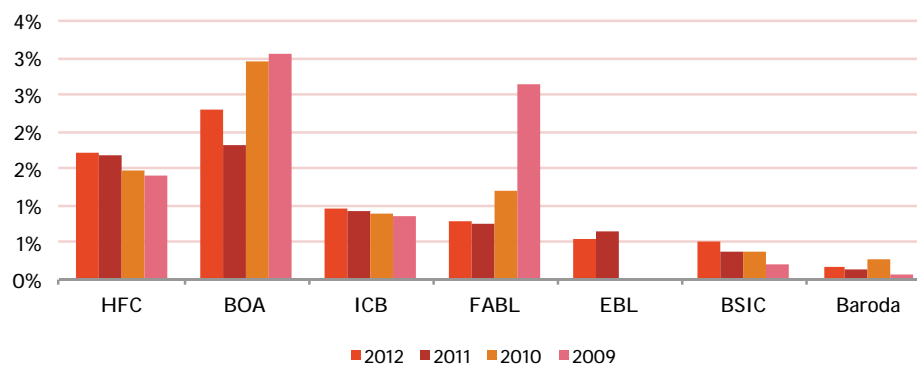


#### Fourth Quartile Banks - Share of industry advances



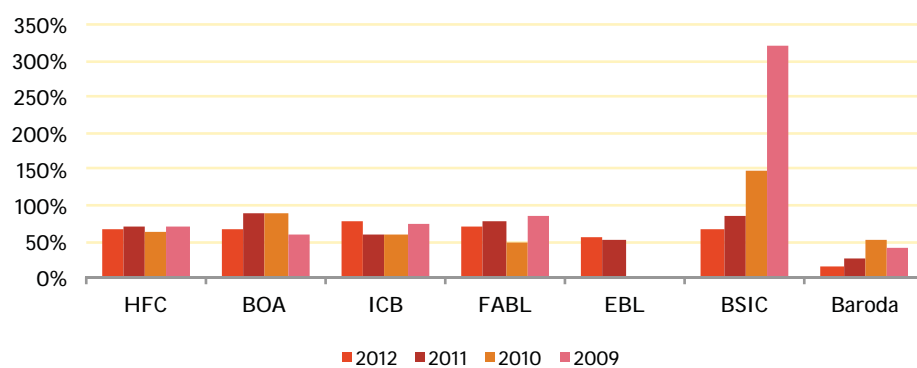
The overall market share of banks in this group has not improved compared to prior year. FABL continues to lose market share, but this may turn around following the bank's rebranding and strategic repositioning in the third quarter of 2012.

#### Fourth Quartile Banks - Share of industry deposits



Banks in this group are generally improving their market share albeit at a slower rate.

#### Fourth Quartile - Cost income ratio



BSIC has been aggressive in its cost reduction efforts after its historically high cost to income ratios.

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## *Market share analysis*

### Share of industry operating assets

The industry's assets are largely held in loans and advances, which formed 46% of operating assets in 2012 (2011: 41 %). The growth in loans and advances led to a drop in the cash holdings by 4%. Investments in liquid assets only declined by 1%.

EBG and Stanbic gained market share in operating assets but, all the other first quartile banks could not maintain the market share they held in 2011. GCB, SCB and BBGL have consistently lost market share since 2009. The dominance of these traditional banks is being eroded as banks in the second quartile group continue to gain market share.

The gain in market share by the "smaller" banks is partly on account of their willingness to offer attractive rates on time and fixed deposits to attract deposits to invest in lending.

The first quartile banks account for 51% (2011: 46%) of the total industry assets. The best increases in market share of operating assets were recorded by the banks which were involved in a business combination during the year. Buoyed by the mergers with TTB and IBG, EBG and ABG's market share increased by 2.2% and 1.6% respectively compared to the previous year.

The expected synergy from the combined market share of ABG and IBG in 2011 was not achieved for operating assets. The market share for both banks in 2011 was 4.7% but dropped after the merger in 2012 to 2.9% and the ultimate

### Share of industry operating assets

	2012	R	2011	R	2010	R	2009	R
EBG	12.4%	1	10.2%	2	8.8%	4	9.9%	4
GCB	11.0%	2	11.8%	1	12.3%	1	14.1%	1
SCB	8.7%	3	9.6%	3	9.7%	2	10.2%	3
BBGL	7.3%	4	9.0%	4	9.3%	3	10.3%	2
Stanbic	6.5%	5	5.6%	5	5.3%	6	5.4%	5
ADB	5.3%	6	5.6%	6	5.5%	5	4.9%	7
Fidelity	5.0%	7	5.0%	7	3.9%	9	2.7%	13
CAL	4.3%	8	3.7%	10	2.8%	13	3.3%	11
SG-SSB	3.9%	9	3.8%	9	3.9%	8	4.0%	9
ZBL	3.6%	10	3.4%	11	3.8%	10	4.2%	8
UTB	3.5%	11	3.0%	13	2.7%	15	0.8%	23
NIB	3.2%	12	3.8%	8	3.8%	11	3.5%	10
UGL	3.2%	13	2.5%	17	2.1%	20	1.5%	21
ABG	2.9%	14	1.3%	21	1.1%	23	0.7%	24
UBA	2.7%	15	2.8%	14	2.3%	19	2.0%	18
GTB	2.5%	16	2.1%	18	2.4%	16	2.0%	17
PBL	2.5%	17	2.6%	16	2.3%	18	2.4%	15
HFC	2.2%	18	2.0%	19	2.1%	21	1.9%	19
BOA	2.1%	19	1.8%	20	2.4%	17	2.5%	14
ICB	1.2%	20	1.2%	22	1.2%	22	1.3%	22
FABL	0.9%	21	0.8%	24	1.1%	24	1.6%	20
EBL	0.8%	22	1.0%	23		NA		NA
BSIC	0.6%	23	0.4%	26	0.4%	26	0.1%	25
Baroda	0.4%	24	0.5%	25	0.4%	25	0.1%	26
TTB		NA	2.7%	15	2.7%	14	2.3%	16
IBG		NA	3.4%	12	3.0%	12	2.9%	12
MBG		NA		NA	4.8%	7	5.3%	6
Industry	100.0%		100.0%		100.0%		100.0%	

loss in market may be attributable to potential impairment of non-performing loans and customer attrition arising from a general uncertainty from the merger.

Non-operating assets increased by a marginal rate of 2%, as most banks have scaled down branch expansion efforts to focus on strategies to provide quality services to customers.

## Share of industry deposits

Deposits in the banking sector grew by 29% (2011:28%) from GH¢16.1b in 2011 to GH¢20.7b in 2012. The average rates for time deposits increased over the period ranging from 7.8% in December 2011 to 12.5% in December 2012. This increase was driven by the yield offered on government treasury bills. Despite the attractive yields customers continue to rely on banks to hold idle funds in banks because of the high transaction demand.

The use of extensive branch network to mobilise deposits is becoming redundant. Amongst the first quartile banks, EBG has the fourth largest network of branches and agencies (behind GCB, BBGL and ADB) but has the largest share of industry deposits. SCB has 29 outlets (less than a third of the branch network and other outlets of BBGL and less than a seventh of the outlets of GCB) but holds deposits more than double that of the deposits of BBG and 79% of GCB's deposits. SCB has even fewer outlets compared to certain second and third quartile banks (e.g. Fidelity, ABG, PBL) but holds a larger share of industry deposits.

The concentration of total industry deposits gives an indication of the focus and relative success of respective banks' deposit mobilisation strategies and campaigns. EBG, GCB, BBGL and SCB show an emphasis on marketing for wholesale or "high value" deposit funds, a relative concentration of branches in urban areas and leveraging on technology driven banking services such as internet banking compared to their competitors.

SMEs accessibility to banks may be constrained because of the siting of the branches in the urban areas. Banks with an outreach in the rural areas are likely to provide channels for servicing the SMEs.

## Share of industry deposits

	2012	R	2011	R	2010	R	2009	R
EBG	13.0%	1	10.7%	2	9.5%	3	10.2%	3
GCB	11.3%	2	12.8%	1	12.5%	1	12.8%	1
SCB	8.2%	3	9.2%	4	8.7%	4	8.6%	4
BBGL	7.3%	4	9.3%	3	10.2%	2	11.7%	2
Stanbic	6.7%	5	5.7%	5	5.8%	5	6.0%	5
Fidelity	5.4%	6	5.6%	6	4.4%	8	3.0%	13
ADB	4.7%	7	5.1%	7	4.3%	9	4.3%	8
SG-SSB	4.2%	8	3.9%	9	3.9%	11	4.0%	9
UTB	3.9%	9	2.1%	17	1.5%	21	0.8%	23
CAL	3.8%	10	3.6%	11	2.3%	17	2.8%	14
ZBL	3.8%	11	3.6%	12	4.4%	7	4.8%	7
UGL	3.6%	12	3.0%	13	2.6%	15	1.9%	19
NIB	3.4%	13	4.5%	8	4.0%	10	3.4%	10
UBA	2.7%	14	2.9%	14	2.5%	16	2.0%	18
PBL	2.7%	15	2.8%	15	2.7%	14	2.6%	16
ABG	2.6%	16	1.0%	21	0.7%	24	0.1%	25
BOA	2.3%	17	1.8%	18	3.0%	13	3.1%	12
GTB	2.3%	18	1.6%	20	2.3%	18	1.8%	20
HFC	1.7%	19	1.7%	19	1.5%	20	1.4%	21
ICB	0.9%	20	0.9%	22	0.9%	23	0.9%	22
FABL	0.8%	21	0.8%	23	1.2%	22	2.6%	15
EBL	0.6%	22		26		NA		NA
BSIC	0.5%	23	0.4%	24	0.4%	25	0.2%	24
Baroda	0.2%	24	0.1%	25	0.3%	26	0.1%	26
MBG		NA	0.0%	26	5.2%	6	5.2%	6
IBG		NA	3.8%	10	3.3%	12	3.4%	11
TTB		NA	2.3%	16	2.3%	19	2.3%	17
Industry	100.0%		100.0%		100.0%		100.0%	

The industry deposit mix by product type continues to remain fairly flat. About 72% (2011: 69%) of deposits were held in current and savings accounts. Even though a number of banks (UTB, ICB, BOA, UGL, Fidelity, BSIC, UBA and FABL) continue to rely heavily on term deposits, the effect of this is drowned by the relative ability of the traditional banks to attract current and savings deposits.

Other than EBG and Stanbic all other first quartile banks experienced a decline in their share of market deposits. For a third year running, BBG continued to lose market share of deposits and is now fourth in terms of market share of deposits.

In contrast to the situation with the first quartile banks, there is a general increase in market share for banks in all

other quartiles. Increase in competition from the banks in other quartiles offered attractive rates on term deposits and flexible tailored products accounting for the gain in the market. The first quartile banks hold 84% of deposits in the form of current and savings deposits compared to 56% for the other quartiles. In general, there is a trend of decreasing proportion of current and savings deposits from the first quartile to the fourth quartile. The second quartile holds 66%, third quartile 51% and fourth quartile 52%.

UTB experienced the highest gain in industry share of deposits. The growth in UTB's market share of deposits also saw UT Bank join the second tier of banks for the first time in 2012. ABG moved up into the third quartile following its merger with IBG which had a bigger balance sheet.

### Share of industry advances

Total industry loans and advances increased from GH¢9.1b in 2011 to GH¢13.0b, a growth of 43% (2011:18%).

In 2010, the growth in industry loans and advances was 15% compared to a growth of 6% in 2009. Banks are gradually softening their credit stance after a downward trend in loans and advances over the last four years.

This may be driven by demand side factors, a reflection of banks' expectation of short to medium term economic prospects, a renewed confidence of banks in their own internal credit appraisal and monitoring processes and pressure to invest funds obtained from the regulator-driven minimum capital raising drive.

The industry's loan to deposit ratio increased from 57% in 2011 to 63% in 2012 confirming the renewed appetite for lending. This follows a drop in the prior period.

Most of the banks maintained their relative market shares of industry loans and advances, increasing or losing market share by less than +/-0.5%. EBG reinforced its position as the largest lender in the industry in 2012 having overtaken GCB in 2011. EBG increased its market share by 1.2%. This follows the merger with TTB which had a market share in 2011 of 4.1%.

Also, following the merger with IBG, ABG improved on its market share, recording the highest growth in loans and advances of 1.3% in 2012.

GCB's market share of 7% was 1.2% higher than its 2011 market share. This follows a four year decline in GCBs loan portfolio from 2008 to 2011. A trend that initially started with GCB adopting a cautious approach to lending due to its significant exposure to the public sector and in particular the Tema Oil Refinery (TOR).

Following the repayment of the final tranche of the TOR debt of GH¢572m in 2011, GCB is now in a better position to

### Share of industry advances

	2012	R	2011	R	2010	R	2009	R
EBG	11.5%	1	10.3%	1	7.1%	3	7.3%	3
SCB	7.9%	2	7.2%	3	6.7%	4	6.7%	4
GCB	7.0%	4	5.8%	6	14.3%	1	20.7%	1
Stanbic	6.6%	5	6.1%	5	4.9%	6	4.3%	9
ADB	6.4%	6	8.2%	2	8.2%	2	6.1%	5
CAL	6.1%	7	5.0%	8	3.7%	13	3.5%	10
BBGL	7.3%	3	7.1%	4	6.2%	5	8.4%	2
UTB	5.6%	8	5.8%	7	4.5%	8	0.8%	21
Fidelity	5.2%	9	5.0%	9	3.0%	17	2.9%	14
UGL	4.4%	10	4.3%	11	3.1%	16	1.8%	18
SG-SSB	4.3%	11	4.2%	12	4.3%	9	4.9%	7
NIB	3.7%	12	4.8%	10	4.7%	7	4.7%	8
PBL	3.5%	13	3.5%	15	3.2%	15	3.0%	13
HFC	2.8%	14	2.6%	16	2.6%	19	2.6%	17
ZBL	2.7%	15	2.4%	17	3.9%	11	3.1%	12
BOA	2.5%	16	2.4%	18	2.7%	18	2.7%	16
UBA	2.3%	17	2.1%	19	1.2%	22	0.6%	22
ABG	2.3%	18	0.9%	23	0.3%	25	0.2%	24
GTB	2.0%	19	1.4%	20	2.0%	20	1.8%	19
FABL	1.1%	20	1.2%	21	1.4%	21	1.5%	20
ICB	1.0%	21	1.0%	22	0.7%	23	0.6%	23
BSIC	0.5%	22	0.5%	24	0.3%	24	0.1%	25
Baroda	0.2%	23	0.2%	25	0.1%	26	0.1%	26
EBL	0.1%	24	0.1%	26		NA		NA
IBG		NA	3.9%	14	3.9%	10	3.4%	11
TTB		NA	4.1%	13	3.8%	12	2.8%	15
MBG		NA		NA	3.3%	14	5.5%	6
Industry	100.0%		100.0%		100.0%		100.0%	

grow its loan portfolio and regain its market share.

ADB and NIB lost 1.9% and 1.1% respectively of their market shares in 2012. A combination of factors including a loss in market share of deposits, a cautious approach to lending following a period of deterioration in their loan portfolios and the existence of an attractive alternative of favourably priced and less risky Government of Ghana securities may have contributed in the decline in their respective market shares.

A comparison of banks' relative holdings of liquid funds to their respective holding of deposits allows a distinction between aggressive lenders and cautious lenders (see liquidity analysis). UTB in this regard is the most aggressive lender alongside other second and third quartile banks such as UGL, PBL, CAL, NIB, BOA, SG-SSB and Fidelity. Aggressive lending by Fidelity CAL and

SG-SSB may be partly attributable to focus on breaking into the 1st tier of Ghana's banks.

Lending was directed towards the commerce and finance (30%), services (27%), and manufacturing sectors (11%). Lending to the services sector experienced the highest growth of 6.3% compared with 2011 which is a reflection of the services sector being the most significant component of GDP.

The commerce and finance sector and the transport, storage & communication sector experienced declines of 2.3% and the 2.1% respectively but it was lending to the agricultural sector that suffered the highest decline of 4.6% in 2012. Despite tax concessions, the industry continues to suffer the effects of the peculiar challenges in lending to smallholder growers with limited credit history, unpredictable weather condition and market availability.

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## *Liquidity*

### Liquid funds/ total deposits

	2012	R	2011	R	2010	R	2009	R
Baroda	2.26	1	3.61	1	1.66	2	2.04	NA
EBL	1.70	2	1.72	2		NA		NA
ICB	0.88	3	1.03	5	1.35	3	1.52	2
ABG	0.86	4	1.13	3	1.85	1	10.29	1
GTB	0.85	5	1.12	4	0.88	6	0.87	5
GCB	0.82	6	0.90	6	0.64	17	0.44	22
BBGL	0.66	13	0.81	10	0.86	7	0.68	9
ZBL	0.76	7	0.83	9	0.65	15	0.74	8
BSIC	0.75	8	0.64	15	0.64	18	0.30	25
SCB	0.75	9	0.86	7	0.99	4	1.06	4
UBA	0.73	10	0.84	8	0.92	5	1.10	3
EBG	0.67	11	0.68	12	0.79	10	0.82	6
FABL	0.66	12	0.53	20	0.50	23	0.44	21
HFC	0.60	14	0.70	11	0.83	9	0.52	16
Stanbic	0.59	15	0.63	16	0.68	13	0.65	11
ADB	0.58	16	0.50	22	0.55	20	0.59	13
Fidelity	0.57	17	0.65	14	0.75	11	0.59	14
SG-SSB	0.55	18	0.66	13	0.68	14	0.57	15
BOA	0.48	19	0.58	17	0.50	24	0.50	18
NIB	0.48	20	0.44	24	0.51	22	0.44	23
CAL	0.45	21	0.57	18	0.71	12	0.77	7
PBL	0.38	22	0.48	23	0.43	25	0.49	20
UGL	0.37	23	0.31	26	0.37	26	0.41	24
UTB	0.27	24	0.37	25	0.64	16	0.61	12
TTB		NA	0.51	21	0.59	19	0.52	17
IBG		NA	0.56	19	0.53	21	0.49	19
MBG		NA		NA	0.83	8	0.65	10
Industry	0.64		0.71		0.73		0.67	

**As Baroda, EBL, ICB and ABG adopt a conservative approach to lending; UTB and UGL appear to have appetite for investments in risky assets.**

Despite the favourable investment returns on Government securities in 2012, the industry's liquid funds to total deposit ratio recorded a 9.9% decline, suggesting banks growing appetite towards investments in risky assets.

The 9.9% overall decline in the industry's liquid assets to total deposit ratio between 2011 and 2012 indicates that banks are gradually shifting their strategy towards lending relative to the immediate past two years where most banks held liquid funds in money market securities. However, Baroda held liquid assets in excess of their obligation towards interest bearing liabilities.



Baroda continued to maintain its usual high liquidity since 2010 with liquid assets more than doubling the deposits held. The bank's high liquidity is an outcome of the GH¢ 35m capital injection in 2011.

In the context of SMEs, Baroda appears to have significant experience in developing countries including being at the forefront in SME development in India.

However, there is little indication of such impact in the Ghanaian market and it appears its operations for the past three years have been concentrated on a specific customers in market segment.

EBL entered the industry in 2011 and its holding of liquid assets to deposits is more than twice the industry average. The bank appears to be very cautious, perhaps "testing the waters" before investing in risky assets. Since its inception, the bank has barely grown its deposits and has resorted to investing its funds in cash and liquid assets. The bank's liquidity levels may be driven largely by its strategy of focusing on investment, corporate and private banking which to a large extent limits its deposit mobilisation powers especially from the SME sector.

A trend analysis of ABG's declining liquid funds to total deposit ratio suggests that the bank is leveraging on the synergies from the recent business combination and gradually moving away from its conservative approach to lending towards an increasing appetite for investment in risky assets. This is evidenced by a twenty-four fold growth in the bank's loan portfolio over the review period.

#### Liquid funds/ total assets

	2012	R	2011	R	2010	R	2009	R
EBL	0.87	1	0.92	1		NA		NA
Baroda	0.71	2	0.83	2	0.86	2	0.69	3
GCB	0.64	3	0.75	3	0.48	14	0.29	23
ZBL	0.63	4	0.69	4	0.55	12	0.63	6
BBGL	0.50	11	0.64	9	0.67	6	0.53	10
GTB	0.60	5	0.67	6	0.61	10	0.55	8
UBA	0.59	6	0.68	5	0.71	3	0.81	1
ABG	0.58	7	0.67	7	0.86	1	0.77	2
ICB	0.56	8	0.59	10	0.69	4	0.69	4
SCB	0.53	9	0.65	8	0.65	7	0.64	5
EBG	0.53	10	0.55	12	0.62	9	0.60	7
Stanbic	0.48	12	0.51	13	0.56	11	0.54	9
Fidelity	0.48	13	0.57	11	0.64	8	0.48	12
BSIC	0.45	14	0.41	19	0.42	16	0.24	26
SG-SSB	0.44	15	0.49	14	0.49	13	0.38	17
BOA	0.41	16	0.44	16	0.44	15	0.44	15
FABL	0.40	17	0.36	22	0.39	20	0.38	16
ADB	0.39	18	0.35	23	0.29	25	0.34	22
NIB	0.38	19	0.36	21	0.35	23	0.27	25
HFC	0.37	20	0.44	17	0.42	17	0.28	24
UGL	0.31	21	0.26	25	0.31	24	0.35	21
CAL	0.31	22	0.42	18	0.41	18	0.48	13
PBL	0.31	23	0.40	20	0.36	21	0.36	20
UTB	0.22	24	0.18	26	0.23	26	0.48	11
IBG		NA	0.48	15	0.40	19	0.38	18
TTB		NA	0.33	24	0.36	22	0.37	19
MBG		NA		NA	0.68	5	0.47	14
Industry	0.49		0.54		0.52		0.47	

***The declining industry's liquidity ratios generally suggests a gradual shift in banks' strategy towards lending activities.***

The declining industry's liquidity ratios generally suggest a gradual shift in banks' strategy towards lending activities. Very much aware of the short term benefits from the favourable yields on government securities, banks are at the same time showing focus in sustaining growth by deepening the banking activities and spreading risk beyond government securities.

BSIC and FABL have demonstrated a consistent increase in their liquidity positions. The growth in the banks liquid assets over the period tend to be supported by recent capital injections to shore up the minimum capital. However, these banks have remained cautious in lending because the outcome in the last two years has not been favourable and they have had to write down some of their loans. With the minimum capital met, these banks now have to take strategic growth decisions.

SCB's liquidity ratio over the period has consistently declined, suggesting a continued strategy of building the bank's loan portfolio. The bank's loan portfolio which accounted for 40% of its total assets grew by 120% over the period.

UTB was the most illiquid bank in 2012. This position did not change much from the prior year and signals a bank with a strong appetite for investments in risky assets. The banks strategy is supported by a 43% growth in its loan portfolio over the past year. Despite the aggressive lending practices its impairment levels of 1.8% remained below the industry average of 2.3%. With its total loan portfolio forming 72% of total assets, the bank continues to create its niche as the SME bank.

**Liquid funds/ total interest bearing liabilities**

	2012	R	2011	R	2010	R	2009	R
Baroda	2.00	1	2.92	1	1.51	2	2.04	2
EBL	1.29	2	1.41	2		NA		NA
ABG	0.80	3	1.09	3	1.64	1	5.96	1
BBGL	0.66	11	0.81	10	0.85	5	0.67	9
GTB	0.77	4	0.91	4	0.82	6	0.87	5
ICB	0.77	5	0.86	6	1.07	3	1.12	3
GCB	0.76	6	0.86	5	0.61	16	0.35	23
ZBL	0.75	7	0.83	8	0.65	12	0.74	8
BSIC	0.75	8	0.64	12	0.64	14	0.30	26
UBA	0.73	9	0.84	7	0.92	4	1.10	4
SCB	0.67	10	0.81	9	0.80	7	0.80	6
EBG	0.64	12	0.64	11	0.74	9	0.76	7
FABL	0.59	13	0.52	19	0.47	22	0.42	20
Stanbic	0.58	14	0.62	15	0.66	11	0.63	10
SG-SSB	0.55	15	0.64	13	0.65	13	0.53	15
Fidelity	0.55	16	0.62	14	0.70	10	0.55	13
HFC	0.49	17	0.55	17	0.55	17	0.34	24
ADB	0.48	18	0.42	23	0.39	25	0.49	17
BOA	0.47	19	0.55	16	0.48	21	0.50	16
NIB	0.44	20	0.42	24	0.41	24	0.32	25
CAL	0.39	21	0.49	20	0.52	20	0.58	12
PBL	0.37	22	0.46	22	0.41	23	0.42	21
UGL	0.36	23	0.30	26	0.35	26	0.40	22
UTB	0.26	24	0.35	25	0.62	15	0.61	11
TTB		NA	0.47	21	0.54	18	0.48	18
IBG		NA	0.55	18	0.52	19	0.47	19
MBG		NA		NA	0.77	8	0.54	14
Industry	0.60		0.67		0.66		0.59	

With its origin as a micro-lending institution UTB may have developed certain working practices which can be applied in a model for servicing SMEs. UGL, PBL, CAL, NIB and BOA also have liquid funds which are below 50% of total deposits.

Perhaps in line with their strategies, these banks appear to be more willing to take on risk by lending (mostly to SME's) rather than placing funds in less risky assets (Government securities).

Establishing an optimum liquidity requirement for the industry continues to be determined by the banks and their appetite for risky investments. It is about time that the discussions on the Basel Accord are intensified and more so adopting the key principles of the Third Basel Accord.

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## *Return to shareholders*

**Total industry ROA improved significantly from 2.4% in 2011 to 3.5% in 2012 driven by an 85% increase in total industry profits in 2012.**

### Return on assets

Driven by an 85% growth in total industry net profits from GH¢508m in 2011 to GH¢940m in 2012, the Industry's Return on Assets (ROA) improved from 2.4% in 2011 to 3.5% in 2012. This profitability was largely driven by interest income earned on investment securities and the loan portfolio.

Total assets grew by 28% from GH¢21.1b in 2011 to GH¢27.1b in 2012. This was funded primarily by a 29% growth in deposits from GH¢16.1b in 2011 to GH¢20.7b. Other sources of funding were borrowings which increased by 44% from GH¢955 m in 2011 to GH¢1.37b in 2012 and additional capital injection of GH¢447 m in 2012.

Baroda, UBA, GTB, SCB and BBGL were the top performers recording ROA's above 5%. Baroda posted the strongest return as it optimised its returns from holdings in government securities and managed to maintain its cost to income ratio at 0.1, well below the industry ratio of 0.5.

Notwithstanding its stellar performance, Baroda, accounts for less than 1% of total industry profits before tax. Its performance may not be sustainable because its income stream depends largely on the yield from government securities which can fluctuate.

### Return on assets

	2012	R	2011	R	2010	R	2009	R
Baroda	6.8%	1	2.9%	9	0.8%	21	5.7%	1
UBA	6.7%	2	3.9%	3	2.3%	12	0.3%	19
GTB	5.7%	3	3.1%	7	2.8%	9	4.3%	2
SCB	5.7%	4	3.9%	2	4.3%	1	4.1%	3
BBGL	5.3%	5	4.4%	1	3.6%	4	-1.4%	23
GCB	4.7%	6	0.5%	25	2.6%	10	0.9%	15
ABG	4.3%	7	3.0%	8	4.2%	2	0.5%	18
CAL	4.3%	8	2.3%	13	1.8%	16	2.0%	9
EBG	4.2%	9	3.3%	6	3.9%	3	3.9%	4
Stanbic	3.3%	10	2.5%	12	2.2%	13	0.1%	21
ZBL	3.2%	11	3.4%	5	1.7%	17	2.2%	7
SG-SSB	2.8%	12	2.7%	11	2.8%	8	3.3%	6
EBL	2.7%	13	1.8%	18	NA		NA	
HFC	2.2%	14	2.3%	14	2.1%	14	2.1%	8
UTB	2.1%	15	1.8%	17	1.9%	15	-1.5%	24
Fidelity	2.1%	16	0.9%	22	0.7%	22	0.6%	17
BSIC	1.9%	17	1.0%	21	-5.3%	26	-17.1%	26
ADB	1.8%	18	2.8%	10	3.3%	6	1.7%	11
UGL	1.8%	19	1.8%	16	1.2%	18	1.1%	13
FABL	1.5%	20	0.5%	24	3.4%	5	-0.4%	22
PBL	1.4%	21	1.5%	19	1.0%	19	1.0%	14
NIB	1.3%	22	0.9%	23	0.3%	24	-4.3%	25
BOA	0.4%	23	-3.5%	26	-4.0%	25	1.9%	10
ICB	0.0%	24	2.1%	15	2.4%	11	0.3%	20
TTB	NA		3.6%	4	3.1%	7	3.6%	5
IBG	NA		1.1%	20	1.0%	20	1.5%	12
MBG	NA		NA		0.6%	23	0.8%	16
Industry	3.5%		2.4%		2.3%		1.4%	

GGCB's ROA improved significantly from 0.5% in 2011 to 4.7% in 2012. GCB's total assets increased by 21% from GH¢2.5b in 2011 to GH¢3b in 2012 and for that period and profit after tax grew from GH¢16.7m in 2011 to GH¢138.6m in 2012. This is an outcome of the bank streamlining its operations to reposition itself and the effect of a full year's return from the conversion of GH¢572m of its Tema Oil Refinery debt to medium term bonds in April 2011.

ICB dropped to the bottom of the table, as it struggled to reduce its cost to income ratio which deteriorated from 0.6 in 2011 to 0.8 in 2012, coupled with a marginal growth in income of 16%.

The industry's total operating assets has increased by a remarkable 153% from 2009 to 2013, and total operating income has shown a steady increase even more significantly by 176% over the same period. The implication is that not only are banks pursuing strategies to expand their earning asset base supported by growth in deposits mobilised, they are also striving to optimise the use of these assets. The challenge for the industry will be sustaining the strong return on equity.

Historically, yield on government securities has fluctuated and a drop in the yield from government securities will adversely impact the industry's income stream. To sustain income, the non-risk averse banks will seek other opportunities to replace their extensive investments in government securities with other funded investments. Looking ahead, this may be the time to consider how to target the SMEs as a growth prospect.

### Return on Equity

The economic challenges of 2012 did not have a significant adverse impact on the banking industry as it recorded an average of 23.8% return on equity. There has been a steady increase in ROE over the past four years but it recorded the biggest leap in 2012.

As the deadline for the minimum capital requirement closed at the end of December 2012, total industry shareholders' funds increased by 38% to

### Return on equity

	2012	R	2011	R	2010	R	2009	R
GCB	49.1%	1	7.1%	20	22.6%	6	9.1%	16
SCB	43.8%	2	33.4%	1	36.8%	1	36.0%	1
UBA	38.0%	3	23.8%	4	12.9%	11	1.1%	19
EBG	31.4%	4	27.9%	2	26.8%	3	26.4%	3
BBGL	28.2%	5	26.2%	3	24.5%	4	-11.2%	23
GTB	27.1%	6	13.2%	17	12.0%	13	13.8%	11
CAL	24.2%	7	19.7%	9	11.5%	16	15.6%	8
Stanbic	24.2%	8	15.9%	13	17.4%	8	1.2%	18
Fidelity	22.9%	9	17.5%	12	13.1%	10	6.4%	17
ZBL	21.6%	10	21.3%	6	12.6%	12	16.9%	7
ABG	20.4%	11	8.6%	19	9.6%	19	0.6%	21
SG-SSB	17.8%	12	15.2%	14	16.7%	9	17.8%	5
UGL	17.5%	13	20.6%	8	11.8%	15	12.7%	12
UTB	16.3%	14	21.3%	5	19.4%	7	-21.1%	24
ADB	13.5%	15	19.3%	10	23.2%	5	10.4%	13
NIB	11.6%	16	9.0%	18	3.7%	23	-38.2%	25
PBL	11.3%	17	17.5%	11	10.3%	18	13.8%	10
Baroda	10.8%	18	4.1%	23	1.8%	24	10.4%	14
HFC	10.2%	19	13.4%	16	10.9%	17	17.2%	6
EBL	8.9%	20	5.7%	22	NA		NA	
FABL	5.2%	21	2.0%	25	33.8%	2	-9.5%	22
BSIC	5.0%	22	3.1%	24	-17.4%	25	-122.9%	26
BOA	3.4%	23	-31.1%	26	-452.5%	26	24.1%	4
ICB	0.2%	24	6.8%	21	7.0%	21	0.7%	20
TTB	NA		14.8%	15	11.9%	14	27.5%	2
IBG	NA		21.0%	7	6.5%	22	14.3%	9
MBG	NA		NA		7.5%	20	10.0%	15
Industry	23.8%		17.8%		16.6%		10.5%	

GH¢3.95b in 2012 compared to GH¢2.86b in 2011. Apart from the GH¢438m capital injection this year, banks earnings retained by banks grew by 40%.

The favourable returns shown by the other four banks, SCB, UBA, EBG, and BBGL, may be evidence of the efforts that these banks are making in response to the mounting pressure from shareholders to receive value from the recent recapitalisation drive.

SCB has consistently shown strong returns on equity.

GCB's improved profitability accounts for the remarkable comeback in 2012, from the 20th position in 2011 to the top of the ROE table in 2012.

### Dividend Pay-out Ratio

In 2012, half of the 26 banks paid dividend to the shareholders including all the listed banks. However, the dividend pay-out ratio for the industry has suffered a consistent decline from 40% in 2009 to 24.8% in 2012.

For the first time in three years, ICB which had the lowest ROE paid dividend. The pay-out by ICB is the highest pay-out ratio in 2012.

This may be an outcome of shareholder pressure to give some returns to its parent company, the major shareholder for the capital injected into the company to meet the capital requirements in 2010.

The emerging opportunities in the Ghanaian banking industry may have contributed to the strategy of retaining earnings in the bid towards holding sufficient capital to underwrite larger transactions.

Again this raises the discussion of applying the key principles of Third Basel Accord in determining what can be deemed as adequate for a bank's capital holding.

### Dividend payout ratio

	2012	R	2011	R	2010	R	2009	R
ICB	490.5%	1	0.0%	11	0.0%	10	0.0%	8
HFC	70.2%	2	29.6%	5	25.2%	5	23.0%	6
SG-SSB	44.1%	3	0.0%	11	68.9%	3	0.0%	8
SCB	44.0%	4	33.3%	4	69.0%	2	50.6%	2
BBGL	39.5%	5	4.8%	10	0.0%	10	0.0%	8
EBG	38.6%	6	65.7%	2	70.7%	1	50.1%	3
UBA	34.5%	7	0.0%	11	0.0%	10	0.0%	8
EBL	29.9%	8	0.0%	11	.	NA	.	NA
UTB	14.3%	9	22.4%	7	21.2%	6	0.0%	8
GCB	13.4%	10	153.7%	1	17.0%	8	87.8%	1
GTB	13.3%	11	49.8%	3	21.0%	7	0.0%	8
CAL	13.1%	12	17.4%	8	32.5%	4	27.7%	5
Fidelity	6.6%	13	16.4%	9	16.6%	9	0.0%	8
BOA	0.0%	14	0.0%	11	0.0%	10	37.4%	4
ADB	0.0%	14	0.0%	11	0.0%	10	15.8%	7
FABL	0.0%	14	0.0%	11	0.0%	10	0.0%	8
Stanbic	0.0%	14	0.0%	11	0.0%	10	0.0%	8
PBL	0.0%	14	0.0%	11	0.0%	10	0.0%	8
UGL	0.0%	14	0.0%	11	0.0%	10	0.0%	8
ZBL	0.0%	14	0.0%	11	0.0%	10	0.0%	8
BSIC	0.0%	14	0.0%	11	0.0%	10	0.0%	8
Baroda	0.0%	14	0.0%	11	0.0%	10	0.0%	8
ABG	0.0%	14	0.0%	11	0.0%	10	0.0%	8
NIB	0.0%	14	0.0%	11	0.0%	10	0.0%	8
MBG	.	NA	-	NA	0.0%	10	0.0%	8
TTB	.	NA	24.3%	6	0.0%	10	0.0%	8
IBG	.	NA	0.0%	11	0.0%	10	0.0%	8
Industry	24.8%		23.0%		31.1%		40.9%	

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## *Profitability and efficiency*



**The industry's profit before tax (PBT) margin rose from 30.5% in 2011 to 37.3% in 2012**

Overall the industry shows a good operating performance for the year ended 31 December 2012. Profit before tax (PBT) increased by 73% from GH¢720m in 2011 to GH¢1.2b in 2012 driven by a growth in the key income streams; net interest income, fees and commissions.

Total income earned by the industry was GH¢3.4b in 2012 compared to GH¢2.4b in 2011. As a result the industry's PBT margin rose from 30.5% in 2011 to 37.3% in 2012.

Interest income, the most significant component of income, increased by 46% from about GH¢2.2b in 2011 to GH¢3.3b in 2012 mainly on account of a 47% increase in net loans and advances from GH¢8.3b in 2011 to about GH¢12.2b in 2012. On the other hand, interest expenses increased by a slower rate of 38% to push up net interest income.

Although BoG's policy rate increased from 12.5% in December 2011 to 15% in December 2012, average lending rates declined from 25.9% in December 2011 to 25.5% in December 2012.

Average returns on Government of Ghana securities increased from 11.6% in 2011 to 21.8% in 2012. This suggests that whilst the increase in interest income on investment securities can be partly attributed to the higher yield of these securities, interest income derived from lending is a result of volume of lending to customers and rather than the impact of the lending rates.

**Profit before tax margin**

	2012	R	2011	R	2010	R	2009	R
Baroda	85.8%	1	74.5%	1	28.8%	12	57.8%	1
UBA	61.0%	2	41.3%	7	29.7%	10	4.2%	21
SCB	60.4%	3	52.5%	2	46.6%	3	45.9%	3
BBGL	51.0%	4	50.7%	4	38.1%	4	-13.8%	23
CAL	49.8%	5	35.3%	8	22.5%	17	28.0%	8
GTB	47.1%	6	35.2%	9	34.4%	6	43.7%	4
EBG	45.4%	7	44.4%	6	49.9%	2	46.1%	2
GCB	44.8%	8	8.8%	23	27.4%	14	9.8%	17
EBL	44.0%	9	48.2%	5		NA		NA
Stanbic	40.7%	10	33.5%	12	29.3%	11	4.2%	20
ZBL	38.2%	11	35.0%	10	26.0%	16	30.9%	7
ABG	36.9%	12	51.9%	3	14.8%	22	9.9%	16
SG-SSB	32.2%	13	30.7%	14	27.7%	13	31.4%	6
Fidelity	26.4%	14	17.9%	20	54.3%	1	11.7%	15
UGL	25.9%	15	24.9%	15	20.3%	18	12.8%	14
UTB	25.5%	16	21.9%	17	26.6%	15	-14.9%	24
HFC	25.4%	17	20.0%	19	30.7%	9	23.8%	10
FABL	18.6%	18	6.1%	25	37.8%	5	-5.9%	22
PBL	18.2%	19	21.2%	18	14.9%	21	13.4%	13
BSIC	14.4%	20	7.5%	24	-56.1%	26	-229.5%	26
NIB	12.3%	21	12.7%	22	1.6%	24	-44.7%	25
ADB	11.1%	22	22.1%	16	15.6%	20	14.4%	12
BOA	4.6%	23	-38.6%	26	-51.7%	25	26.4%	9
ICB	3.9%	24	31.1%	13	34.2%	7	5.7%	19
TTB		NA	34.4%	11	33.5%	8	35.7%	5
IBG		NA	16.1%	21	15.7%	19	15.4%	11
MBG		NA		NA	7.6%	23	9.7%	18
Industry	37.3%		30.5%		27.2%		17.7%	

Net income from fees and commissions also increased by 37% from GH¢ 537m in 2011 to GH¢ 738m in 2012 as banks intensified efforts aimed at maximising returns on these unfunded income. The banks in the first quartile group which includes EBG, GCB, BBGL, Stanbic, ADB and SCB together contributed a total of 51% to industry net fees and commissions in 2012.

A key success factors are strengthening existing relationships through dedicated customer services and growing support for the downstream sector of the oil and gas industry.

Other income increased by 20% from GH¢428 m in 2011 to GH¢514 m in 2012. This was mainly driven by net trading income which constituted about 79% (2011:81%) of other income and is mainly related to gains from foreign currency trading.

The growing demand for foreign currency during the year created an opportunity for margins when transactions are usually undertaken on behalf of customers.

**Baroda recorded the highest PBT margin of 85% whilst GCB made significant improvement to record 44% from 8% in the previous year**

For the second year running, Baroda is the most profitable bank in the industry with a PBT margin of 85%. However, Baroda has low visibility in the industry and contributes only 1% to the overall industry PBT and accounts for only 0.5% of the industry's operating assets.

The bank doubled its interest income from GH¢5.3m in 2011 to GH¢11.97m in 2012 due to higher interest earned on the loan portfolio and investment securities following a 110% increase in the loan portfolio and increasing yields on Government securities. Through recoveries and better credit origination and monitoring practices, impairment charge dropped by 81% from GH¢30m in 2011 to GH¢5.6m in 2012.

GCB appears to be reaping the benefits of transformations undertaken between 2011 and 2012 which saw the bank reposition itself in the consumer banking market and conversion of troublesome credits into medium term bonds.

The increase in GCB's interest income is attributable to interest income on investment securities which increased by 102% from GH¢114m in 2011 to GH¢231m in 2012 on account of increasing yield on Government securities and the full year's effect of the bonds.

Though the bank's net loans and advances increased by 78% from GH¢476m in 2011 to GH¢848m in 2012, interest income from the loan book increased by only 7% from GH¢127m to GH¢137m. This is an indication of the intense market competition. Impairment charge for the bank was similar to the prior year.

**Net interest margin**

	2012	R	2011	R	2010	R	2009	R
Baroda	17.1%	1	8.5%	10	4.2%	26	13.2%	1
ABG	16.4%	2	8.2%	14	10.4%	6	9.1%	8
BSIC	15.4%	3	13.3%	2	8.7%	12	6.6%	14
ADB	14.5%	4	8.3%	13	12.1%	3	6.2%	18
GCB	13.3%	5	9.3%	7	14.1%	1	7.4%	11
UBA	13.2%	6	7.5%	16	7.2%	17	5.8%	20
GTB	12.6%	7	8.4%	11	9.2%	11	12.4%	2
BBGL	12.0%	8	9.2%	8	10.8%	5	10.2%	4
UTB	11.3%	9	12.2%	3	11.0%	4	5.9%	19
EBG	11.3%	10	7.2%	18	7.4%	16	7.0%	13
CAL	10.5%	11	6.6%	21	7.8%	14	5.7%	21
EBL	10.2%	12	7.6%	15		NA		NA
HFC	10.1%	13	10.6%	4	10.1%	8	6.3%	15
Fidelity	9.5%	14	6.9%	19	5.7%	21	5.2%	23
ICB	9.2%	15	9.4%	6	7.9%	13	7.5%	10
SG-SSB	9.0%	16	9.6%	5	10.4%	7	10.2%	5
SCB	8.9%	17	8.9%	9	9.9%	9	10.0%	6
PBL	8.4%	18	7.2%	17	7.0%	19	6.2%	17
Stanbic	8.2%	19	6.7%	20	7.4%	15	7.2%	12
FABL	7.6%	20	5.0%	25	7.1%	18	3.4%	26
UGL	7.4%	21	8.4%	12	6.8%	20	7.9%	9
ZBL	7.3%	22	3.4%	26	5.5%	23	4.7%	25
BOA	7.0%	23	6.3%	22	5.3%	24	5.2%	24
NIB	4.5%	24	5.7%	24	4.3%	25	6.2%	16
TTB		NA	14.1%	1	12.6%	2	10.9%	3
IBG		NA	6.2%	23	5.6%	22	5.3%	22
MBG		NA		NA	9.4%	10	9.5%	7
Industry	10.2%		8.0%		9.3%		7.7%	

**Net interest margin**

Net Interest Margin (NIM) of the industry improved from 8% in 2011 to 10.2% in 2012.

Industry Net Interest Margin (NIM) recovered from a 1.3% dip in growth in 2011 and improved by 2.2% from 8% in 2011 to 10.2% in 2012. This was mainly due to 46% increase in interest income compared to a 38% increase in interest expense. Total operating assets, on the other hand, increased by 29% in 2012 (2011: 22%) which positively influenced the increase in NIM for 2012.

The increase in interest income was mainly due to a 52% and 48% rise in interest income on the loan book and investment securities respectively. The net loan book increased by about 47% while average returns on Government securities increased from 11.6% in 2011

to 21.8% in 2012. However, average returns on loans and advances declined from 19% in 2011 to 16% in 2012.

The increase in interest expense from GH¢ 675m in 2011 to GH¢ 933m in 2012 was largely driven by interest paid on deposits which increased by about 39%. The increase is a combination of an increase in total deposits by 29% and the effect of average deposit rates which went up from 7.4% in 2011 to 7.9% in 2012. Customers demand for competitive rates because of the higher yield offered on government securities and other money market securities squeezed the margins banks obtained from the mobilised funds.

Net loans and advances represented 46% of the industry's operating assets and continue to account for the largest proportion of the industry's operating

assets. Net loans and advances increased by 47% from GH¢ 8.3b in 2011 to GH¢ 12.2b in 2012. Investment securities held at year end increased by 26% from GH¢ 5.8 b in 2011 to GH¢ 7.3 b in 2012 while cash assets increased by 7% from GH¢5.6 b in 2011 to GH¢6 b in 2012.

ABG,ADB and UBA showed remarkable improvement in net interest margin. These banks were successful in almost doubling interest income from loans and advances without incurring similar growth in related interest cost.

### Cost income ratio (CIR)

#### CIR improved from 60% in 2011 to 50%

With the growing competition in the industry it appears that the banks are all keen to drive down the cost of delivering services and have been successful. The industry's cost income ratio dropped from 60% in 2011 to 50% in 2012.

During the period the industry's income grew but the banks held costs despite the upward pressure on costs arising from inflation and the depreciation of the cedi. Total income increased by 42% from GH¢2.4 b in 2011 to GH¢3.3 b in 2012 and operating expenses across the industry increased from GH¢1.4 b in 2011 to GH¢1.8 b in 2012. The increase in total income relative to the increase in operating expenses resulted in an improved CIR in 2012.

Salaries and wages formed the largest portion of operating expenses, contributing 33% (2011: 35%) to operating expenses. Other employee benefits increased by 45% from GH¢147.96 m in 2011 to GH¢214.68 m in 2012.

GCB and Baroda recorded the most improved CIR as they reduced their CIRs from 90% and 30% in 2011 to 50% and

### Cost income ratio

	2012	R	2011	R	2010	R	2009	R
Baroda	0.14	1	0.26	1	0.52	8	0.40	1
UBA	0.35	2	0.46	4	0.60	15	0.82	21
CAL	0.37	3	0.48	7	0.53	10	0.63	10
SCB	0.37	4	0.43	2	0.47	5	0.46	3
GTB	0.43	5	0.56	13	0.57	11	0.51	5
BBGL	0.44	6	0.47	6	0.60	16	0.81	18
ABG	0.46	7	0.45	3	0.43	1	0.82	20
NIB	0.48	8	0.51	8	0.66	21	0.77	17
EBG	0.49	9	0.53	10	0.47	4	0.48	4
ZBL	0.52	10	0.59	14	0.60	14	0.51	6
GCB	0.53	11	0.87	25	0.51	7	0.70	15
Stanbic	0.53	12	0.53	11	0.59	13	0.55	8
EBL	0.56	13	0.51	9		NA		NA
Fidelity	0.62	14	0.67	17	0.72	22	0.82	22
UTB	0.62	15	0.60	16	0.58	12	1.16	25
SG-SSB	0.64	16	0.68	18	0.66	20	0.63	11
HFC	0.66	17	0.69	19	0.64	19	0.70	14
BSIC	0.67	18	0.84	24	1.49	26	3.20	26
BOA	0.67	19	0.89	26	0.88	25	0.60	9
FABL	0.70	20	0.78	22	0.47	3	0.87	23
UGL	0.70	21	0.71	20	0.79	23	0.88	24
PBL	0.74	22	0.72	21	0.81	24	0.82	19
ICB	0.76	23	0.59	15	0.61	17	0.74	16
ADB	0.78	24	0.83	23	0.53	9	0.69	13
MBG		NA		NA	0.50	6	0.44	2
TTB		NA	0.47	5	0.45	2	0.54	7
IBG		NA	0.53	12	0.62	18	0.64	12
Industry	0.5		0.6		0.6		0.6	

10% in 2012 respectively. Operating costs for GCB decreased by 10% from GH¢247m in 2011 to GH¢221m in 2012 mainly because certain one off restructuring cost incurred in the prior year did not occur this year.

ICB was also the most notable in terms of deterioration in CIR as the ratio worsened from 0.6 in 2011 to 0.8 in 2012. ICB's operating expenses increased by 25% from GH¢16 m in 2011 to GH¢20 m in 2012 whilst total income dropped by about 2% mainly on the account of GH¢3.7 m decrease in net trading income.

The general trend is the continued discipline in cost management as increased competition is making it more

difficult for banks to pass on their inefficiencies to customers.

As banks develop new products to meet their customer needs, the cost associated with developing these products and providing the necessary technology base to support these products will continue to largely influence the CIR of banks.

Staff cost (employee benefits, and salaries and wages) will continue to be key in maintaining CIR because of the competitive remuneration required to attract and retain staff.

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## *Asset quality*

**Not much has changed with the quality of the industry loan portfolio as measured by the ratio of impairment charge to gross loans and advances which remained at 2.3% in 2012**

The quality of industry loan portfolio remained at about the same level in 2012 compared to 2011. Impairment charge as a percentage of gross loans and advances remained at 2.3% in 2012. This follows a remarkable improvement in 2011 when the ratio was driven down to 2.3% from 4.7% in 2010.

Impairment charges increased by 42% from GH¢209m in 2011 to GH¢298m in 2012 as gross loans and advances increased by 43% over the same period. It appears banks kept to practices they established in 2010 to reduce their loan losses. These steps included better origination, monitoring and aggressive remediation for defaulting customers which helped to keep the impairment charges to gross loans and advances at 2.3%; the lowest over the last four years.

The initiatives by Bank of Ghana to establish a Collateral Registry provide legislation to streamline borrowers and lenders activities and the licensing Credit Reference bureau has eased the credit assessment process at the origination stage and the recovery of defaulting loans. These have contributed to the improvement in the quality of the loan portfolio.

BOA and UBA showed marked improvement in asset quality during the year. Whilst the ratio of impairment charge to gross loans and advances for BOA declined from 7.2% in 2011 to 3.9% in 2012, that of UBA also dropped from 5.1% in 2011 to 1.4% in 2012.

**Impairment charge/ gross loans and advances**

	2012	R	2011	R	2010	R	2009	R
Baroda	0.0%	1	-0.2%	2	5.1%	22	1.0%	5
EBL	0.4%	2		3		NA		NA
UGL	0.6%	3	0.7%	5	0.2%	1	-0.3%	1
SCB	0.7%	4	1.6%	11	2.7%	10	3.5%	16
SG-SSB	1.0%	5	0.2%	4	2.0%	7	1.4%	7
GCB	1.1%	6	1.7%	12	6.3%	23	2.8%	15
PBL	1.2%	7	1.1%	10	0.7%	2	0.8%	3
UBA	1.4%	8	5.1%	24	5.0%	21	8.6%	23
Stanbic	1.5%	9	3.2%	20	3.2%	14	10.9%	26
HFC	1.6%	11	0.9%	8	1.0%	3	1.1%	6
EBG	1.7%	12	0.7%	6	1.1%	4	2.0%	9
UTB	1.8%	13	2.9%	19	2.0%	8	-0.2%	2
BBGL	1.5%	10	0.9%	7	3.8%	16	9.8%	25
FABL	2.1%	14	2.8%	18	3.2%	13	2.6%	13
CAL	2.2%	15	2.6%	14	4.7%	19	1.5%	8
Fidelity	2.5%	16	2.7%	17	2.7%	9	0.9%	4
ZBL	3.0%	17	1.9%	13	3.1%	12	5.2%	20
ADB	3.2%	18	-1.1%	1	11.8%	25	3.6%	17
ICB	3.8%	19	2.7%	15	1.5%	5	6.2%	21
BOA	3.9%	20	7.2%	25	9.6%	24	2.7%	14
GTB	4.0%	21	4.4%	21	2.9%	11	2.0%	10
BSIC	6.0%	22	2.7%	16	1.7%	6	2.1%	11
ABG	6.6%	23	1.0%	9	3.4%	15	4.0%	18
NIB	7.3%	24	4.5%	22	4.4%	18	7.9%	22
MBG		NA	0.0%	3	17.6%	26	9.6%	24
TTB		NA	4.6%	23	5.0%	20	2.4%	12
IBG		NA	8.9%	26	4.3%	17	5.0%	19
Industry	2.3%		2.3%		4.7%		4.4%	

Despite growing its loan book significantly, UBA appears to have improved the quality of its loan portfolio as its gross loan book increased by 52% from GH¢185m in 2011 to GH¢282m in 2012 but total impairment allowance decreased from GH¢ 13.7m in 2011 to GH¢4.3 m in 2012.

As a result of recoveries, impairment charge also decreased from GH¢9.4m in 2011 to GH¢4.1m in 2012.

BOA's gross loan book increased by 53% from GH¢ 241 m to GH¢ 369 m. It appears that, in the prior year BOA undertook a significant write down of its non-performing loan book.

This may have yielded positive results as impairment charge for the year decreased by 18% from GH¢17 m in 2011 to GH¢14 m in 2012.

**ABG and BSIC showed marked deterioration in the quality of their loan portfolios**

On the other hand, ABG and BSIC showed marked deterioration in the impairment charge to gross loans and advances. The ratio for ABG worsened from 1% in 2011 to 6.6% in 2012 and that of BSIC followed a similar trend from 2.7% in 2011 to 6% in 2012.

The significant impairment charge made by ABG's may be attributed to the business reorganisation carried out on acquisition of Intercontinental Bank. Unlike 2011 where ABG's incurred only impairment charge GH¢1m on its own portfolio the impairment charge for the combined loan portfolio as at the end of 2012 was GH¢21.5m.

BSIC has experienced consistent growth in its loan book in the last three years as it developed its branch network. The aggressive growth may now have its toll on the operations as unforeseen credit qualities of some clusters begin to emerge. This is not an unusual trend for banking startups as they begin to strengthen underwriting practices.

Total impairment increased by 247% from GH¢1.7m in 2011 to GH¢5.9m in 2012. Impairment charge increased by 290% from GH¢1.1m to GH¢4.3m.

The increase in the use of collateral registries and credit reference bureau by the banks will continue to support better customer assessment and loan decision processes and are expected to further improve the quality of the loan portfolio.

**Loan portfolio profitability**

	2012	R	2011	R	2010	R	2009	R
Baroda	39.7%	1	37.3%	1	4.8%	25	11.2%	22
SCB	11.0%	17	9.9%	18	15.3%	13	18.0%	12
ABG	17.8%	2	7.7%	22	6.4%	24	13.0%	19
Fidelity	17.7%	3	13.4%	13	16.3%	10	18.1%	11
GTB	17.1%	4	18.9%	4	18.6%	8	19.3%	10
UGL	16.6%	5	15.8%	7	18.7%	7	27.0%	1
BSIC	16.6%	6	18.9%	3	17.3%	9	15.4%	14
UTB	15.9%	7	16.1%	6	19.2%	6	17.8%	13
ADB	15.3%	8	14.7%	10	7.0%	23	10.9%	23
EBG	14.6%	9	8.2%	21	12.7%	17	13.8%	17
PBL	13.9%	10	14.9%	9	19.9%	5	21.4%	5
BBGL	11.0%	18	10.7%	17	11.7%	20	10.3%	24
GCB	12.7%	11	19.1%	2	22.9%	3	14.6%	15
HFC	12.3%	12	17.8%	5	20.5%	4	22.0%	4
SG-SSB	12.3%	13	15.6%	8	15.7%	11	14.5%	16
UBA	11.9%	14	3.0%	26	4.2%	26	11.8%	21
Stanbic	11.8%	15	9.4%	19	12.8%	16	8.4%	26
CAL	11.8%	16	11.2%	15	14.7%	14	20.9%	6
FABL	10.9%	19	13.0%	14	24.6%	2	20.2%	8
ICB	9.8%	20	10.9%	16	8.8%	21	12.2%	20
ZBL	9.4%	21	14.6%	11	12.4%	18	19.9%	9
BOA	8.3%	22	9.0%	20	12.3%	19	22.2%	3
NIB	6.1%	23	6.0%	24	8.5%	22	8.7%	25
EBL	4.8%	24	4.4%	25		NA		NA
MBG		NA		NA	28.4%	1	13.2%	18
TTB		NA	14.1%	12	15.6%	12	25.3%	2
IBG		NA	6.8%	23	13.4%	15	20.6%	7
Industry	13.0%		12.1%		15.5%		15.3%	



***The industry's improved quality of assets also showed in loan portfolio profitability as the ratio increased from 12.1% in 2011***

***Loan portfolio profitability***

Gross loans and advances of the banking industry grew by 43% in 2012 compared with growth 18% in 2011. The ratio of impairment charges to gross loans and advances was also maintained at 2.3% as in prior year.

Amongst the banks, UBA, EBG and ABG showed marked improvement in loan profitability whilst Baroda maintained its top ranking in loan profitability with a ratio of 39.7% in 2012. Indications are that many of the banks improved their loan profitability mainly on the back of cautious lending practices.

EBG's expansion into the SME and local corporate market which was achieved through its merger with TTB has contributed its improved loan profitability in 2012 despite significant increase in provision for credit losses. The increase in the provision for credit losses was basically due to the additional growth in the bank's SME portfolio.

It appears the industry's strengthening of the industry's credit risk management processes in 2011 begun to pay off by showing a decline in impairment charge by 42% in 2011 although net loans and advances in that period increased by 19%. The benefits appear to be eroding in 2012 as the industry experience an upsurge of 42% in impairment charge. Considering the prior year's improvement this may require some

attention and may not augur well for an argument to include SMEs in the lending product offerings because of the perceived high risk of SMEs.

***A stable macroeconomic environment will contribute to further improvement in loan profitability***

The improvement in profitability will continue on the back of a stable macroeconomic environment and increased efforts at sustaining the decline in non-performing loans.







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- Services
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- Infrastructure
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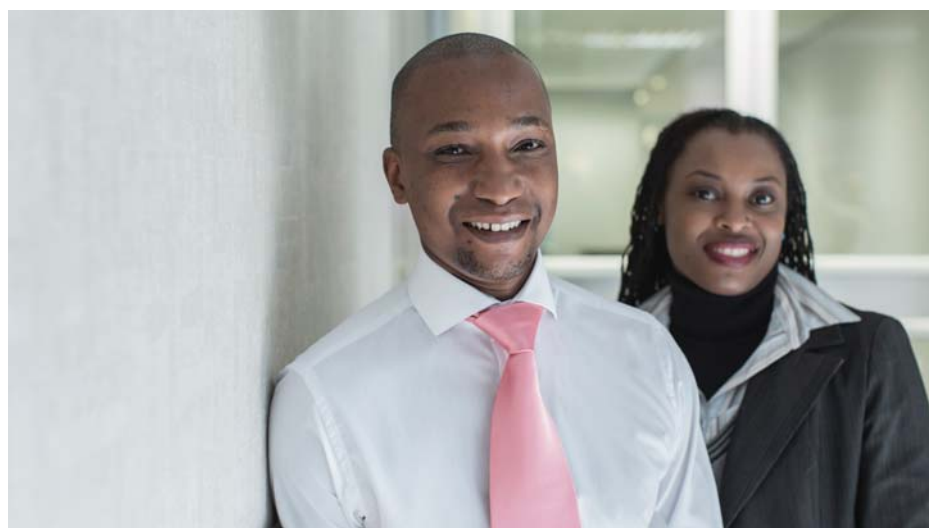
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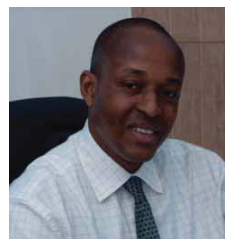
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## ***Glossary***

# Appendix A- Quartile groupings

## Total operating assets (Thousands of Ghana Cedis)

	2012	2011	Change	% Change
EBG	3,199,047	2,031,906	1,167,141	36%
GCB	2,832,573	2,361,404	471,169	17%
SCB	2,245,992	1,921,987	324,005	14%
BBGL	1,889,110	1,803,485	85,625	5%
STANBIC	1,679,398	1,117,486	561,912	33%
ADB	1,352,162	1,111,326	240,836	18%
FIDELITY	1,277,192	1,001,270	275,922	22%
CAL	1,108,618	747,294	361,324	33%
SG-SSB	1,006,112	758,309	247,803	25%
ZBL	923,309	681,409	241,900	26%
UTB	893,362	600,183	293,179	33%
NIB	836,798	767,514	69,284	8%
UGL	817,515	504,995	312,520	38%
ABG	741,058	263,384	477,674	64%
UBA	692,926	560,422	132,503	19%
GTB	651,074	413,104	237,969	37%
PBL	641,732	517,904	123,828	19%
HFC	561,174	407,250	153,924	27%
BOA	535,070	367,363	167,707	31%
ICB	299,665	242,762	56,903	19%
FABL	244,114	168,678	75,436	31%
EBL	217,077	193,907	23,170	11%
BSIC	166,821	87,900	78,921	47%
BARODA	114,925	91,313	23,612	21%
TTB 1	N/A	543,956	N/A	N/A
IBG 2	N/A	671,503	N/A	N/A
MBG 3	N/A	N/A	N/A	N/A
Industry	25,755,333	19,938,015	-	-

### KEY

	1st Quartile Banks
	2nd Quartile Banks
	3rd Quartile Banks
	4th Quartile Banks

1. TTB was acquired by EBG
2. IBG was acquired by ABG
3. MBG did not participate in the 2012 and 2013 banking survey.

# Glossary of key financial term, equations and ratios

**Capital adequacy ratio** is the ratio of adjusted equity base to risk adjusted asset base as required by the Bank of Ghana (BoG)

**Cash assets** includes cash on hand, balances with the central bank, money at call or short notice, and cheques in course of collection and clearing

**Cash ratio** = (Total cash assets + Total liquid assets) / (Total assets - Net book value of fixed assets - Investments in subsidiaries and associated companies)

**Cash tax rate** = Actual tax paid / Net operating income

**Cost income ratio** = Non-interest operating expenses / Operating income

**Current ratio** = (Total assets - Net book value of fixed assets - Investments in subsidiaries and associated companies) / (Total liabilities - Long term borrowings)

**Dividend payout ratio** = Proposed dividends / Net profit

**Dividend per share** = Proposed dividends / Number of ordinary shares outstanding

**Earnings per share** = After tax profits before proposed profits / Number of ordinary shares outstanding

**Financial leverage ratio** = Total assets / common equity

**Liquid assets** includes cash assets and assets that are relatively easier to convert to cash, e.g., investments in government securities, quoted and unquoted debt and equity investments, equity investments in subsidiaries and associated companies

**Loan loss provisions** = (General and specific provisions for bad debts + Interest in suspense) / Gross loans and advances

**Loan portfolio profitability** = (Interest income attributable to advances - Provisions for bad and doubtful loans) / Net loans and advances

**Loan loss rate** = Bad debt provisions / Average operating assets

**Net book value per share** = Total shareholder's funds / Number of ordinary shares outstanding

**Net interest income** = Total interest income - Total interest expense

**Net interest margin** = Net interest income / Average operating assets

**Net operating income** = Total operating income - Total non-interest operating expenses + Depreciation and amortisation - Loan loss adjustment + Exceptional credits

**Net operating (or intermediation) margin** = [(Total interest income + Total non-interest operating revenue) / Total operating assets] - [Total interest expense / Total interest-bearing liabilities]

**Net profit** = Profit before tax - Income tax expense

**Net spread** = (Interest income from advances / Net loans and advances) - (Interest expense on deposits / Total deposits)

**Non-interest operating expenses** include employee related expenses, occupancy charges or rent, depreciation and amortisation, directors emoluments, fees for professional advice and services, publicity and marketing expenses

**Non-interest operating revenue** includes commissions and fees, profit on exchange, dividends from investments and other non-interest investment income, and bank and service charges

**Non-operating assets** comprises net book value of fixed assets (e.g., landed property, information technology infrastructure, furniture and equipment, vehicles) and other assets, including prepayments, sundry debtors and accounts receivable

**Operating assets** include cash and liquid assets, loans and advances, and any other asset that directly generates interest or fee income

**Profit after tax margin** = Profit after tax / Total operating income

**Profit before tax margin** = Profit after extraordinary items but before tax / Total operating income

**Quick (acid test) ratio** = (Total cash assets + Total liquid assets) / (Total liabilities - Long term borrowings)

**Return on assets** = Profit after tax / Average total assets

**Return on equity** = Profit after tax / Average total shareholders' funds

**Shareholders' funds** comprise paid-up stated capital, income surplus, statutory reserves, capital surplus or revaluation reserves

**Total assets** = Total operating assets + Total non-operating assets

**Total debt ratio** = Total liabilities / Total assets

## List of abbreviations

<b>ABG</b>	Access Bank (Ghana) Limited	<b>MBG</b>	Merchant Bank Ghana Limited
<b>ADB</b>	Agricultural Development Bank Limited	<b>MPC</b>	Monetary Policy Committee
<b>Baroda</b>	Bank of Baroda Limited	<b>NDA</b>	Net Domestic Assets
<b>BBGL</b>	Barclays Bank of Ghana Limited	<b>NFA</b>	Net Foreign Assets
<b>BOA</b>	Bank of Africa	<b>NGO</b>	Non-Governmental Organisation
<b>BOG</b>	Bank of Ghana	<b>NIB</b>	National Investment Bank Limited
<b>BSIC</b>	Sahel -Sahara Bank Limited	<b>NIM</b>	Net Interest Margin
<b>CAL</b>	CAL Bank Limited	<b>NOP</b>	Net Open Position
<b>CIR</b>	Cost Income Ratio	<b>PAT</b>	Profit after tax
<b>CRM</b>	Customer Relationship Management	<b>PBL</b>	Prudential Bank Limited
<b>DPS</b>	Dividend per share	<b>PBT</b>	Profit before tax
<b>EBG</b>	Ecobank Ghana Limited	<b>PwC</b>	PricewaterhouseCoopers (Ghana) Limited
<b>EGL</b>	Energy Bank (Ghana) Limited	<b>ROA</b>	Return on assets
<b>EPS</b>	Earnings per share	<b>ROCE</b>	Return on capital employed
<b>FABL</b>	First Atlantic Bank Limited	<b>ROB</b>	The Royal Bank Limited
<b>FBL</b>	Fidelity Bank Limited	<b>ROE</b>	Return on equity
<b>GCB</b>	GCB Limited	<b>SCB</b>	Standard Chartered Bank Ghana Limited
<b>GDP</b>	Gross Domestic Product	<b>SG-SSB</b>	Société Générale Ghana Limited
<b>GSE</b>	Ghana Stock Exchange	<b>SME</b>	Small and Medium Enterprise
<b>GSE-CI</b>	Ghana Stock Exchange Composite Index	<b>Stanbic</b>	Stanbic Bank Ghana Limited
<b>GSE-FI</b>	Ghana Stock Exchange Financial Index	<b>TOR</b>	Tema Oil Refinery
<b>GTB</b>	Guaranty Trust Bank (Ghana) Limited	<b>TTB</b>	The Trust Bank Limited
<b>HFC</b>	HFC Bank (Ghana) Limited	<b>UBA</b>	United Bank for Africa (Ghana) Limited
<b>IBG</b>	Intercontinental Bank Ghana Limited	<b>UGL</b>	UniBank Ghana Limited
<b>ICB</b>	International Commercial Bank Limited	<b>UTB</b>	UT Bank Limited
<b>IFRS</b>	International Financial Reporting Standards	<b>ZBL</b>	Zenith Bank (Ghana) Limited



**24 out of the 26 banks currently operating the country participated in this year's survey as listed in the table below.**

<b>Name of Bank</b>	<b>Year of Incorporation</b>	<b>Majority Ownership</b>	<b>Number of Branches 2012</b>	<b>Chief Executive Officer( as at December2012)</b>
Access Bank (Ghana) Limited	2008	Foreign	33	Dolapo Ogundimu
Agricultural Development Bank Limited	1965	Local	77	Stephen Kpordzih
Bank for Africa	1997	Foreign	19	Kobby Andah
Bank of Baroda (Ghana) Limited	2007	Foreign	2	Arvind Kumar
Barclays Bank of Ghana Limited	1917	Foreign	59	Mrs. Patience Akyianu (Ag)
BSIC (Ghana) Limited	2008	Foreign	12	Mahmoud Hassan (Ag)
CAL Bank Limited	1990	Local	18	Frank Brako Adu Jr.
Ecobank Ghana Limited	1990	Foreign	78	Samuel Ashitey Adjei
Energy Bank (Ghana) Limited	2010	Foreign	7	Mr. Sam Ayininuola
Fidelity Bank Limited	2006	Local	43	Edward Effah
First Atlantic Merchant Bank Limited	1994	Local	8	Gabriel Edgal
Ghana Commercial Bank Limited	1953	Local	158	Simon Dornoo
Guaranty Trust Bank (Ghana) Limited	2004	Foreign	24	Lekan Sanusi
HFC Bank Ghana Limited	1990	Local	24	Asare Akuffo
International Commercial Bank Limited	1996	Foreign	12	Sanjeev Anand
Merchant Bank Ghana Limited	1971	Local	22	Joseph Tetteh
National Investment Bank Limited	1963	Local	28	P.A. Kuranchie
Prudential Bank Limited	1993	Local	19	Stephen Sekyere Abankwa
The Royal Bank Limited	2011	Local	1	Robert Ekow Bentil
SG-SSB Bank Limited	1975	Foreign	36	Gilbert Hie
Stanbic Bank Ghana Limited	1999	Foreign	26	Alhassan Andani
Standard Chartered Bank Ghana Limited	1896	Foreign	22	Kweku Bedu-Addo
UniBank (Ghana) Limited	1997	local	18	Felix Nyarko-Pong
United Bank for Africa (Ghana) Limited	2004	Foreign	27	Oliver Alawuba
UT Bank Limited	1995	Local	25	Prince K. Amoabeng
Zenith Bank (Ghana) Limited	2005	Foreign	24	Daniel Asiedu

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