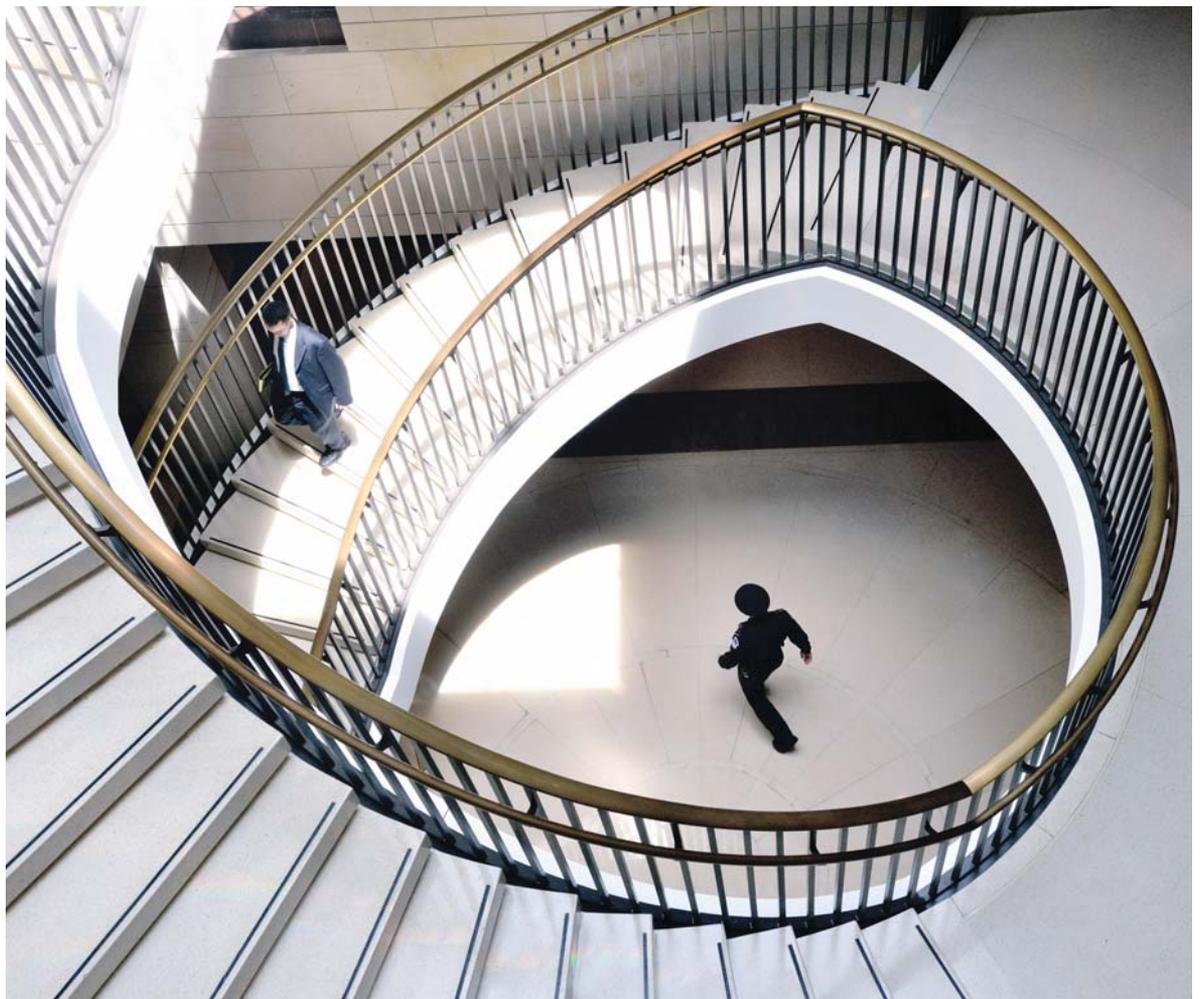


2014 Ghana Banking Survey

The Future of Banking in Ghana...
What's next?



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A message from our CSP



Felix Addo
Country Senior Partner
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The stories being written in current times about the state and the performance of Ghana's economy are in sharp contrast with what were widely published in the international media, especially, in 2010/ 2011.

The earlier narrative painted a picture of a country that was experiencing strong economic growth and stood at the threshold of profound economic transformation, ready to take off on the back of recently discovered oil and gas fields and shielded by a mature democracy that remained stable in spite of a very robust and intense public dialogue culture.

The stories today are different. While at the end 2012 high fiscal deficit/GDP and debt/GDP ratio were presented as the

initial areas of concern, their impacts in the real economy and the monetary economy have been disturbing. Without doubt, the timing and manner of implementation of some key policies to correct some long-term structural challenges (e.g. subsidy removal in the petroleum and utility sectors and tax reforms) and also to try and stem some emerging trends, especially, on the currency exchange market have contributed to create a rather austere operating environment for businesses across all sectors of the economy.

The banking sector has without doubt been one of the business segments that have been visibly impacted by recent economic trends and policy actions. Banks often get blamed for high interest rates and are also criticised for making big profits when other businesses simply shrink or fold up when the macroeconomic environment heats up. Needless to say, banks think of themselves differently, and maintain that these past couple of years are among the most challenging periods they have weathered. Senior bank executives we spoke to are of the view that, had the current economic environment been more genial, they could have generated even greater value for all their stakeholders, including their customers, shareholders, and government. Still, bank executives had noted during our survey that they remain generally optimistic about the future. Many of the executives have already begun a switch from a 'watch and see' mode to a 'position and grow' mode in anticipation of changes in the

banking sector in the coming 5 years.

As shown in the following pages of our 2014 Banking Survey report, the changes banks are making within their organisations now have less to do with sheltering from competitive, regulatory and economic headwinds and more to do with preparing for the future. 59% of participating bank executives are confident that transformations in the banking sector will result in an overall positive impact on the future of banking in Ghana over the next 5 years. Additionally, a majority of bank executives feel well prepared on most accounts to make the most of opportunities and overcome challenges in banking over the next 5 years.

Considering that, we had spoken to bank executives who have very good knowledge of the strategies and preparations their banks are making towards the future, we trust that the survey results offer very useful insights into what industry chieftains believe the future of banking in Ghana will look like. We find these insights very instructive and urge all who have an interest in the banking industry to read and digest the contents of this report.

Happy reading!



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





D. K. Mensah
Ghana Association of Bankers

Will the recent increase in regulations in the Ghanaian Banking sector help achieve monetary policy objectives and stability in the general macroeconomic indicators as envisaged?

The Bank of Ghana has through recent directives announced measures to streamline certain banking operations including the taxation of certain banking transactions. Many are concerned about the impact of these directives and legislations on banking activities and whether these directives are achieving the objectives backing them.

Bank of Ghana directed and helped clarify existing rules on the operations of Foreign Exchange Accounts (FEA) and Foreign Currency Accounts (FCA), Foreign Currency Denominated Loans and introduced a Margin Account for Imports Bills. As explained by the Bank

of Ghana were to help reduce the depreciation of the cedi. The bankers in principle supported the measures. However, there are currently concerns over “unintended consequences” with the regulator having to revise some of these directives. The call now is for the total withdrawal of these new directives on FEA and FCA.

A unified formula for the computation of the base rates quoted by commercial banks was also introduced in the year under review. Many expected the new formula to bring some sanity in the base rates quoted by commercial banks and perhaps help reduce lending rates given the transparency to be associated with the new formula. The formula lays emphasis on the cost of funds to the banks but many now wonder whether reference should be made to the money market interest rates at which Government borrows which in reality is a much more major determinant of the base rates of these commercial banks and not the theoretical cost of funds.

The supposed lack of education on the new Value Added Tax on certain financial transactions and services issued and directed by the Ghana Revenue Authority (GRA), is feared to negatively impact banking in the country. A large proportion of the Ghanaian population is already unbanked and the new tax is simply aggravating the situation. Many are opting to keep their monies at home and avoid banking services as much as possible especially many of the newly introduced e-banking services which are becoming key sources of non-interest income for the banks. Aside, the fact that people would normally not want to

pay any additional tax, the issue is worsened by the lack of clarity in the mind of the ordinary Ghanaian on what is to be taxed and what will not be taxed. Obviously, the stakeholders need to intensify their education ahead of the implementation of this new tax.

Ghanaian banks also registered to help enforce the Foreign Account Tax Compliance Act (FATCA), an initiative of the tax authorities in the United States of America. The obligation of the Ghanaian commercial bank is more of providing information on citizens of United States with a certain minimum bank account balance to the US tax authorities. Ghanaian banks are already considering using this minimum balance as a requirement for opening accounts by US citizens. There are concerns on whether the corresponding banks and tax authorities in the United States will reciprocate and provide similar information on Ghanaians in the United States.

There is continuing financial deepening of the Ghanaian banking sector with the sector always rising to the occasion on new developments in the global financial markets. Many of the commercial banks are now venturing into complex financial products including swaps and derivatives and are supporting many trade related services associated with the new found oil production sector of the economy. The future certainly looks bright and regulation will continue to play a key role in shaping the destiny of the Ghanaian banking sector and help the regulator in enforcing and achieving its monetary policy objectives.

Commentary



Dr Emmanuel Oteng Kumah
Chairman of KEDSS Economics

The 2014 banking survey provides a very useful overview of the substantial problems and opportunities facing the banking sector in Ghana today.

It comes at an opportune time in view of the tremendous economic transformation taking place with its attendant risks, uncertainties and difficulties facing most businesses particularly those exposed to the harsh realities of the market place.

Hemmed in by policy and legislative directives from the monetary authorities, banks are also confronted with several challenges in trying to meet the incessant demands of its key constituents—customers, employees and shareholders—for improved service delivery at reasonable costs while assuring adequate profits for long-term viability and shareholder capital.

This is a tall order for any business let alone for the banking sector whose recent visibility and reputation in the press have not been that friendly. In such an environment, banks have to be smart enough to separate the critical strategic factors for survival from the routine and implement long-run policies to meet the needs of all their constituents. Selectivity, focus and markets will be critical.

Against the backdrop, the carefully considered view of bank leaders in Ghana is unusually important in placing these issues in the proper context and setting. This is particularly so as

banking executives will play a critical role in guiding reforms in the financial sector which will provide an important fuel for powering the engine of economic growth.

Ghana's economic growth will be hampered inordinately for a long time if conditions are not germane for the banking sector to play its proper role in financing industry, commerce, agriculture and indeed the public sector as will be necessary given the dearth of finance in a developing economy as Ghana. Among the revealing insights are the survey's seven broad megatrends seen by banking executives as the main drivers of change in the industry in the foreseeable future.

We broadly agree with the survey about the importance of four factors namely competition, legislations and regulations, technology and domestic economic performance as the most likely to have the biggest impact on banking over the next 5 years.

Perhaps most useful from an operational standpoint for analysts, policy-makers, and bank managers, is the survey's in depth analysis of the various aspects of these key drivers for change. One can identify about 20 critical factors that are listed in the survey as likely to impact banking in all its forms and operations.

The survey is particularly instructive in the following manner: (1) the survey dissects each of these drivers into its constituent parts or components and assesses which of these will have the

greatest influence over banking sector over the next 5 years.

This permits a quantitative evaluation of each sub-factor's contribution; (2) the survey identifies the scale and direction of the impact of each driver providing in the process additional insights and food for thought for policy-makers and regulators; and (3) the survey presents for each driver the opportunities and challenges presented by each of its components as far as its impact on costs, revenue and balance sheet is concerned.

This section is capably done for each driver with quantitative illustrations for each sub-factor in a manner that should attract the interest of most practitioners and analysts. For many bankers, this section may constitute the most important part of the survey as it ultimately illustrates how each of these sub-factors could impact the bottom line.

The survey introduces many innovations and novelties in the analysis which give it its strength. By clearly isolating each of these important drivers and their subcomponents, as well as their impact on costs, revenue and balance sheet, the survey provides a tall agenda for reform for banking regulators, broad policy makers, banking chiefs, operators and staff, as well as analysts.

Given the strong interplay between banking in Ghana and public financial policy, the survey could have pushed banking executives to be more forthcoming and specific on what they

regard as the minimum critical reforms needed in the short-run to lay a strong foundation for sustainable banking.

An enabling environment is critical for successful banking and banking chiefs should not have been shy about its current absence and how to restore this. Clearly the survey notes in many places that the executives feel that the domestic economic performance will not have a positive impact as much as for example technology.

Moreover the banking executives noted their concern about lack of consultation from policy makers and regulators on new initiatives and policies. These observations clearly demonstrate serious concern about the conduct of recent monetary and fiscal policy as well as recent legislative and regulatory directives that have been seen as restrictive and uninspiring.

Such sentiments suggests that the combination of public policy actions (legislation and regulations and domestic economic performance) are likely to impact banking activity perhaps more broadly than the banking chiefs realize or are prepared to admit.

While it is refreshing that the banking survey ends on an optimistic perspective by banking executives for the future transformation in the industry, it is noteworthy that it brings to fore the manifold challenges likely to be faced and the need for strategic thinking and choices in this fast-paced industry.

1 The Future of Banking in Ghana

Introduction

The year, 2013 can be characterised as one of Ghana’s banking industry’s toughest years over the past decade. Despite, the growth in the industry’s total assets by 33% in 2013 compared to the five year historic (2008 – 2012) average growth rate of only 26%, there was a slowdown in deposit mobilisation by the industry in 2013.

The industry’s deposits grew by 27% compared to the five year historic (2008 – 2012) average growth rate of 28%. 2013 saw banks competing fiercely with one another to grow their respective deposits.

The industry, as a whole, also came under attack in the customer deposits market, with the biggest threats posed by government and some non-traditional sources, such as savings and loans companies (S&Ls) and finance houses.

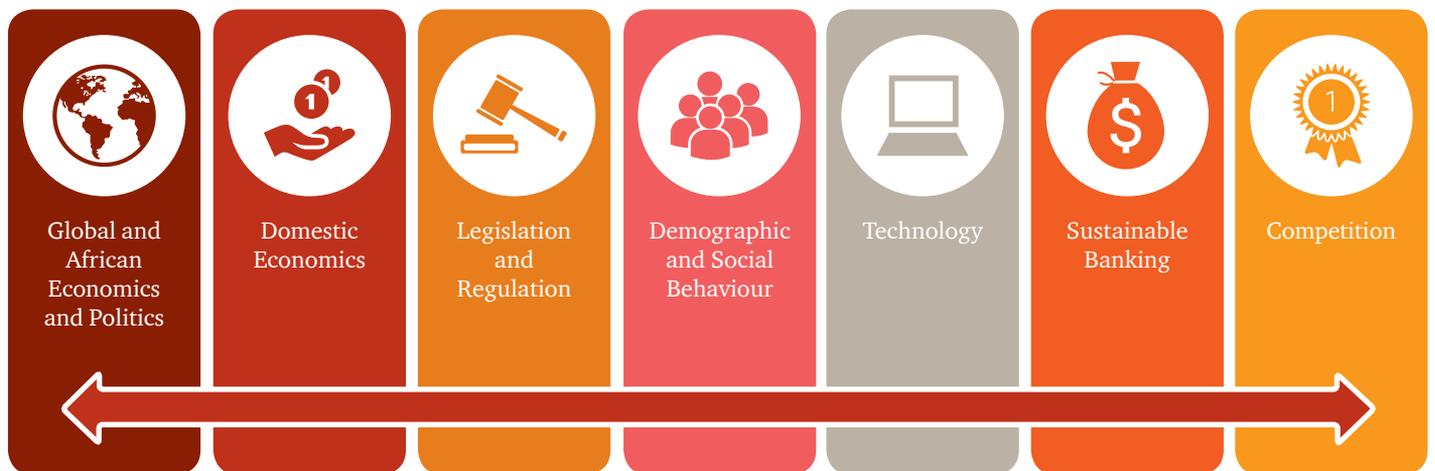
It would seem that the banking industry would have to weather a few more storms this year. Already, the fast-depreciating Ghana cedi, which has resulted in Bank of Ghana (BOG) tightening its enforcement of currency exchange regulations has created some challenges (and probably opportunities too) for banks.

The central bank has also introduced some new directives on reserve requirements and foreign currency net open positions further constraining banks’ ability to lend or acquire interest-earning liquid assets. Additionally, an amendment to VAT legislation requiring banks to charge their customers VAT at 17.5% on some of their financial services could lead to some attrition of banks’ margins. In spite of the seemingly challenging time, the banking industry continues to be a hotbed of positive developments too. The industry has seen the introduction of some

interesting and innovative products, which seem focused on acquiring (new) customers and also optimising opportunities for non-interest revenue from transaction banking services.

Despite the increased minimum capital requirement for new entrants into the industry, it is clear that financial services providers in other countries are still interested in entering the Ghana banking industry, indicating that there is a general belief that returns to investments in the industry have not peaked as yet or, at least, might be better than that available elsewhere.

So, then we asked bank executives... “What does the future hold for the banking industry in Ghana?” We asked them to reflect on what they see of the future making reference to seven broad areas, which we describe as megatrends¹ for the banking industry in Ghana.



¹A megatrend is a large social, economic, environmental, technological, or political change that is slow to form. Once in place, megatrends influence (changes in) a wide range of perceptions, behaviours, activities, and processes at different levels – governments, businesses, households, individuals – possibly for decades.

The responses we got to our questions created very interesting patterns, which we have presented in the rest of the pages of this section.

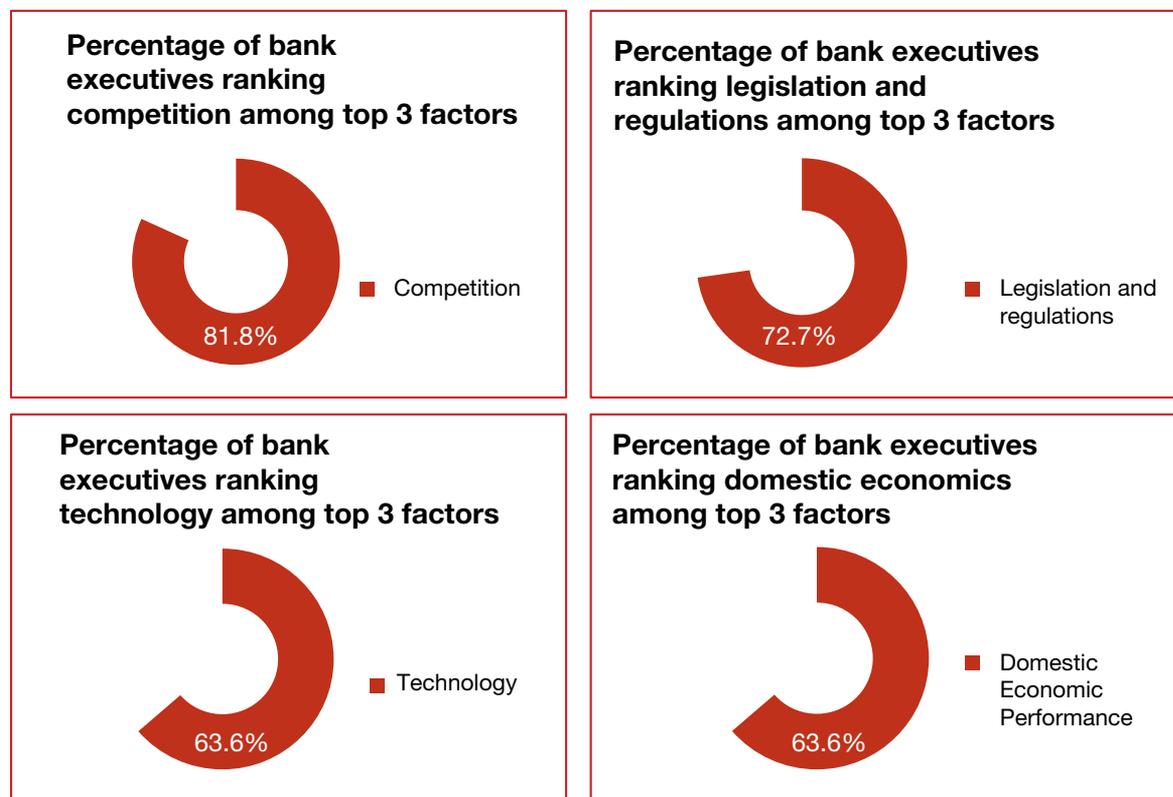
Four factors will be most influential in transforming banking

So what does the future hold? Bank executives are optimistic that the industry is on the brink of a period of significant transformation. They identified four key factors will drive the biggest transformation in the country's banking industry over the coming five years.

These are competition, legislation and regulations, technology, and the performance of the domestic economy.

Bank executives felt that the remaining three factors, i.e. demographics and social behaviour, happenings at the global stage in terms of economics and politics, as well as sustainable banking are less likely to have much of a significant impact; of these three factors however, a few bank executives cited demographics and social behaviour as likely to have a discernible (though less material) influence in shaping Ghana's banking industry's future.

Q: Which of these seven factors do you believe will have the biggest impact on the business of banking over the next five years?



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In the following pages, we have discussed in more detail the exact ways in which bank executives believe these four factors are likely to impact their industry.

Competition will come from within

Which of these competition drivers will generate the greatest influence on banking over the next 5 years?

Rank	Competitive Drivers
1	Existing banks
2	Potential new entrant Foreign banks, including regional banks
3	Unconventional sources 1: - S&Ls and RCBs
4	Chase for Skilled and experienced staff
5	Unconventional sources 2: - telecom companies
6	Islamic banking

Bank executives noted that existing banks operating in the country would present the most severe threat ahead of any competition from potential new entrant foreign banks.

Bank executives also noted that they expect competition from Savings and Loans companies (S&Ls) and Rural and Community Banks (RCBs) to become even more robust compared to historical trends, and to competition from telecommunication companies (telcos).

Some bank executives admitted that already S&Ls and RCBs are competing with them in the same retail and commercial deposit markets. Some of the banks remarked that rapid urbanisation and a relatively relaxed regulatory environment are among the key phenomena that are promoting the growth of these other banking institutions allowing them to compete with the much bigger universal banks.

An increasing threat is the poaching of mid-level bank executives trained by top tier existing banks attracted by comparable remuneration packages and faster progression along banking career paths.

On the other hand, bank executives did not perceive Islamic banking – as a competitive variable – would have much of a game-changing impact on the industry over a time frame of five years. More study will be required to develop a viable proposition for Islamic banking in Ghana because the industry does not have enough information to develop the Islamic banking market.

Bank executives don't think much will happen to make telcos serious competitors to banks, and they attribute this to the fact that there is very little likely changes expected to be by way of legislature that will give telcos licences to undertake banking services in Ghana.

Q. What will be the scale and direction of impact of the different sources of competition?

Bank executives noted that they expect Islamic banking to spur traditional or conventional banks to more creativity in product design and value proposition leading to higher rates of customer acquisition/ banking penetration.

In comparison, bank executives felt that, the most effective means to relate to telcos is to partner and collaborate rather than compete. Some explain that if the banking industry partners with the telecommunication industry, especially mobile network operators (MNOs, they –together with third party technology service providers – could penetrate and capture a significant share of the payments markets, use

mobile device-anchored products/ services and leverage their extensive investments in channel or distribution technology and infrastructure to reach the under-banked and unbanked.

The threat from S&Ls and RCBs may not be significant but, some bank executives are watching that space very closely for competition in the retail banking space especially as demographic factors may change the structure of the retail banking market over the next 5 years.

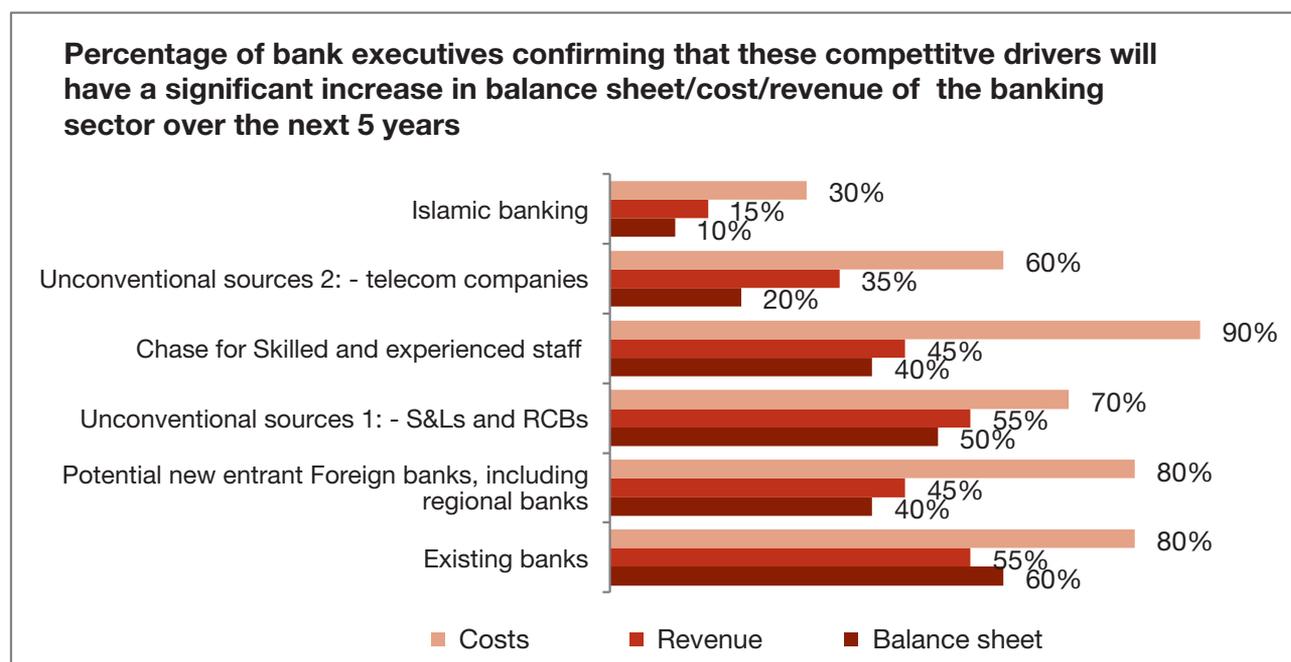
Q. What opportunities and challenges are expected to be presented to the banking industry by various competition sources over the next 5 years?

We quizzed bank executives about the opportunities and/or challenges they

perceive these trends present to their businesses over the next 5 years and the expected impact of the different sources of competition on balance sheet growth, costs, and profits.

Bank executives consider that each competitive factor will present its own unique array of opportunities and/or challenges and those individual banks should (and will) have their own unique or inimitable response strategy to position themselves to optimise returns to their stakeholders.

The graph below illustrates how bank executives think the different sources of competition will affect their business.



1 The Future of Banking in Ghana

While bank executives are generally upbeat about the growth influences of competition in total, their pre-occupation with the impact of competition on costs in particular is clear from the graph. In each of the six cases of potential sources of competition presented in the survey, more bank executives feel that they are likely to lead to a significant increase in costs. The executives consider the growth impact of competition on revenue and profits is likely to be more significant relative to balance sheet size.

Corroborating earlier observations, bank executives seem to believe that Islamic banking will introduce the least impact and create the minimum growth potential for industry balance sheet, revenue, and costs.

With respect to the likely threat posed by telcos, only 20% of bank executives interviewed felt that competition from telcos could lead to a significant growth of industry balance sheet, though they

believe that competition from telcos is not likely to be for deposits, but for payments business. It is in the direction of partnership with telcos that banks expect a significant increase to their operational costs as they spend to embed their operating technology to be able to compete more efficiently and effectively in the payments market with other banks.

The industry expects the chase for skilled and experience staff will have impact on costs. While 90% of respondents were certain that the chase for talent will lead to a significant increase in costs, less than half that number was sure that their success at finding the right talent will have a similar impact on balance sheet growth, suggesting that the industry creates better alignment between their talent management and business growth aspirations. Some banks mentioned internally-run academies as one route they are considering or using to try and address some of the challenges they

have or anticipate with finding appropriate talent, as the labour market continues to heat up.

Bank executives interviewed are of the view that foreign banks seeking to enter the industry are unlikely to introduce any innovations that will encourage banking beyond the current spheres of the industry's market; neither are they likely to have significant leverage with the country's unbanked population. They, however, acknowledged that, for certain market segments especially BOPs and lower middle income customer groups, the operating models of S&Ls and RCBs probably puts them in better competitive stead to offer fairly a stiff challenge to mainstream banks in the deposits as well as loans and advances markets.

Q. Is the banking industry prepared for the opportunities and challenges arising from future competition?

Generally, bank executives are fairly positive about the industry's and their own banks' preparedness to fully face up to the medium term opportunities and challenges expected to be created by the various competition sources. The threats which bank executives consider themselves most prepared for are those associated with competition from existing banks, the talent war, S&Ls and RCBs, and possible new entrants. At least 70% of bank executives participating in the survey are sure that both the industry and their banks are ready to respond to the future brought on by these sources of competition.

Bank executives interviewed, however, admitted that they are not as well prepared for the surprises that may be sprung by telcos and Islamic banking.



Bank executives argue that the seeming lack of their preparedness for these latter two competition sources reflects the industry's conviction that they are unlikely to be of much significance in the medium term.

In general, the market currently served by banks does not have a segment that is large enough to permit the entry of Islamic banks into the industry a threat for existing conventional banks. Additionally, only 33% and 44% noted that the industry and their banks respectively are ready for the telcos challenge.

In providing some details of the nature of strategic choices banks will make, have made, or are making to position themselves for future opportunities and challenges, bank executives noted a preference for operational partnerships rather than mergers and acquisitions².

Banks will seek agile business relationships that offer exit flexibility, rather than permanent marriages that entail the complex fusion of systems, operations and cultures.

Such arrangements are more susceptible to failure or only realise smaller-than-anticipated synergies. Banks will look

for bigger syndication opportunities that will enable them to deploy their capital with better efficiency and profitability, rather than be pre-occupied with fully underwriting many smaller value facilities that are associated with relatively bigger (default) risks and transaction costs.

Banks will also be seeking to partner with would-be competitors, such as telcos, S&Ls and RCBs, to leverage their distribution channels to reach the under-banked and unbanked with a wider range of banking products and services in a more cost-effective way.

Direct market interventions seem “front of mind” for bank executives

Which of these factors of legislation and regulation will have the greatest influence on banking over the next 5 years?

Rank	Legislation and Regulations Factors
1	Direct intervention in markets by the regulator (e.g. directives on forex)
2	New regulations about minimum capital prescriptions
3	New Banking Act
4	New VAT law
5	New regulations about calculation of interest rates
6	International or foreign laws (e.g. FATCA)

²Interestingly, a fair number of bankers noted that, in the medium term, they desire to see consolidation within the industry to help unlock potential benefits associated with economies of scale.

1 The Future of Banking in Ghana

Almost 73% of executives interviewed ranked banking sector legislation and regulations among the top three factors to have the biggest impact on the banking industry in the medium term. The graph offers an insight into the thoughts of bank executives. Arguably, the pattern shown in the graph could be reflecting sentiments of the times. This may be the general perception that the central bank has a tendency to interfere with market forces.

In response to our survey, 50% of bank executives consider selected direct market interventions by the regulator as the number one (No. 1) legislative/regulatory factor likely to have the greatest influence on the future of banking in Ghana.

The introduction of amended VAT regulations was not listed as the No. 1 factor likely to have the greatest influence on the future of banking. However, bankers noted that in the event that the VAT charge is introduced, banks will generally pass on the additional cost burden of the 17.5% VAT to customers, as profit margins are already being squeezed by a raft of regulatory measures the central bank

has implemented in the past. A concern articulated by some bank executives who were interviewed is that considering that the new VAT law might be applied unevenly across different types of financial services providers – it would seem that some financial institutions such as S&Ls and RCBS might be excluded – the introduction of the VAT will likely impact growth in mainstream banking industry adversely and provide an advantage to other sectors within the Financial services sector.

Q. What will be the scale and direction of impact of the various legislative and regulatory factors?

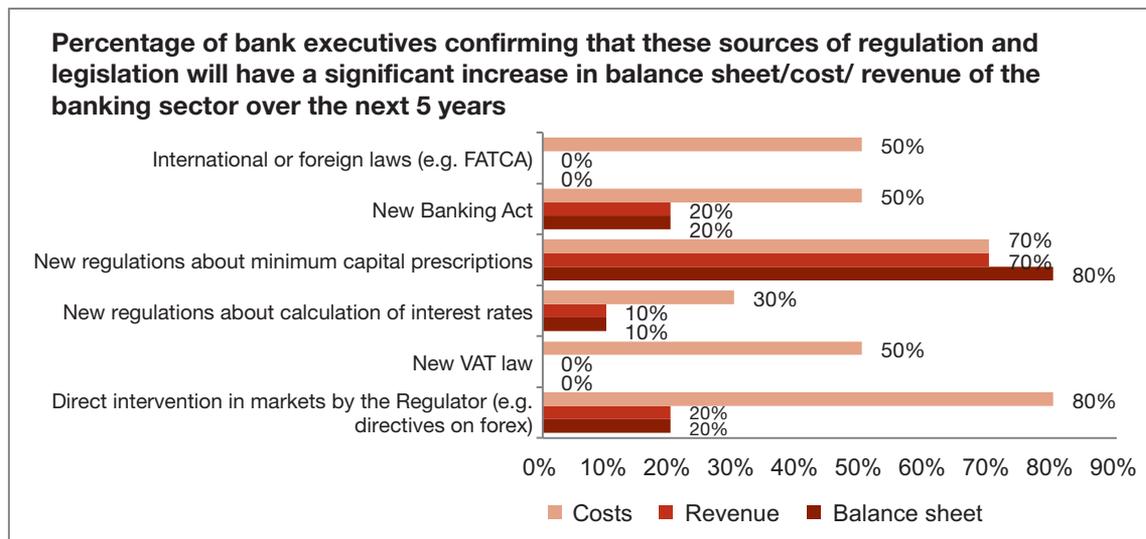
Bank executives generally believe that, if implementation of the new VAT law would have any impact on the future business of (mainstream) banking, the intensity of impact will be high and it will be the regulatory factor with the most negative effect too. To help stem such negative impacts, bank executives noted that it will be useful for the tax revenue authorities to review the new regulations and apply them in a manner that creates more evenness across the financial services landscape, in order for

them not to run counter to broader goals targeted by financial sector reforms including growing the ‘banked’ population of the country.

In conclusion, invariably, however, bank executives participating in the survey anticipate that changes in the legislative and regulatory framework will wrought mostly negative influences for the future business of banking and will lead to more costly operations. It behoves on the regulator to then do more to ease the pessimistic view that bank executives have with respect to the role of regulation in building the future of the business of banking in Ghana.

Q. What are the opportunities and challenges that legislation and regulation will most likely bring to the future business of banking?

Banks commonly have a fairly dull view of the growth and profitability and of the impact of regulations on their business, believing it will mostly lead to an increase in the cost of their operations. The graph below illustrates how bank executives suppose the different legislative and regulatory factors will affect their business.



Indeed, most executives doubt that legislation and regulation will create significant growth opportunities for the industry. Only 20% of the interviewed C-Suite personnel anticipate that direct market interventions by the regulator and the new banking bill presented any significant balance sheet and revenue growth prospects. 80% of the bank executives interviewed consider that new regulations related to increasing minimum stated capital, will generate significant balance sheet growth prospects for the industry.

To add further context to the preceding observation, 80% and 90% of bank executives believe that direct market interventions and new VAT laws respectively, will actually serve to constrain balance sheet growth.

Expanding further on their reasons for anticipations of balance sheet growth resulting from increased minimum capital requirements for new market entrants, bankers noted that existing banks are already taking a cue from the regulator's action on minimum capital to shore up their own capital. Some banks have sufficient income reserves to draw on while others can pursue their options for raising additional equity through rights issues and private placements, among others.

Bank executives generally acknowledge that the current cost of equity is high, given that alternative investments, e.g. fixed income securities, such as Treasury bills offer very competitive yields. Given this background, bankers observed that the high returns expected by capital providers may motivate some banks to become more aggressive in the growth of their balance sheets. Those banks who take on more risky assets will need enhanced credit risk management to

mitigate related risk exposure. Bank executives, generally, stressed that the appetite for healthy risks exists, and that banks will be looking for good syndication opportunities in the energy, power, and oil and gas industries, as well as in infrastructure, trade (especially cocoa trade financing), and even some types of large scale agriculture. A sound framework for public private partnership presents enormous opportunities.

Invariably, bank executives remarked that, compliance with frequent regulatory changes will mean a cost to the business.

Q. Is the banking industry prepared for the opportunities and challenges attributable to future legislation and regulation?

On average, almost 77% of bank executives participating in the survey felt that the industry was sufficiently prepared for the future of regulation in banking. The responses gave us two perspectives: (1) the industry is generally well prepared for whatever opportunities and challenges would arise from legislation and regulation, and will make the most of these to continue serving their various stakeholders – customers, employees, capital providers, and government; (2) some banks feel a slight sense of dismay at the uncertainty that seems set to be introduced into the industry by unpredictable regulations and insufficient consultations, but have the view that they will strive towards compliance, which will mean increased operational costs.

However, executives seem to show a slight hesitancy about the extent of preparedness of both industry and bank,

we gathered that it is mainly as a result of the immediacy of compliance requirements. The three regulatory factors that fall into this category include:

- The new VAT regulations - 40% of respondents indicated that both banks and the industry are not prepared for its implementation, citing a lack of clarity of requirements
- Direct market interventions by the regulator – 30% of respondents had noted unpreparedness because the regulator had had little consultations with the industry ahead of the directives they had recently issued, thus taking the industry by surprised

Implementation of international or foreign laws (e.g. FATCA) – 30% of respondents noted unpreparedness by both industry and banks, explaining that the domestic industry routinely has little inputs into legislation outside their own market borders and only adopt the approach of compliance, if such legislation directly impact their domestic business.

Overall proper compliance potentially means banks individually need to invest in systems, process change, governance, staff training, etc. and in a fairly short time. However – whether prepared or unprepared – some bank executives expressed the view that, in the future, they expect regulation to be more consultative during the development/design stages, so that the views and contributions of industry players are properly taken into consideration. Banks believe that banking legislation and regulation should be designed to have a long-term focus on overall industry growth. They believe that if that is achieved, there will be minimal

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need for panic interventions, which are focused on achieving short-term corrections to market conditions and which have the tendency to start off a spiral of confidence loss and speculation that result in challenging situations as has been experienced in the foreign currency markets lately.

In presenting their views, some bankers advocated that regulation should come at a cost to the regulator, not just the regulated. For most of the time, there is

no cost to the regulator. A specific example was cited of the recent increase to primary reserves from 9% of deposits to 11%. One banker remarked that this was “free funding” for BOG, which in turn charges banks punitive interest rates when they find themselves in situations where they are compelled to borrow overnight from the central bank to be compliant with, for example, required “market close” liquidity positions.

Technology in the future will seek to deliver customer convenience

Which of these technology factors will have the greatest influence on banking over the next 5 years?

Rank	Technology factors
1	Electronic banking services
2	Mobile banking services
3	Point of sale (POS) systems
4	System and Data Security
5	Availability of cheap data-enabled handsets

Bankers’ consider that technological factors will have the greatest influence on the future business of banking. Key drivers for informing decisions about the industry’s uptake and deployment of technology for the provision of banking services will be increasing wealth, demand for convenience, cost-efficiency, and increased banking penetration.

An analysis of bankers’ responses to the technological factor indicate that electronic banking services were cited by, 40% of respondents as the No. 1 factor with the greatest potential on banking business over the next five

years. Mobile banking services was ranked second while POS systems were ranked third by bank executives who were interviewed.

Bank executives explained that Systems and data security has been managed very well in the past and they expect to continue this trend hence do not expect Systems and data security in the banking industry to generate a transformational change in banking in Ghana over the next 5 years. They believe that customers can be assured that their monies will continue to be safe and secure with them.

Q. What will be the scale and direction of impact of the various technological factors?

How do bank executives expect the different technological factors to impact the future of banking business in Ghana?

As BOG continues its efforts to create an environment that encourages banks to deploy products that facilitate non-cash payments and transactions, POS systems and associated card products are expected to assume increasing importance in the country’s payments culture and practices, Additionally, the

gradual rise of formal retail with the entry into the market of prominent international retail brands, attracted by an expanding middle income class and increases in per capita income, will also create further impetus for the deployment of POS systems and the issuance of cards by banks.

Some bankers recognise that the banking industry has not as yet realised the huge potential electronic banking services offers. For instance, while Automatic Teller Machines (ATMs) seem fairly commonplace, Internet banking is not as popular; and many of the banks that offer Internet banking services have only now enabled their systems to allow their customers to complete transactions such as funds online funds transfer.

In order to realise the full potential of technology in banking in the future, Bank executives believe that there must be increased public education in the banking industry which must seek to

deepen the banking customers' awareness, knowledge, and understanding of the operations of the Ghana Integrated Payments and Settlement Systems (GhIPSS) and its various platforms, systems, and products such as the, the national switch (e-Zwich) and related biometric card (e-Zwich card), Automated Clearing House (ACH), etc. All of these platforms and systems have been introduced to promote the increased use of electronic banking and payment methods.

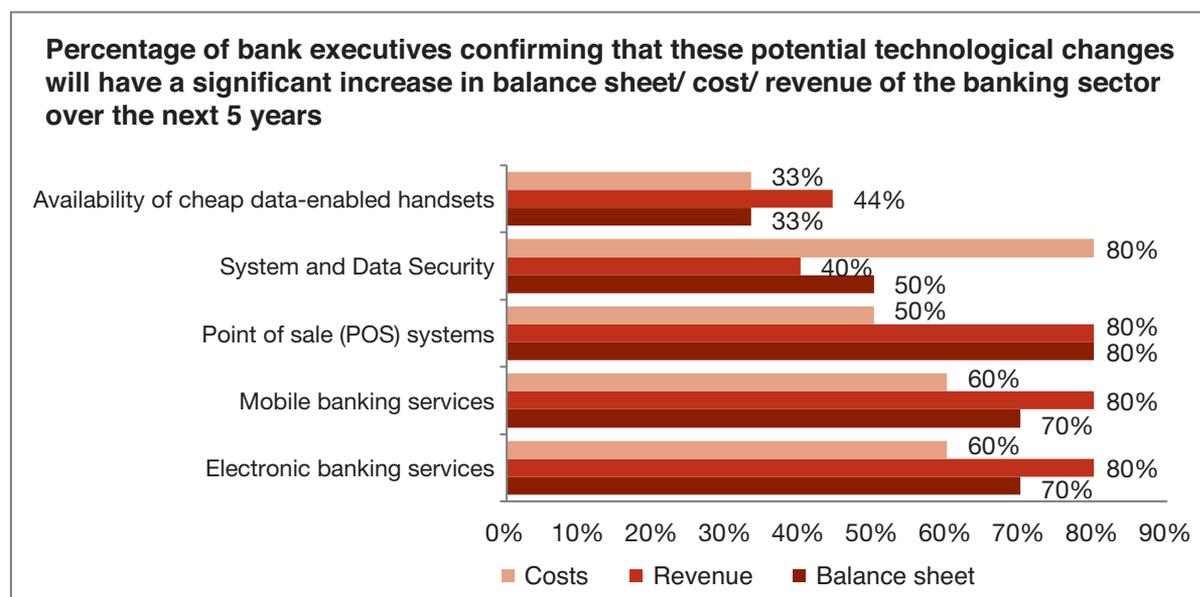
Q. What are the opportunities and challenges that technology-driven factors will most likely bring to the future business of banking?

Bank executives generally noted that the top 3 technology-related factors (Electronic banking, Mobile banking and POS) will most likely drive very significant growths in revenues, especially through non-interest income streams, as well as lead to growth in the

industry's balance sheet. They hold the opinion that convenience in banking – investing in technology that allows banks to put banking services at the fingertips of their customers and make them their own relationship officers, enabling the customer to undertake their banking business at their own pace – will prove to be valuable and profitable for banks.

Investments in such technologies may allow existing customers to transact across multiple channels and present banks with stable transactional revenue. Additionally, as banks are able to better demonstrate to peripheral markets (i.e. the under-banked and unbanked) that banking can be done almost everywhere and at any time, they might begin to penetrate these markets and mobilise some of the deposits believed to be locked in those markets for balance sheet strengthening.

The graph below illustrates how bank executives expect the different technological factors to impact the future of banking business –



1

The Future of Banking in Ghana

Generally, from the analysis, it is clear that bankers remain very positive about the opportunities that technology will present to the industry in the future. They believe that any increases in costs resulting from initial capital expenditures to acquire hardware, software, and network infrastructure will be fully recovered through transactions based income and balance sheet growth.

Overall, most respondents consider that technology-enabled products and services, such as the ones surveyed, will significantly drive balance sheet and revenue growths over the next 5 years. A relatively smaller number of the respondents also associated these products and services with significant increases in operating costs.

A majority of respondents were confident that the need to always ensure systems security and data integrity will result in significantly high levels of costs. Some remarked that as more and more organisations join in the international collaboration to fight money laundering, organised crime will turn to hacking and will be unrelenting in their daily efforts to penetrate the protective armour of banks' software and applications.

Q. Is the banking industry prepared for the opportunities and challenges arising from trends in technology? Is your bank prepared?

Not surprisingly, bank executives' response to this question was a resounding "Yes!" Across all the technological factors, bankers strongly believe that both their own banks and

the industry as a whole are ready with strategies to meet the challenges head-on, and convert opportunities. As one banker observed that : "the Ghanaian banking industry has as much technology as is available in some of the more advanced economies with sophisticated financial services systems... the issue is marketing this technology effectively to our customers to enable us achieve the levels of patronage that are high enough to generate respectable income streams for banks".

Banks are confident that they have already invested in the appropriate foundational technologies, and can plug in any additional software or applications that will enable them to fully optimise business opportunities.

Already, ATMs have ceased to be just cash dispensers and are serving as dynamic interfaces between banks, their customers, and the wider banking industry. Customers are able to pay bills, transfer funds, print statements, and buy airtime.

In a few cases, customers can deposit cash and top up mobile wallets for mobile money transactions. Real-time email and SMS alerts sent to customer handhelds provide them with instantaneous updates on transactions on their accounts.

Generally, in the future, the bank that does not enable its customers to easily conduct their business, including effecting transactions, across multiple technology-enabled channels, creates for itself a competitive disadvantage that would severely limit its growth, profits, and survival.

Bankers wish the managers of the economy will set it on an even keel

Considering the strong sentiments expressed by bank executives who participated in the survey when the subject of the performance of the domestic economy came up, it is rather surprising that this driver did not rank

uppermost and ahead of all the other key drivers considered by the survey. While the domestic economy drew a tie at third place with technology as the single driver with the greatest potential to influence the business of banking in the future, it is clear from the analysis that bankers generally feel that the impact of the domestic economy will not be as positive as that of technology.

Which of these broad aspects of the domestic economy will have the greatest influence on banking over the next 5 years?

Rank	Domestic economics
1	Performance of the fiscal economy (deficit/GDP ratio; current account deficit, etc.)
2	Performance of the monetary economy (interest rates, Ghana Cedi performance, etc.)
3	Performance of the external sector

When asked to indicate their views on how they expect the three broad economic factors surveyed to impact the future of banking, it was clear from their expressions that most bank executives do not differentiate between the actions of the central bank and the performance of the monetary economy. And given that the actions of the central bank, especially in the past many months, have usually had a direct and restrictive impact on the business of banks, it is not too remarkable that the performance of the monetary economy featured the highest in the minds of bankers as the factor expected to have the biggest impact on the future business of banking.

Analysing the responses of bankers in further detail, we established that 70% of bankers selected the performance of the monetary economy as the No. 1 economic factor expected to impact

banking's future; the comparative figures for performance of the fiscal economy and the external sector were 20% and 10%, respectively.

Q. How important (scale and direction of impact) will be the various domestic macroeconomic factors in the future business of banking?

Bankers generally anticipate that the future performances of the fiscal and monetary sectors of the economy will have very strong impacts on the health of the Ghana banking industry, with these impacts expected to be more negative than positive.

Of course, it is hard to not acknowledge that this perspective of the banking industry's chieftains is partly resulting from the tough experiences of the banking industry (and other sectors of the economy) which is attributed to the

rather dismal performances of the fiscal and monetary sectors, recently. The fiscal deficit-to-GDP ratio has been worryingly high; inflation measured by consumer price index (CPI) has broken the single-digit ranks and has generally been trending up for the past 12 months; interest rates have been increasing rapidly, buoyed up by the government's huge appetite for borrowing, and the Ghana cedi has been floundering against especially the United States dollar, despite the measures instituted by the central bank to enforce existing legislation.

Most short and medium term forecasts of the country's economic performance by the Government and other international organisations, such as the World Bank and IMF, fail to convince most people – least of all, the business community in the country – that there will be a quick and permanent return to

1 The Future of Banking in Ghana

the narrative of the economic performance of 2011/ 2012, despite the best efforts of the government.

Bankers believe that whatever gains that might be made from this time on are at risk of being wiped out during 2016, as historically, the country's election years have been associated with significant fiscal laxity, characterised by government expenditure outstripping revenues, and leading to the same situation that served as one of the key triggers of this economic downturn.

While bankers seem to ascribe a less negative impact to the performance of the external sector, they are also of the view that the scale of its impact would not be felt as hard as the two other economic factors.

In explaining their position, bank executives noted, for instance, that, as the economies of other countries and regions get stronger (e.g. USA, UK, EU, BRICS³, and Japan) remittance flows from Ghanaians in the Diaspora will strengthen again and provide a steady supply of foreign currency to help stabilise the value of the Ghana cedi over the next 5 years.

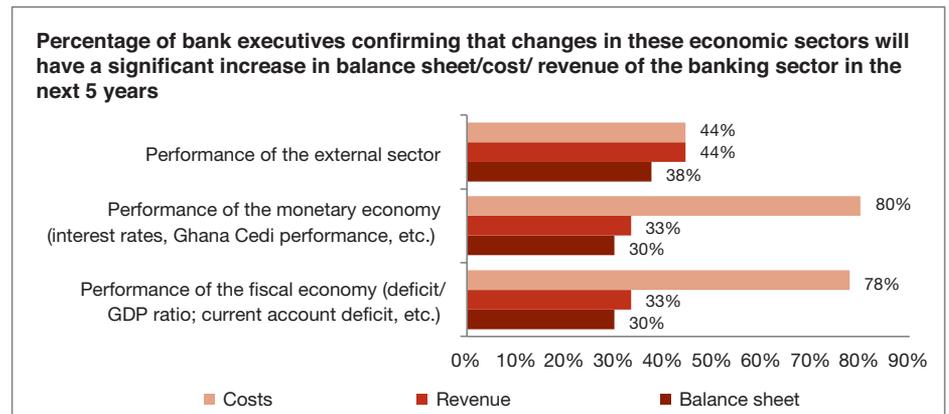
However, considering the credit-limiting impact of the current requirement by the central bank for banks to hold liquidity reserves of foreign currency account balances in equivalent Ghana cedis, banks may not be motivated to hold or keep foreign currency deposits for trading purposes. Such remittance flows are therefore not likely to present as many opportunities to receiving banks as used to be the case.

Indeed, considered as a whole, the

industry seems to think that the external sector will be less important relative to the two other economic factors in shaping the future of the banking industry

Q. How do banks anticipate the future performance of the domestic macro-economy to affect the industry's position and performance?

It is apparent from the graph below that a majority of bank executives see a lot more challenges than opportunities for the industry in the country's economic medium term future.



About 80% of the survey respondents noted that the future performances of both the fiscal and monetary sectors will lead to a significant increase in the cost of operations, but not as much growth in revenue and balance sheet size.

Bank executives anticipate that the cost increase is fuelled by high inflation. The expectations are sustained by speculations that the Ghana cedi will remain weak against a strengthening United States dollar, facilitating cost

³BRICS – Brazil, Russia, India, China, and South Africa

push inflation from imported commodities. Additionally, high interest rates supported by the continued domestic financing of the public deficit will combine to keep cost of business and cost of living high. Already, banks – just like any other businesses – have felt the pinch of higher utility tariffs even when the quality of service has plummeted, higher fuel prices, and a rise in payroll costs, as wages and salaries have been adjusted in attempt to restore some of the value lost through inflation and cedi depreciation.

Reflecting on what has transpired in the past many months, banks are certain that growth opportunities are unlikely to be numerous if economic conditions remain dull as exists today. Rapid growth in banks' income statements and balance sheets will come down to the ability of banks to more accurately anticipate changes in macroeconomic conditions and take positions that will benefit the bank. Banks will need to invest in economic forecasting tools and training to be able to build the necessary internal capacity for the relevant macroeconomic/.

Q. Does it mean that the banking industry is generally not aiming for growth in the face of an unfavourable macroeconomic outlook?

Bank executives are confident that at both individual banks and industry level they are ready to avail themselves for the opportunities while tackling the challenges that macroeconomic factors would present in the future.

These executives feel that they are more prepared for changes in monetary policy driven by the regulator, than for changes resulting from fiscal policy and the

performance of the fiscal sector of the economy. 89% of participating executives noted that the banking industry is adequately prepared with the appropriate response strategies to developments resulting from monetary policy shocks. The percentages fall to 70%, when banks noted their readiness to deal with potential future shocks emanating from fiscal policy and the fiscal sector.

During our survey discussions on regulations and legislation, Bank executives interviewed expressed concerns for broader and longer consultations on market interventions which relate to the monetary sector. This was noted in specific contrast to the absence of consultation between the banking industry and the managers of the economy with respect to fiscal policy which may heavily impact banking. As a result, bank executives feel more confident in the prospects of steering their businesses to respond quicker and more easily to monetary policy shocks than fiscal policies shocks expected over the coming 5 years.

Many banks in Ghana have developed business and operational models that are used to simulate the impact of interest rates and exchange rates on bank's income levels and balance sheet growth rates. However, some of the bank executives interviewed admit the difficulty in obtaining reliable statistical information that enable them to fairly forecast simulations of impact of market interest and foreign exchange rates on their banks. One banker remarked: "We have opted for a 'wait and see' approach to enable us gain better clarity and understanding of the potential direction of the fiscal sector. We are being very cautious in granting new

loans, as even traditionally strong sectors of the economy seem to be buckling under the pressures being felt throughout the economy. We expect that the managers of the economy will correct the current situation and urgently too".

Still, banks generally believe that they have the capacity to deal with the future of the domestic macroeconomic environment.

What's our own perspective of the future of banking in Ghana?

Just like the industry chieftains, we trust that Ghana's banking industry is on the threshold of significant transformation. In our view, the pace at which this transformation unfolds is a function of the interplay between the key drivers of technology, demographics and social behaviour, regulation, and economics, and how well individual banks anticipate, develop, and respond to the associated opportunities and challenges.

It is instructive to note the relative levels of general importance that industry accords each of the potential drivers of transformation in the banking industry with regard to their perceived propensity to generate the biggest impact on the business of banking in the future. While the industry's observation might not necessarily turn out in exactly the same fashion, there is no doubt that there's some truth in the fact that each of these drivers will have an important role to play.

The banks that will win over the next 5 years are those that will invest time in thinking deeply about what the

1 *The Future of Banking in Ghana*

emerging trends for each of the transformation drivers mean for the business of banking, and developing solutions that resonate with the industry's customers. What challenges and opportunities are inherent in the trends?

What are the implications for their existing business models? What competitive advantages and disadvantages are revealed? Do they have sufficient visibility of the key issues to consider their options and take decisions, or they need more data to create clearer patterns and generate better insights?

Where should they build additional capacity to be more competitive? Which segments of the market should they enter, consolidate, or even exit?

All of the above-stated questions require deep strategic thinking, involving banks' C-Suite personnel and, in several cases, their boards. And this strategic thinking process should start sooner than later, even now when the industry is caught in the throes of a challenging operating environment. Banks need to decide what they want to do in their industry: - drive change (i.e. shape the future), follow fast, or manage defensively.

Conclusion... laying hands on the future

In conclusion, Banks' ability to clearly identify changes well in advance of them becoming fully developed will give them an invaluable advantage in the market. Many opportunities and challenges await banks as the key drivers of change begin to unfold and leave their imprints on the industry. To survive and actually grow, banks have a fair range of strategic initiatives which include,

- Develop a customer-centric business model that permits banks to better understand the customer and enables them to optimise the benefits from the relationship. In developing this model, there will be the need to enhance the collection of customer experiences data, and also the incorporation of mobile technology and social media into your value proposition. Understanding the demographic developments in the country and its impact on banking in Ghana may become more relevant than currently anticipated.
- Optimise distribution channel to enable banks to provide its products and services to the market just about





anywhere and across a multiple of channels, including ones targeted at the digital customer. As part of this initiative, banks could consider closure of unprofitable branches to unlock value for deployment elsewhere.

- Simplify business and operating models – this means that banks need to create simplified experiences for their customers... simple products, with features and pricing that are easy to understand for purchase decisions; simple channels that are easy to access and use; simple organisations, operations, and processes, technology, and terms and conditions that make it possible for the customer to interact with the bank painlessly.
- Obtain an information advantage through implementing systems and technology that allow the continuous capture and analysis of information from all sources to better understand the needs of their customers and be able to provide them with products or services structured to meet their needs.
- Proactively manage risk, regulations, and capital in a comprehensive enhanced enterprise-wide risk management system

- Build a motivated, responsive and skilled staff force that will be ready to make the difference in a very competitive industry where it is difficult to separate banks on the basis of staff contribution to value creation.
- Think Sustainability at all levels of strategy formulation and implementation. While Sustainability is not front of mind of many bank executives as discovered in this survey there are numerous benefits that awaits the banking industry. Obtaining a good appreciation of how to develop and implement a sustainable banking practice will generate some fresh breath into your bank.

In implementing some of these key strategic initiatives in anticipation of potential transformational changes in banking in the future, we acknowledge that some banks will experience some challenges around financial ability, technology, as well as talent and organisational capacity. Bold decisions have to be taken to be agile and move away from the comfort zones to the unknown.

2 Overview - The Economy

The world economy

The IMF's World Economic Outlook (WEO) for January 2014 reported a growth rate of 3.0% for the world economy which is fractionally less than the growth of 3.1% achieved in 2012.

The report however indicated that Global economic activity strengthened during the second half of 2013, and is expected to improve further in 2014 and 2015 with projected growth rates of 3.7% and 3.9% respectively. The projected growth rates are expected to be achieved largely on account of recovery in the advanced economies.

Sub-Saharan Africa

Growth in sub-Saharan Africa improved from an estimated rate of 4.8% in 2012 to 5.1% in 2013 which was slightly lower than the projected growth rate of 5.3% for 2013. The slower than expected growth was basically due to an adverse external environment and diverse domestic factors. The adverse external factors mainly included rising financing costs, less dynamic emerging markets, and less favourable commodity prices.

The domestic factors, on the other hand, included slower investment and weakening consumer confidence in some cases, and adverse supply developments in others. Economic growth within the sub-region is expected to remain strong reaching 6.1% in 2014 up from 5.1% in 2013). The success hinges on activities within the advanced economies and other development partners.

Source: IMF World Economic Outlook report, 2013 and April 2014.



Ghana's macroeconomic performance

Overview

Overall, GDP growth has declined over the last three years after achieving a period high of 15% in 2011, mainly spurred by the commercial production of oil which started in the last quarter of 2010.

As per the Ghana Statistical Services final 2012 GDP and revised 2013 GDP

published in April 2014, Real GDP growth has since declined to 8.8% in 2012 (being final estimate) and further down to 7.1% in 2013, missing its target of 8% for 2013. The Government targeted a Real GDP growth at 8% for 2014. During the first quarter of 2014, Real GDP grew by 6.7% (year on year).

Sectoral growth and contribution to GDP

Provisional results for 2013 show that both industry and services recorded



higher growth rates for 2013 (9.1% and 9.2% respectively) compared to the targeted growth rates (8.7% and 8.5% respectively), whilst the Agricultural sector recorded 3.4% growth, missing out on the target of 4.9%.

During the first quarter of 2014, the Agricultural sector recorded the highest growth of 12.7%; while, the Industry Sector recorded a negative growth rate of -1.1%. In comparison, the year-on-year GDP growth rate for the first quarter of 2013 was 9.0%.

The Services sector

The Services sector contributed about 50.6% to total GDP for 2013 (2012: 50%) and grew by 9.2% for the year (2012: 10.2%). Growth in the services sector was led by the information and communication subsector with a growth of 24.7% (2012: 23.4%); followed by the hotels and restaurants subsector with 13.7% growth (2012: 13%); financial and insurance activities with growth of 12.1% (2012: 23.4%); and health and social services with an 11.2% growth (2012: 7.9%).

All the other subsectors recorded growth rates of less than 10% for 2013.

The Industry sector

The industry sector contributed 28.1% to total GDP in 2013 (2012: 27.3%) and grew by 9.1% for the year (2012: 7.0%).

Growth within the sector was mainly driven by crude oil production which grew by 37.5% (2012: 9.1%) whilst mining and quarrying (without crude oil) recorded 17.6% (2012: 5.0%), with electricity also recording a 13.3% growth (2012: 11.1%).

Whilst the subsectors show an increase in growth compared to 2012, the manufacturing and construction subsectors recorded declines in growth (from 5% and 11.2% in 2012 to 2.5% and 8.4% in 2013 respectively).

The water and sewerage subsector also recorded a marginal increase in growth as it recorded a growth rate of 2.4% (2012: 2.0%)

The Agriculture sector

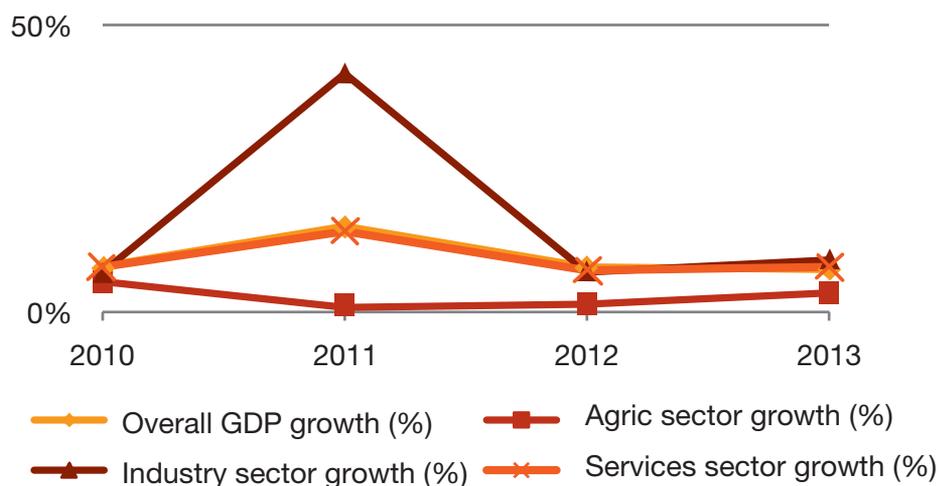
With the oil find, the contribution to GDP has declined from 29.8% in 2010 to 21.3% in 2013. However the sector recorded a growth rate of 3.4% in 2013. (2012: 1.3%). Growth in the sector was driven mainly by the fishing subsector at 8.9% (2012: 4.7%), followed by livestock at 5.3% (2012: 5.0%) and crops which grew by 3% (2012: 1%).

Cocoa production recovered from a slump of -6.9% in 2012 to record a growth of 3.7% in 2013, whilst forestry and logging also recovered from a slump of -1.4% to record a growth of 0.8% over the same period.

Source: Budget statement 2014; Ghana Statistical Service: Provisional GDP for 2013 and Quarterly GDP, First Quarter 2014.

2 Overview - The Economy

GDP Growth Trends



Source: Budget statement 2014; Ghana Statistical Service: Provisional GDP for 2013, & PwC analysis

The monetary sector

Money supply

The year to September 2013 showed a decline in the supply of Broad Money (M2+) by 17.7% compared with a growth of 28.8% for the comparable period to September 2012. However, by December 2013, the supply of M2+(GHS26,937m) had increased by 19.1% year on year compared to a growth of 24.3 % y-o-y at end of December 2012.

This was driven by continued strong monetary operations and a generally weak external sector condition as reflected in an expanded Net Domestic Assets (NDA), the impact of which was moderated by a rather low Net Foreign Assets (NFA).

The year on year growth in reserve money (RM) as at December 2013 was much slower at 15.1% compared to 36%

for same period in 2012. Net claims on Government and continuing strong monetary policy operations have led to a slowdown in growth of BOG NDA from about 334% in 2012 to 48% in 2013 which in effect reflected in the slowdown in the growth in RM.

BOG NFA for 2013, on the other hand, grew by 3.3% year on year compared with a decline of 13.3% for the comparable period in 2012.

Interest rates

The Bank of Ghana's monetary policy rate was raised by 1 percentage point in April 2013 to 16.0% in response to developments in macroeconomic fundamentals. The policy rate was kept at 16% in September 2013 and it remained at that level at the end of 2013.

In response to the BOG's policy rate, the interbank rate declined to 16.3% in

December 2013, down from 17.5% in December 2012.

Similarly, the various types of T-bills recorded decreases in interest rates as at December 2013 compared to the same period in 2012. This is shown in the table below.

Government Securities

	31 December		30 June
	2012	2013	2014
91 - day	23.12%	19.22%	24.09%
182 - day	22.99%	18.66%	21.28%
1 - year note	22.90%	17.00%	22.50%
2 - year note	23.00%	16.80%	23.00%
3 - year bond	21.00%	19.20%	24.40%
5 - year bond	23.00%	-	-

source: <http://www.bog.gov.gh/>
Rates have been rounded to 2 decimal places

The average 3-month deposit rate of banks was at 12.5% in December 2013, the same level recorded for the period to December 2012, whilst average lending rates for Deposit Mobilisation Banks (DBMs) declined marginally from 25.7% as at December 2012 to 25.6% in the period to December 2013.

Exchange rates

2013 was characterised by large formal and informal sector demand for foreign exchange within the domestic foreign

exchange market. The result was a considerable depreciation in the value of the cedi against the major trading currencies.

The supply of foreign exchange was however boosted by purchases from banks, swaps and inflows from the 3-year and 5-year bonds, as well as the proceeds from the Euro Bond.

The table below shows the depreciation rates of the cedi against its major trading currencies for 2013 compared to 2012.

Interbank exchange rates

	31 December		30 June
	2012	2013	2014
US Dollar	1.88	2.16	3.00
Pound Sterling	3.04	3.57	5.11
Euro	2.48	2.99	4.09

source: <http://www.bog.gov.gh/>

Inflation

Headline inflation ended 2013 at 13.5%, which was above the target band of 9 ± 2 per cent for the year. This compared adversely with the headline inflation of 8.8% achieved for 2012. The increases in utility and petroleum prices are considered to be major factors for the upsurge in inflation for 2013.

Stock market developments

The Ghana Stock Exchange (GSE) in 2013 witnessed a bullish performance driven partly by earnings performance of listed companies. At the end of December 2013, the GSE Composite Index (GSE-CI) closed higher at 2,145.2points, representing a cumulative gain of 78.8% compared with a return of 23.8% in 2012.

This was mainly driven by the financial stocks as the GSE Financial Stock Index (GSE-FSI) closed December at 1,786.6points, representing a gain of 71.8% compared with 20.5% in 2012.

Total market capitalisation at end of December 2013 rose by 6.8% to GHS61,200m from GHS57,300m at the end of 2012, mainly on the back of increased share price.

Conclusion

Overall 2013 has been a challenging year as the economy experienced adverse macroeconomic trends; high inflation, depreciating cedi and, GDP deficit especially in the last quarter.

In the short term, the banking industry will expect Government to put in place fiscal and monetary policies to mitigate the effects of these economic challenges whilst working to consolidate toward sustainable economic growth.

3 Overview - The Industry

The banking landscape

Today the banking industry is fairly saturated comprising 27 universal banks, 137 rural and community banks, and 58 non-banking financial institutions including finance houses, savings and loans, leasing and mortgage firms. During the year the regulator strengthened its supervision of these non-bank financial institutions. This led to the closure of those institutions which did not meet the regulatory requirements.

The minimum capital for the deposit and non -deposit taking micro-finance institutions was raised in August 2013 to GHS 300,000 and GHS 500,000 respectively. The capital requirement

increases up to an additional GHS200,000 for institutions with over 5 branches. Primary liquidity reserves have been set at 10% of total deposits.

Launch of collateral registry

The application of technological innovation aimed at improving delivery systems in the country has been embraced within the industry.

The Bank of Ghana in May 2013 launched the collateral registry aimed at streamlining the credit delivery system in the country. This will ease challenges in perfection of securities and its realisation in the event of default.

Transforming to a cash-less society

During the year in review, another technological innovation announced was the development of the gh-link mobile by Ghana Interbank Payment and Settlement System (GhIPSS) in collaboration with Nigerian payment company eTranzact. The introduction is part of GhIPSS' mandate to transform Ghana into an electronic payment society.

Monetary policy rates

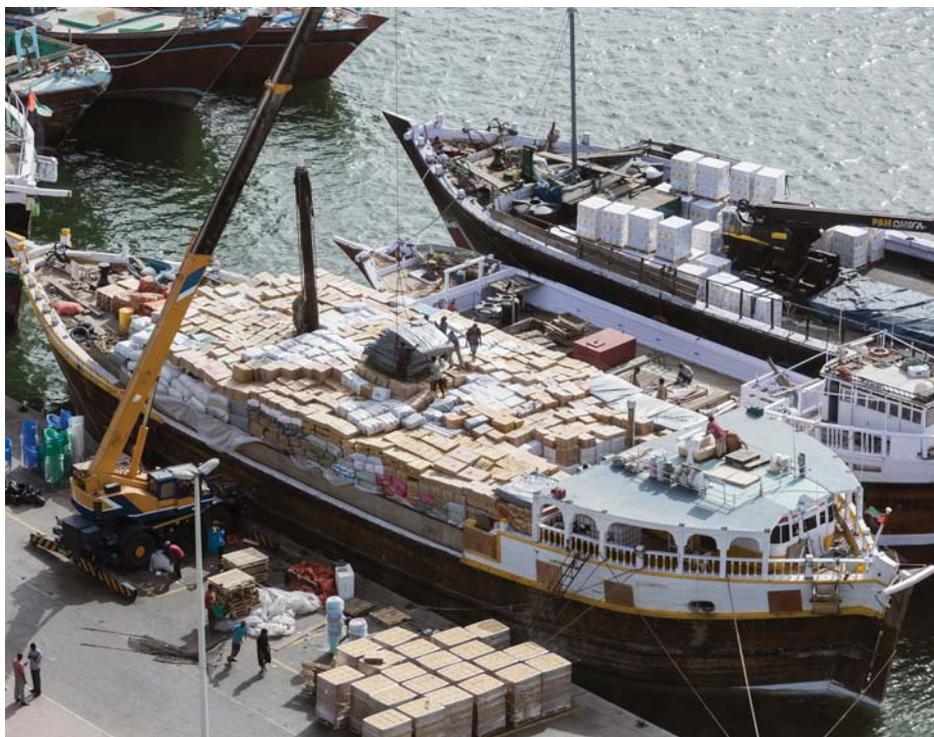
The Bank of Ghana policy rate was increased from 15% to 16% in May 2013 and was maintained at that rate to the end of the year. For the first time, the Government of Ghana issued two separate 7-year fixed bonds in August and November 2013 at 17.5% and 18.0% respectively.

Base rate formula

The Bank of Ghana implemented a new Base Rate formula, which seeks to ensure the transparency and uniformity in loan pricing in the banking industry.

The revised base rate system which replaced the existing base rate regime became operational in July 2013 and captures banks' cost of funds, operational expenses, and general provisions for loan losses and a profit margin.

In addition this would be the minimum rate for all loans and advances and is applicable to all new loans from July 2, 2013 and existing loans that come up for renewal from that date.



The directive brings greater transparency in determining base rates and aid customers to make informed decisions on cost of borrowing rate to enable them compare what exists in other banks.

Minimum capital regulatory requirement

The Bank of Ghana reviewed upwards the minimum capital required for new banks to operate in the country. New commercial banks are required to have a minimum stated capital of GHS 120m.

Existing banks are only required to maintain a stated capital of GHS60m it set previously. The understanding was that existing banks would voluntarily grow their capital to the GHS120m in line with their business. Since then 4 existing banks have moved their capital voluntarily to over GHS120m.

The underwriting capacity of banks has eroded because of the adverse impact of inflation and depreciation of the cedi on the new capital requirements set for banks in 2011.

Limit on over-the-counter cheque payments to third parties

The Bank of Ghana announced that effective 2 July 2013 cash payments in honour of cheques to third parties at bank counters shall not exceed GHS10,000.

The limit does not apply to third party cheques that are presented for the credit of an amount through clearing as well as where the payee is the drawer of the cheque.

This is part of measures by the regulator to encourage migration to the use of non-cash modes of transactions settlements and greater scrutiny of money laundering activities.

New entrants and acquisitions

First Capital Plus Bank Limited secured a universal banking license in August 2013. Prior to that it operated as a savings and loans company and it has recently extended its branch network from 9 to 15.

ICB Financial Group Holdings AG sold its holdings in the African subsidiaries to First Bank of Nigeria (FBN). Consequently, the ownership of International Commercial Bank, Ghana was transferred to FBN.

This brings to six the number of West African regional banks operating in Ghana. Under the of BOG's approval, FBN is required to offload at least 40% of the shares to Ghanaians through private placement and /or the Ghana Stock Exchange. The time frame set for at least 25% should be offloaded by 31 December 2014 and the remainder not later than 31 December 2016.

The Bank of Ghana announced on 1 November 2013 that Fortiz Private Equity Fund Ltd, a wholly owned Ghanaian equity fund reached an agreement with the Social Security and National Insurance Trust (SSNIT) and SIC Life to take over the majority stake in Merchant Bank.

New VAT law on the business of banking

Prior to the amendment of the Value Added Tax 2013 (Act 870) a number of sectors were exempted including the banking sector.

The amended Value Added Tax (VAT) was effective December 31 2013 and saw an increase in the standard aggregate VAT and NHIL rates to 17.5% from 15% as well as roping in hitherto banking and insurance service providers into the VAT net.

The banking industry has to cope with the enormous administrative process and redesigning of systems to capture these low value but extremely high volume transactions.

The drive to encourage customers to use the banking systems for their transactions may not be achieved because of the additional layer of cost VAT can create for the customer.

4 *Quartile Analysis*

Quartile Analysis

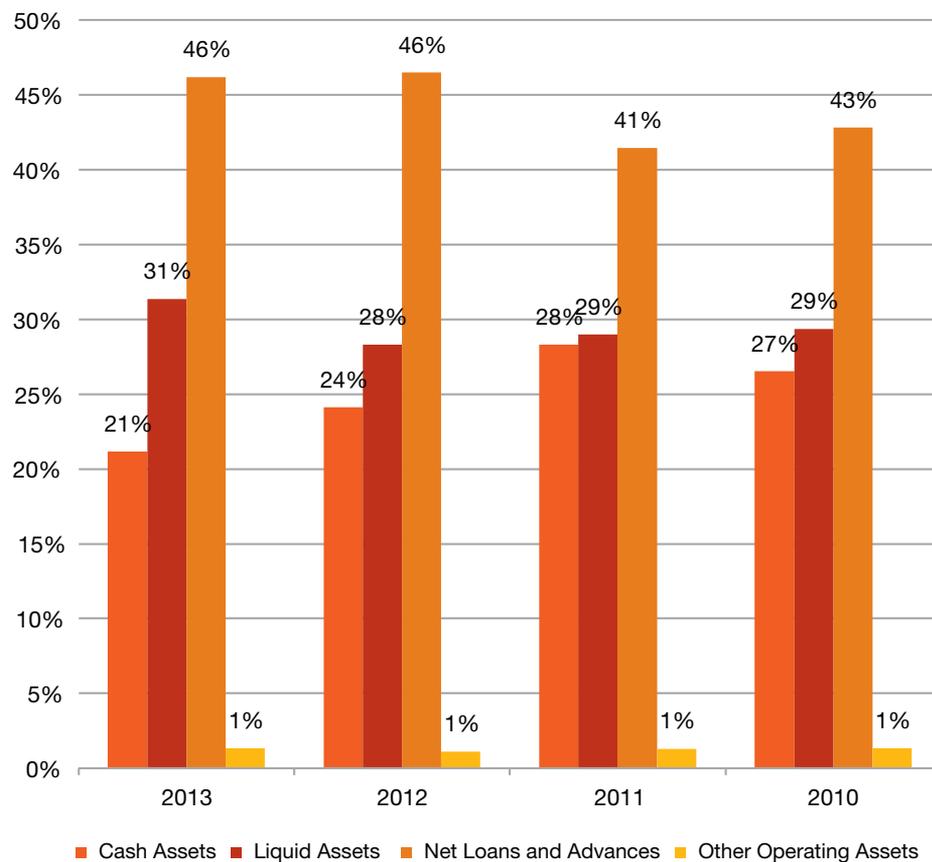
Bank's measure their operating capabilities by the resources available to earn returns for the shareholders, lenders and the depositors. Together these resources with earning capacity make up the operating assets of a bank. We also recognise that there are other qualitative aspects; level of technology, specialised skill sets, among others that enhance the operating capabilities of banks.

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. 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.

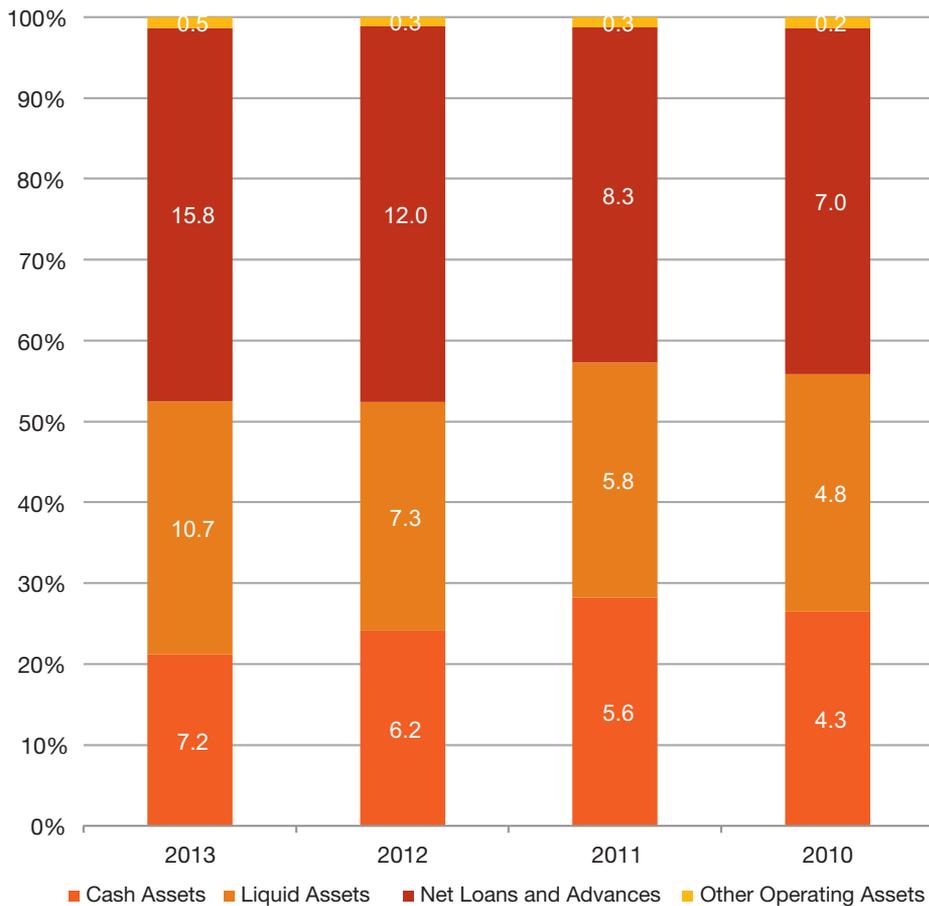
For a reasonable comparison and analysis of the industry, we group participating banks into quartiles, based on the book amounts of their total operating assets. All participating banks have been grouped based on the book amounts of their operating assets held as at 31 December 2013.

Composition of Industry Operating Assets

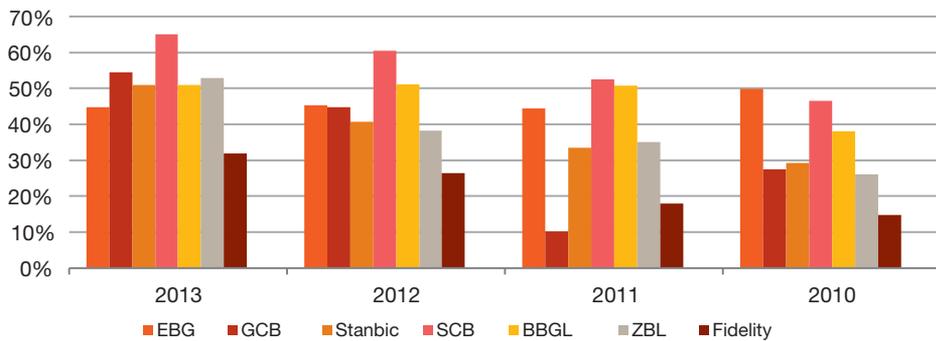


Industry operating assets grew from GHS25,800m in 2012 to GHS34,200m in 2013 but the composition of operating assets has remained fairly the consistent over the last four years.

Operating Assets (In billions of Cedis)



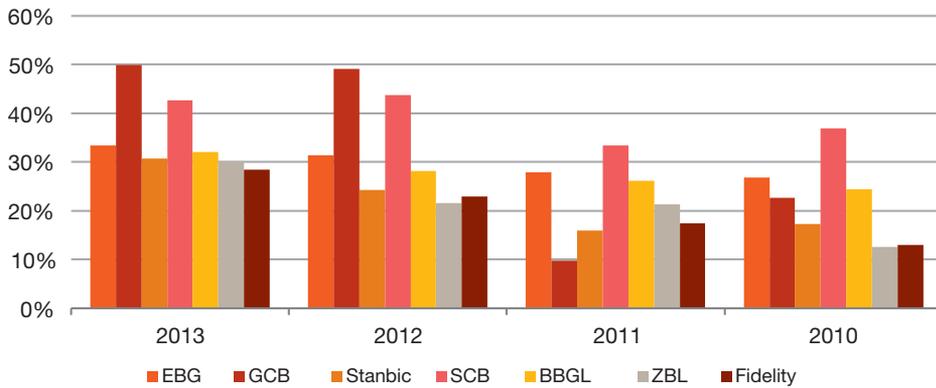
First Quartile Banks - Profit before tax margin



Fidelity Bank made its debut among the first quartile banks in 2013. With a 31.8% profit margin in 2013, SCB continues to post strong profits indicating that its focus on wholesale banking strategy is producing the desired results.

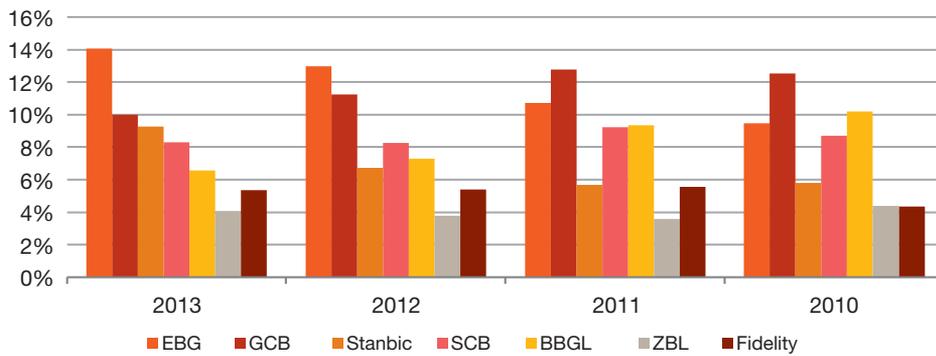
4 Quartile Analysis

First Quartile Banks - Return on equity



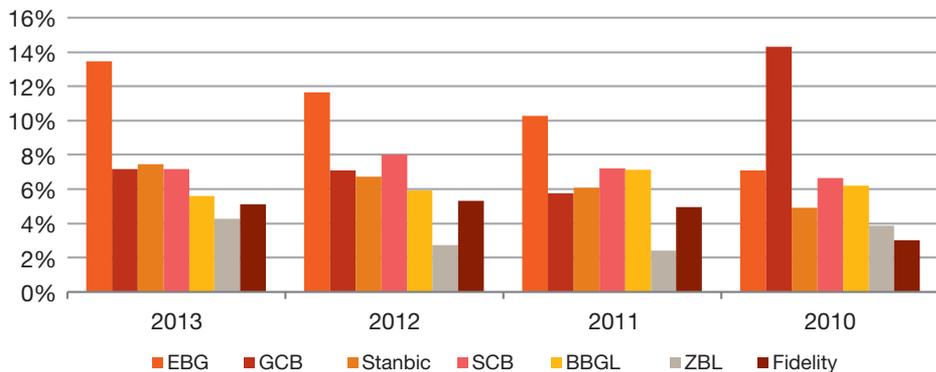
In the midst of the economic challenges, the ROEs in excess of 25% achieved by the banks in the first quartile indicate strong performance of the industry's dominant players.

First Quartile Banks - Share of industry deposits



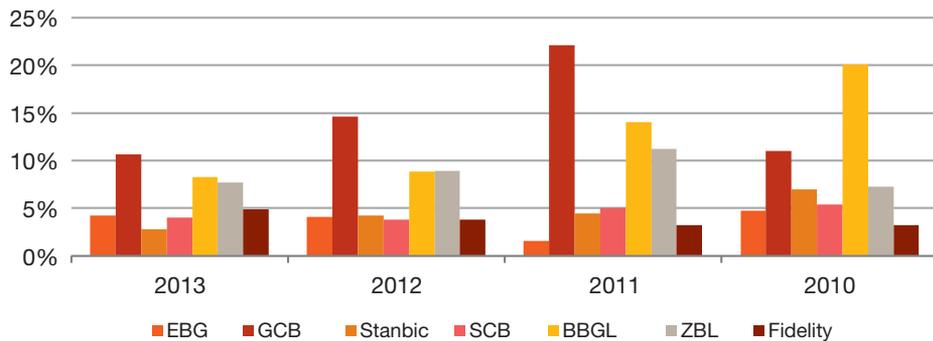
EBG has held the largest market share of deposits since its business combination with TTB in 2012. GCB lost market share in 2012 and is yet to recover. Stanbic made inroads with its aggressive 'market leader' strategy. In its 15th year of operations Stanbic now holds the third largest share of industry deposits.

First Quartile Banks - Share of industry advances



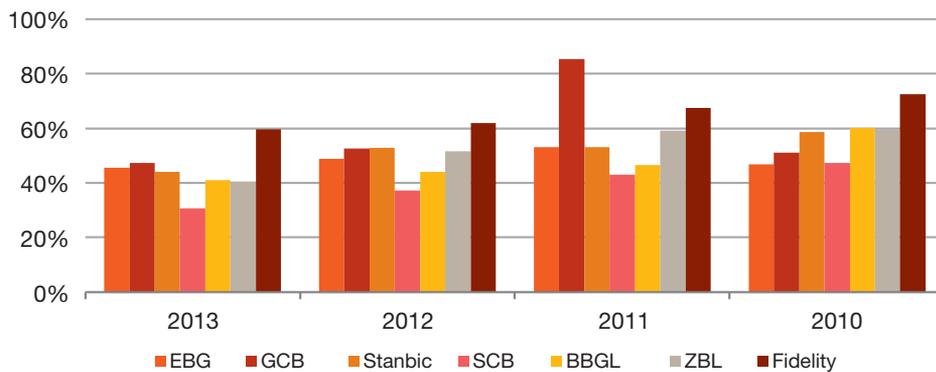
EBG has been the industry's largest lender over the past three years. Fidelity consistently grew the loan book in the last three years and emerges as a new entrant in the first quartile in 2013.

First Quartile Banks - Impairment allowance/gross loans and advances



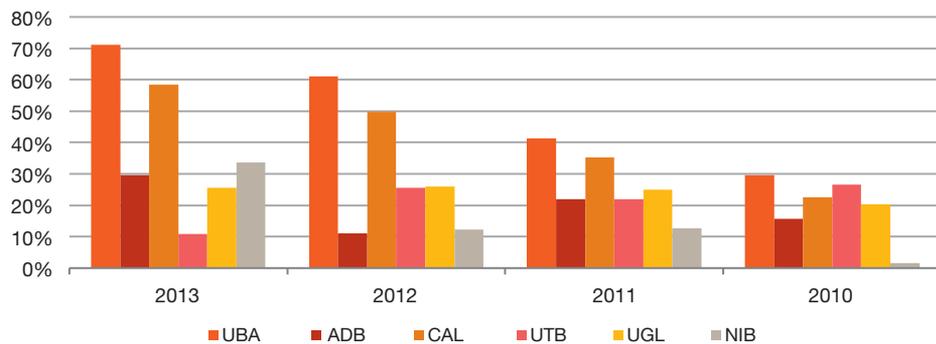
Strengthening credit administration procedures in 2011 has paid off with the banks in the first quartile experiencing improved quality of their loan portfolio. The impact is most significant on the GCB's loan book.

First Quartile Banks - Cost income ratio



The first quartile banks have been successful with a combination of measures to reduce and control cost. Fidelity's rapid growth appears to be taking its toll on the bank's operations as it is unable to drive down the cost income ratio below 50%.

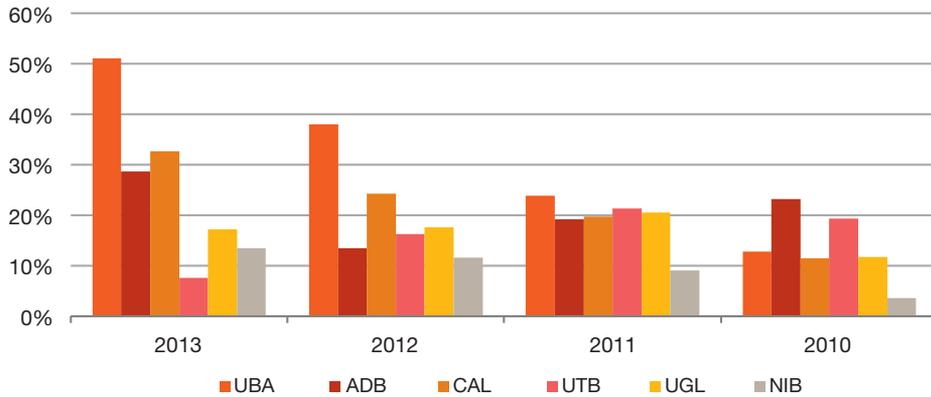
Second Quartile Banks - Profit before tax margin



Between 2010 and 2013 UBA and CAL have shown strong operating results. A steep rise in interest expense and loan impairment had an adverse impact on UTB's performance during the year.

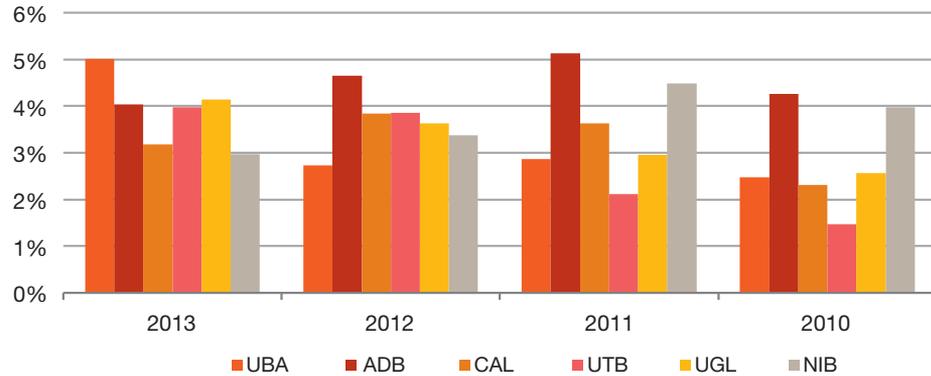
4 Quartile Analysis

Second Quartile Banks - Return on equity



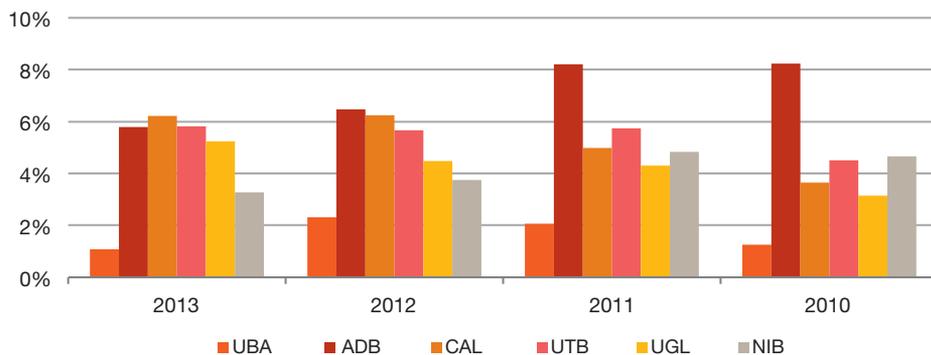
ADB's realignment of its operating model as a universal bank has yielded good returns to the shareholders. UTB's ROE diminished because of an unusual decline in profitability in 2013.

Second Quartile Banks - Share of industry deposits



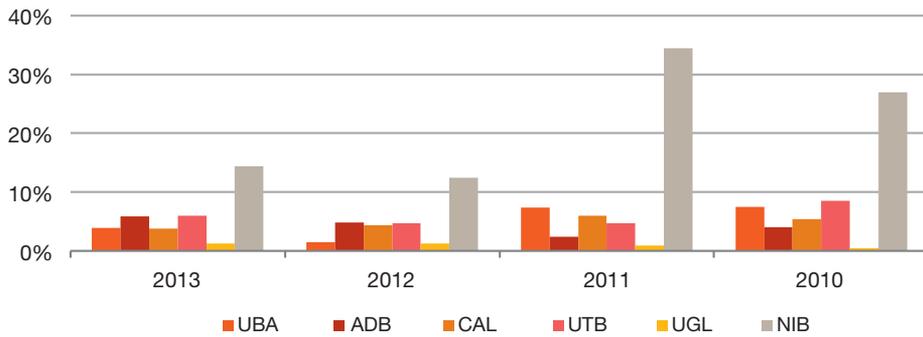
UBA share of industry deposits almost doubled from 2.7% in 2012 to 5% in 2013. CAL Bank was the hardest hit within the second quartile losing its market share to competing banks. Despite the focus on streamlining its operations NIB has lost market share in deposits over the past three years.

Second Quartile Banks - Share of industry advances



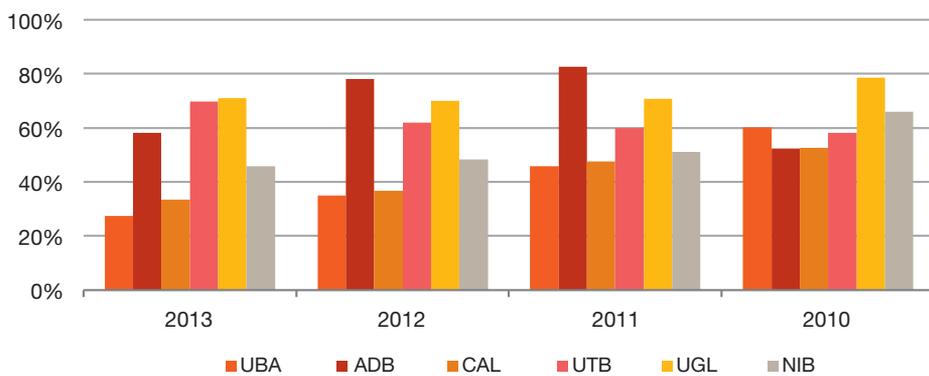
UBA is becoming more risk averse as it slows down its lending activities. UBA's share of industry advances is less than half of the 2.3% in 2012. UTB maintained its market share of advances over the three year period from 2011 to 2013.

Second Quartile Banks - Impairment allowance/gross Loans and advances



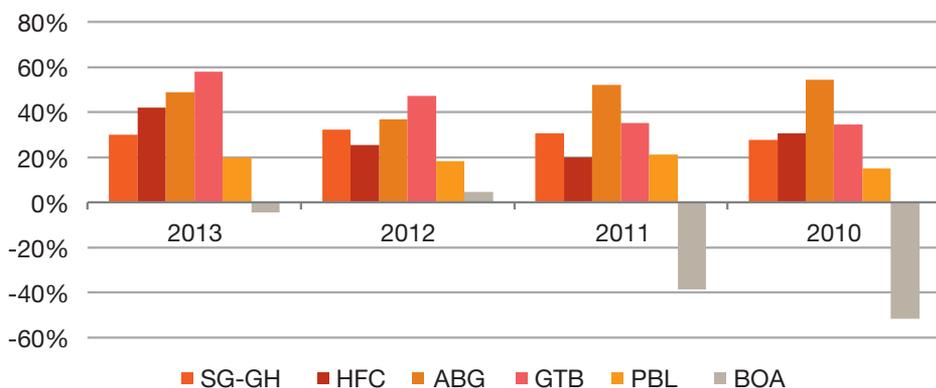
After the 'clean up' of its loan book NIB continued to improve on the quality of its loan portfolio. However it has the highest impairment allowance/gross loans and advances compared to its peers.

Second Quartile Banks - Cost income ratio



The aggressive drive on cost reduction and control has not abated. Except UTB, all second quartile banks succeeded in reducing their cost income ratio between 2011 to 2013. UTB experienced the worst cost to income ratio since 2011.

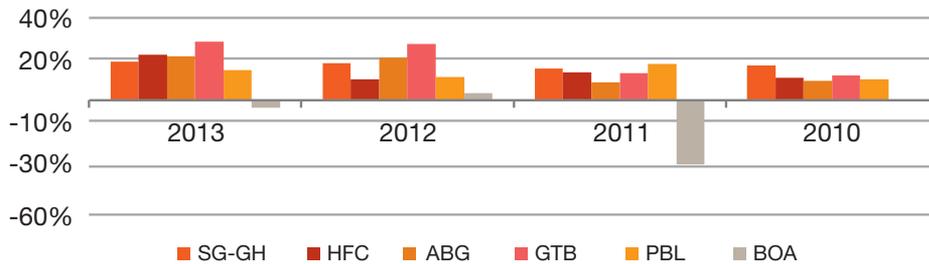
Third Quartile Banks - Profit before tax margin



Overall, the profitability of banks in this quartile has improved. However gains BOA achieved in 2012 reversed because its operating performance deteriorated in 2013. GTB has consistently posted strong profit growth over the years.

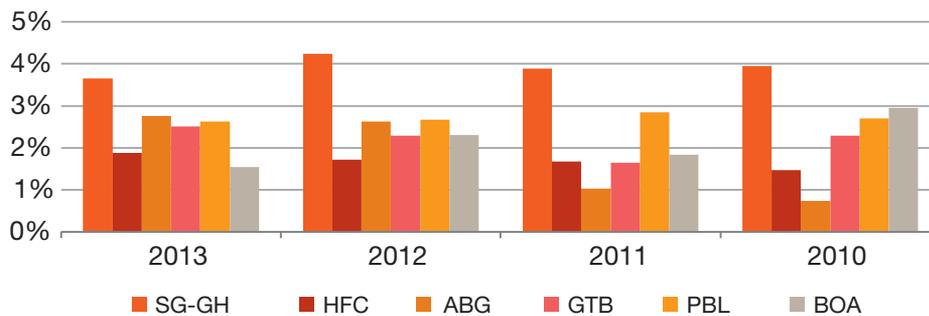
4 Quartile Analysis

Third Quartile Banks - Return on equity



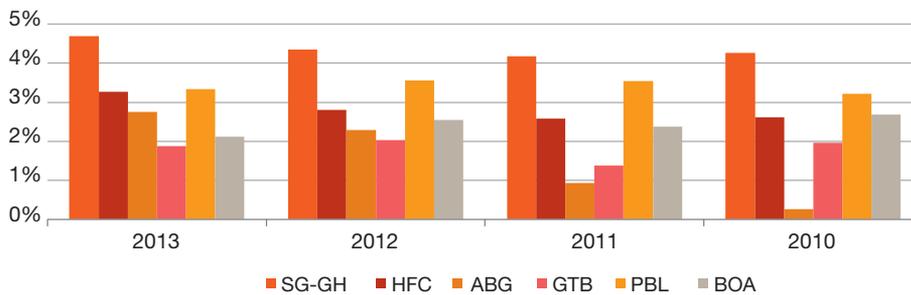
GTB has sustained its ROE despite the intense competition. HFC's ROE trended upwards in 2013 as the bank pursued new business opportunities in the corporate sector.

Third Quartile Banks - Share of industry deposits



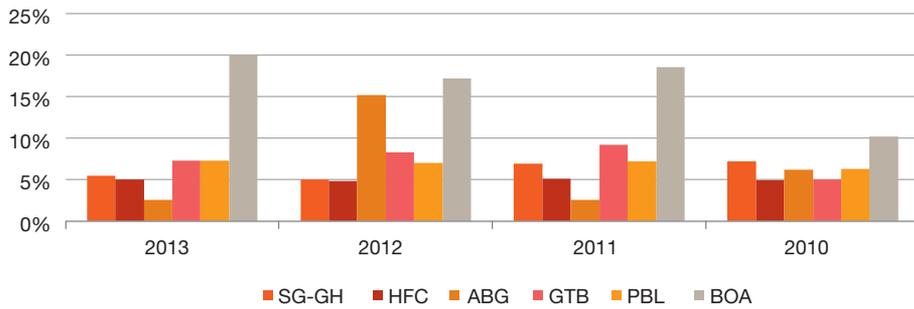
SG and BOA both lost market share in 2013. SG appears to be leveraging on its global brand to dominate this quartile. ABG gained four fold market share from 0.7% in 2010 to 2.8% in 2013. This is a positive outcome from ABG's business combination with Intercontinental Bank and the turnaround strategy it embarked upon.

Third Quartile Banks - Share of industry loans and advances



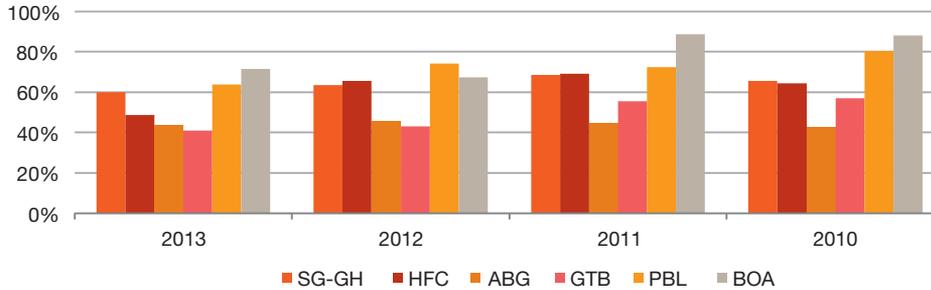
In line with its market share of deposits, SG maintained the largest share of industry advances in the third quartile over the four year period.

Third Quartile Banks - Impairment allowance/gross loans and advances



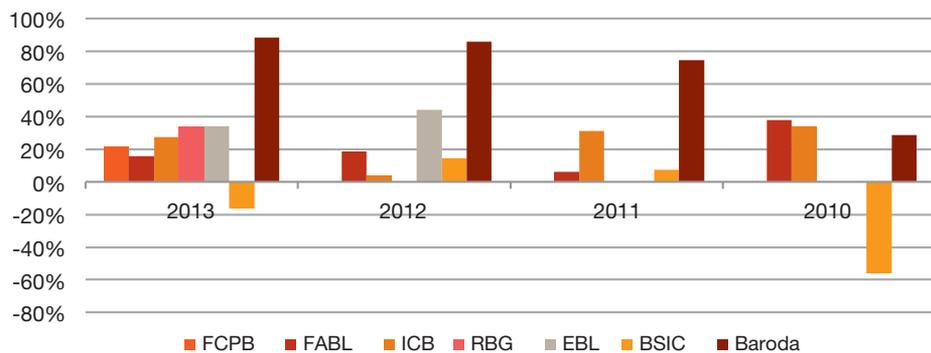
Despite SG's significant market share of advances, the quality of its loan portfolio has remained fairly consistent. ABG has considerably improved the quality of its loan book after the significant write off in the prior year to clean up its loan portfolio. BOA's loan book continues to deteriorate.

Third Quartile Banks - Cost income ratio



In common with the other quartiles cost income ratio declined in the third quartile group. However BOA cost to income ratio worsened from 65% in 2012 to 71% in 2013.

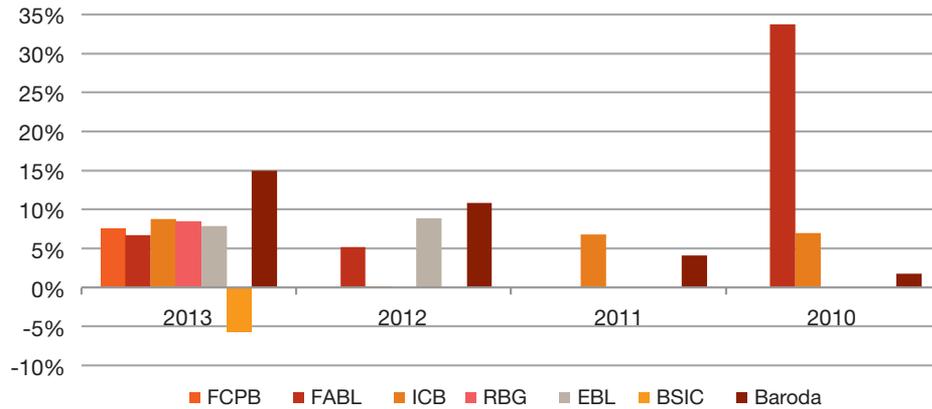
Fourth Quartile Banks - Profit before tax margin



RBG posted profits in its first year of operation. Baroda continues to derive significant revenue from investments in Government Securities and has maintained a very low cost to achieve the highest profit in the quartile. BSIC could not sustain the profitability achieved in 2011 and 2012. BSIC's operating results slumped to a loss in 2013.

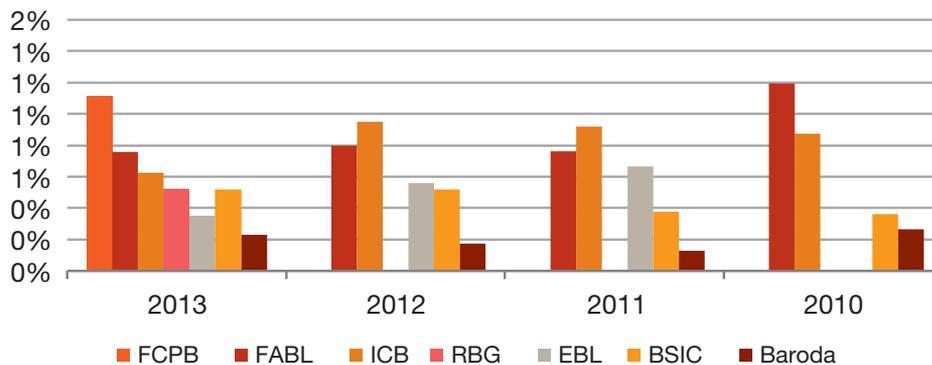
4 Quartile Analysis

Fourth Quartile Banks - Return on equity



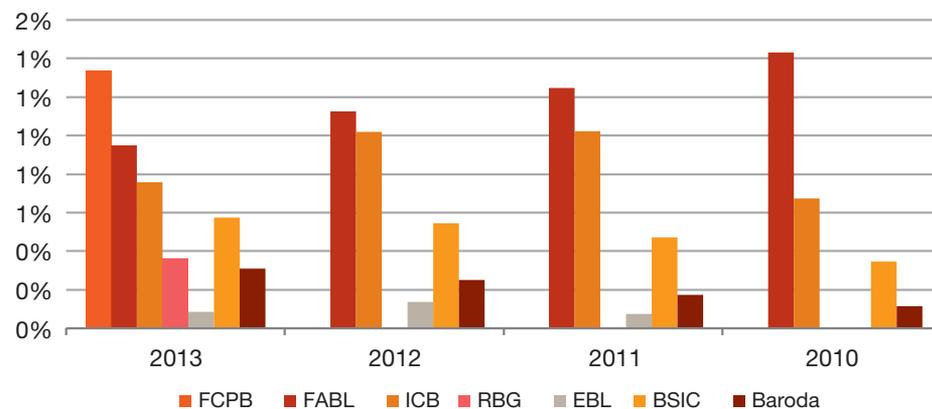
In line with improved profitability all fourth quartile banks except BSIC achieved significant returns on equity. The newest entrant into the banking industry FCPB posted a favourable return comparable with its peers.

Fourth Quartile Banks - Share of industry deposits



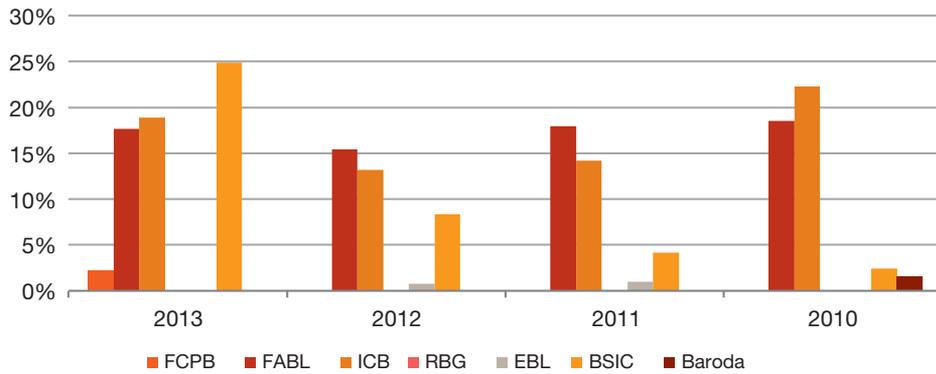
FCPB leads its peers in share of industry deposits among fourth quartile banks despite being a new entrant. The Bank's previous status as a savings and loans company positioned it to mobilise deposits from a largely unbanked market segment.

Fourth Quartile Banks - Share of industry advances



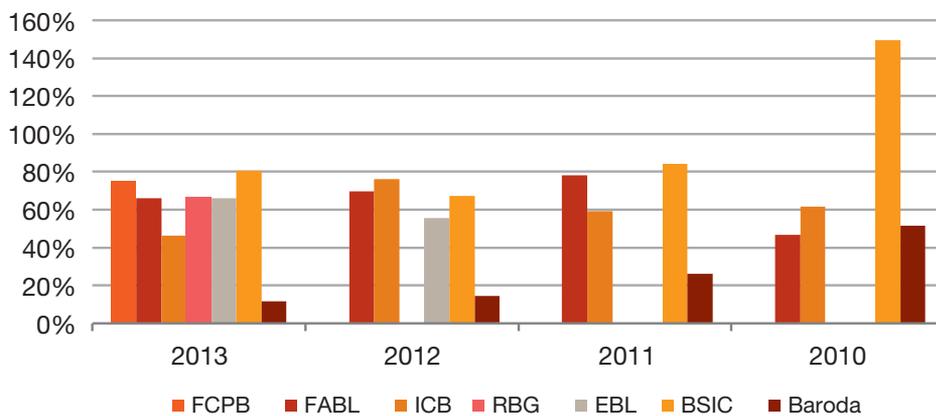
FABL's share of industry advances declined over the period 2010 to 2013. FCPB joins this group as a player with significant experience in the informal sector market segment.

Fourth Quartile Banks - Impairment allowance/gross Loans and advances



The quality of the BSIC, FABL and ICB loan portfolio deteriorated. The loan book of the fourth quartile banks is usually characterised by the higher risk customer's with greater tendency of default in an economic downturns.

Fourth Quartile - Cost income ratio



Baroda's operating strategy has not changed. It maintains its cost structure while posting stronger profit margins. BSIC partially succeeded successful in controlling cost.

5 Market Share Analysis

Share of industry operating assets

	2013	R	2012	R	2011	R	2010	R
EBG	12.9%	1	12.4%	1	10.2%	2	8.8%	4
GCB	9.4%	2	11.0%	2	11.8%	1	12.3%	1
Stanbic	8.2%	3	6.5%	5	5.6%	5	5.3%	6
SCB	8.1%	4	8.7%	3	9.6%	3	9.7%	2
BBGL	6.4%	5	7.3%	4	9.0%	4	9.3%	3
ZBL	5.5%	6	3.6%	10	3.4%	11	3.8%	10
Fidelity	4.7%	7	5.0%	7	5.0%	7	3.9%	9
UBA	4.5%	8	2.7%	15	2.8%	13	2.3%	17
ADB	4.4%	9	5.3%	6	5.6%	6	5.5%	5
CAL	4.4%	10	4.3%	8	3.7%	10	2.8%	12
UTB	3.6%	11	3.5%	11	3.0%	12	2.7%	13
UGL	3.4%	12	3.2%	13	2.5%	15	2.1%	18
NIB	3.4%	13	3.2%	12	3.8%	8	3.8%	11
SG-GH	3.2%	14	3.9%	9	3.8%	9	3.9%	8
HFC	2.7%	15	2.2%	18	2.0%	17	2.1%	19
ABG	2.6%	16	2.9%	14	1.3%	19	1.1%	21
GTB	2.6%	17	2.5%	16	2.1%	16	2.4%	14
PBL	2.3%	18	2.5%	17	2.6%	14	2.3%	16
BOA	1.7%	19	2.1%	19	1.8%	18	2.4%	15
FCPB	1.4%	20	-	-	-	-	-	-
FABL	1.2%	21	0.9%	21	0.8%	21	1.1%	22
ICB	0.9%	22	1.2%	20	1.2%	20	1.2%	20
RBG	0.7%	23	-	-	-	-	-	-
EBL	0.7%	24	0.8%	22	-	-	-	-
BSIC	0.6%	25	0.6%	23	0.4%	23	0.4%	24
Baroda	0.4%	26	0.4%	24	0.5%	22	0.4%	23
UMB	-	-	-	-	-	-	4.8%	7
Industry	100.0%		100.0%		100.0%		100.0%	

Share of industry operating assets

The industry grew by 32% from GHS25,755m in 2012 to GHS34,296m in 2013. The growth is attributable to a 30% increase in deposits and borrowings.

Loans and advances remained the most significant component of the industry's operating assets accounting for 43% of these assets. This has not changed from the prior year because of the limited opportunities for banks to extend credit

to customers. The general industry perception is that the risk profile of customers has not improved. This condition is further aggravated by the unfavourable macro-economic environment which is creating constraints for profitable business.

The prevailing high lending rates also continues to deter borrowers because of the inability to service the loans. The average base rates charged on lending during the year ranged between 10.6% by Baroda to 28.9% by BSIC.

Cash holdings increased by 16% from GHS6,2711m in 2012 to GHS7,238m in 2013. Investment holdings in money market instruments as liquid assets increased by 47% from GHS7,286m in 2012 to GHS10,722m in 2013. 87% of these money market instruments are held in Government of Ghana treasury bills and bonds.

The favourable yield and less risky Government of Ghana securities make it the most attractive investment option in the light of the challenging economic condition.

EBG is the most dominant bank holding 13% of the industry's operating assets. EBG's continued dominance is an outcome of the synergy achieved from the merger with TTB which strengthened the customer base and an extended the branch network.

The gap between the EBG and GCB market share of operating assets continues to widen. Despite leading player in the industry with the widest branch network, GCB's market share eroded from 11% as at end of 2012 to 9.4% as at end of 2013. The decline is an outcome of the intense competition in the industry as other banks are building their capacity and continue to target customers in the same market segment.

Stanbic grew its market share of the industry operating assets from 6.5% in 2011 and now holds 8.2% at the end of 2013. During that period Stanbic operating assets more than doubled from GHS1,117m in 2012 to GHS 2,818m in 2013, making it the fastest growing Bank in the industry.

Stanbic shows tremendous success from its strategy to become a top tier bank. The strategy to stem loan losses and leverage on its corporate and investment banking to target the international clients is yielding results.

UBA's and ZBL's operating assets grew by 121% and 104% respectively in 2013. The strong growth is an outcome of placements made by foreign banks. UBA's improved market share may not be sustained because funding from most of the placements are expected to be settled by the end of 2014. Unless these funds are rolled over, the bank is likely to liquidate the investments held in government securities on maturity. ZBL's growth is arising from an increase in deposit and borrowings from other banks.

As a new entrant in 2013, FCPB has made significant in-roads in comparison with its peers with regard to market share. Unlike RBG and EBL, FCPB had operated for many years as a non-bank financial institution and had its own clientele in the predominantly informal sector of the economy. With the universal banking license secured, the bank is expected to become more aggressive in growing its operating assets and wield a greater market share.

The change in the market share of operating assets held by banks confirms the effect of competition in the industry over the years. Previously not considered significant, the threat to growth of the banking industry from proliferation of non-bank financial institution cannot be ignored.

5 Market Share Analysis

Share of industry deposits

	2013	R	2012	R	2011	R	2010	R
EBG	14.0%	1	13.0%	1	10.7%	2	9.5%	3
GCB	10.0%	2	11.3%	2	12.8%	1	12.5%	1
Stanbic	9.3%	3	6.7%	5	5.7%	5	5.8%	5
SCB	8.3%	4	8.2%	3	9.2%	4	8.7%	4
BBGL	6.6%	5	7.3%	4	9.3%	3	10.2%	2
Fidelity	5.4%	6	5.4%	6	5.6%	6	4.4%	8
UBA	5.0%	7	2.7%	14	2.9%	13	2.5%	15
UGL	4.1%	8	3.6%	12	3.0%	12	2.6%	14
ZBL	4.0%	9	3.8%	11	3.6%	11	4.4%	7
ADB	4.0%	10	4.7%	7	5.1%	7	4.3%	9
UTB	4.0%	11	3.9%	9	2.1%	15	1.5%	19
SG-GH	3.7%	12	4.2%	8	3.9%	9	3.9%	11
CAL	3.2%	13	3.8%	10	3.6%	10	2.3%	16
NIB	3.0%	14	3.4%	13	4.5%	8	4.0%	10
ABG	2.8%	15	2.6%	16	1.0%	19	0.7%	22
PBL	2.6%	16	2.7%	15	2.8%	14	2.7%	13
GTB	2.5%	17	2.3%	18	1.6%	18	2.3%	17
HFC	1.9%	18	1.7%	19	1.7%	17	1.5%	18
BOA	1.5%	19	2.3%	17	1.8%	16	3.0%	12
FCPB	1.1%	20	-	-	-	-	-	-
FABL	0.8%	21	0.8%	21	0.8%	21	1.2%	20
ICB	0.6%	22	0.9%	20	0.9%	20	0.9%	21
RBG	0.5%	23	-	-	-	-	-	-
BSIC	0.5%	24	0.5%	22	0.4%	22	0.4%	23
EBL	0.4%	25	-	-	-	-	-	-
Baroda	0.2%	26	0.2%	23	0.1%	23	0.3%	24
UMB	-	-	-	-	-	-	5.2%	6
Industry	100.0%		100.0%		100.0%		100.0%	

As a new entrant, FCPB makes a loud entrance while EBG leads in deposit mobilisation

Share of industry deposits

Deposits in the banking sector grew by 27% from GHS20,700m as at end of 2012 to GHS26,336m as at end of 2013. Competition for deposits during the year was intense as banks were further challenged by the attractive yield from money market instruments issued by the Government.

The current account component which constitutes 46% of total industry

deposits only grew by 11%. As the cheapest source of funds for banks the industry now has to rely on more expensive alternative sources of funds. Savings and time deposits grew by 26% despite the increasing trend to reduce the interest bearing deposits. The average rate offered to attract savings and time deposits ranged from 5% to 18% during 2013. Deposits from other banks constituted 12% of industry deposits as at end of 2013.

The market share of the industry's deposits has not changed significantly because there is limited differentiation in the products offered by banks to give any bank a strong edge over the others.

All banks have made quality customer services their priority giving the banking industry a unique transformation. EBG gained significant market share in deposit holdings. EBG's holds 74% of its deposits in current accounts and has been successful in maintaining deposits mix at fairly the same level of 71% as the prior year.

This puts EBG in a favourable position to post good operating results as cost of funds from current accounts are usually more favourable than those of savings and time deposits. EBG may be benefiting from attention to customer care.

GCB lost market share of deposits from 11.3% as at end of 2012 to 10% as at end of 2013. GCB's only held 45% of its deposits in current accounts. The deposits mix appears to be marginally skewed towards the relatively more expensive term and time deposit holding. The extensive branch network across the country does not appear to have currently added an advantage for GCB in deposit mobilisation. Other banks are becoming more visible, at least in the regional capitals where most economic activities in Ghana take place.

Stanbic experienced 75% growth in deposit between end of 2012 and end of 2013. It was mainly influenced by the deposits from other banks. The tenor of such placement is usually of very short term in nature. This may not be sustainable as long term funding for Stanbic's growth aspirations.

BOA lost market share of industry deposit as its deposit declined by 9%. The bank may be struggling to achieve market visibility and inspire customer confidence.

FCPB, holds only 3% of its deposits in current accounts. The concentration in savings is historical. The bank had operated as a savings and loans company and relied on the deposits mobilised in the form of short term investments from its customers. The trend may continue but may be diluted as it broadens and diversifies its source

of deposits and seek cheaper sources of funds. Eventually this will positively impact on the pricing of FCPB's loans. Notwithstanding, FCPB is better placed than most banks in the fourth quartile on the backdrop that 2013 is its first year in the banking industry.

Deposits from other banks increased three fold from GHS956m in 2012 to GHS 3,096m in 2013. The placements from banks over a short term between overnight and one month show an unusual trend as 86% of the placements is coming from the regional and multinational banks. This may suggest that Group treasury activities by some of these banks considered it profitable to take positions in Ghana's money market because of the gains it can derive from gains from both interest and changes in the foreign currency rates. In very few cases placements were taken to shore up their liquidity position with the BoG.

The market share of deposits by the top five banks; GCB, EBG, BBGL, SCB and Stanbic, accounts for 48%. No significant change from 47% of total industry deposits in 2012. This trend which further deepens the concentration of deposits towards the top tier banks may be of concern because these banks can influence the deposit patterns and the deposit rates which can diminish the favourable effects that can be achieved by market forces.

5 Market Share Analysis

Share of industry advances

	2013	R	2012	R	2011	R	2010	R
EBG	13.5%	1	11.7%	1	10.3%	1	7.1%	3
Stanbic	7.4%	2	6.7%	4	6.1%	5	4.9%	6
GCB	7.2%	3	7.1%	3	5.8%	6	14.3%	1
SCB	7.2%	4	8.0%	2	7.2%	3	6.7%	4
CAL	6.2%	5	6.2%	6	5.0%	8	3.7%	11
UTB	5.8%	6	5.7%	8	5.8%	7	4.5%	8
ADB	5.8%	7	6.5%	5	8.2%	2	8.2%	2
BBGL	5.6%	8	5.9%	7	7.1%	4	6.2%	5
UGL	5.2%	9	4.5%	10	4.3%	11	3.1%	14
Fidelity	5.1%	10	5.3%	9	5.0%	9	3.0%	15
SG-GH	4.7%	11	4.3%	11	4.2%	12	4.3%	9
ZBL	4.3%	12	2.7%	15	2.4%	15	3.9%	10
PBL	3.3%	13	3.6%	13	3.5%	13	3.2%	13
HFC	3.3%	14	2.8%	14	2.6%	14	2.6%	17
NIB	3.3%	15	3.8%	12	4.8%	10	4.7%	7
ABG	2.7%	16	2.3%	18	0.9%	21	0.3%	23
BOA	2.1%	17	2.5%	16	2.4%	16	2.7%	16
GTB	1.9%	18	2.0%	19	1.4%	18	2.0%	18
FCPB	1.3%	19	-	-	-	-	-	-
UBA	1.1%	20	2.3%	17	2.1%	17	1.2%	20
FABL	1.0%	21	1.1%	20	1.2%	19	1.4%	19
ICB	0.8%	22	1.0%	21	1.0%	20	0.7%	21
BSIC	0.6%	23	0.5%	22	0.5%	22	0.3%	22
RBG	0.4%	24	-	-	-	-	-	-
Baroda	0.3%	25	0.3%	23	0.2%	23	0.1%	24
EBL	0.1%	26	0.1%	24	-	-	-	-
UMB	-	-	-	-	-	-	3.3%	12
Industry	100.0%		100.0%		100.0%		100.0%	

Share of industry advances

Growth of loans and advances in the industry slowed down between end of 2012 and end of 2013. Compared to the 41% increase in industry loans and advances to GHS12,817 million at end of 2012, there was only 31% growth in industry loans to GHS16,847 million. The slowdown is an outcome of a more risk adverse industry as the risk profile of customers in a challenging economic

condition is not considered favourable. The services sector is the largest beneficiary of credit extended to any sector of the economy. 27% of the industry's loan book went to the services sector but this proportion remained fairly the same as the prior year.

Almost the same amount of credit has been given to commerce and finance. This is not surprising because of the increased activity in the non-bank

financial sector and the asset management companies. The manufacturing sector's component of the industry's lending is unchanged at 11%. This is a reflection of the economic conditions affecting the industry.

Lending to electricity, gas and water sector doubled from GHS687 million in 2012 to GHS1,447 million in 2013. The change can be attributed to the impact of the cedi depreciation on imported

crude and refined fuel product. Also, the greater local content activity in the oil and gas sector appears to be gaining ground as the banks are also developing specialised knowledge to support funding to this sector. Electricity, gas and water as a component of the industry's lending has increased from 5% in 2012 to 9% in 2013. This is a trend that may continue because of the current depreciation of the cedi and need for capital intensive projects in the energy sector.

Prior to the advent of oil production the mainstay of the Ghanaian economy was agriculture and mining. As components of the industry's lending portfolio to these sectors have taken a downturn or remained stagnant.

Agriculture's component of the industry's loans and advances extended to agriculture, dipped from 6% as at end of 2011 to only 5% as at end of 2013. Coupled with the decline in gold prices and operating losses mining companies are scaling down their activities. Lending to the mining sector remained at 3%.

EBG has the most aggressive credit expansion in the industry and achieved 53% growth in its loan portfolio between the end of 2012 and the end of 2013. Most of the growth was achieved in term loans which almost doubled from GHS820 million in 2012 to GHS1,559 million in 2013. EBG holds the largest share of the industry's lending and the trend is in line with the bank's commitment to business growth.

In the last three years, Stanbic consistently gained market amidst the risks relating to the unfavourable

macroeconomic environment. Stanbic is pursuing its innovative campaign of significant customer acquisition which ramped up its loan book. Lending grew by 48% between end of 2012 and end of 2013, moving ahead of GCB and SCB to hold 7.4% of industry lending.

The banks in the first quartile gained market share of industry loans and advances with the exception of BBGL and SCB. These banks are the more risk averse banks coming out of experience with loan defaults.

ZBL's lending doubled between the end of 2012 and end of 2013. Unlike the first quartile banks, the growth of loans and advances for ZBL, was mainly in the form of overdrafts which grew from GHS196 million in 2012 to GHS404 million in 2013. ZBL's focus on overdrafts suggests a shift in outlook to shorter rather than the longer term loans. This may be driven by the uncertainty in the risk profile of its customers.

UBA is the only bank in the industry that scaled down its lending significantly by 52% between the end of 2012 and the end of 2013. Loans and advances dropped from GHS282 million to GHS179 million. It appears that UBA did not write new term loans as the existing loans matured during 2013. This may be a reflection of the banks risk assessment of the business environment. Private enterprises were the worst hit because loans to that sector dropped by 40% between the end of 2012 and the end of 2013.

FCPB entered the industry with its rich experience from the non-bank financial services sector. FCPB acquired a

reasonable share of industry advance of 1.3% as at end of 2013 as a new entrant. Its share of the industry advances was better than most banks in the fourth quartile as FCPB held more share of industry deposits than 10 other banks.

FCPB entered the industry with its rich experience from the non-bank financial services sector. Lending was largely to private enterprises which almost doubled from GHS 115 million in 2012 to GHS 203 million in 2013.

Traditionally customers of non-bank financial institutions are considered of higher risk than those of banks because of insufficient credit assessment. However the growth in FCPB's lending portfolio is an indication of the bank's strong confidence in the risk profile of customer's in this market segment. Non-Bank financial institutions have very short turnaround time for loan delivery.

The industry's loan to deposit ratio is fairly stable at 59% as at end of 2013. This generally portrays the willingness of banks to lend despite the high appetite for Government securities.

Growing number of middle income earners have created opportunities for retail banking and it is common to find new products targeting this group.

However, there is very little by way of product differentiation targeting corporate customers. The underlying factor for choosing one bank over the other has been the competitiveness of rates offered by banks.

6 Profitability and Efficiency

Profit before tax margin

	2013	R	2012	R	2011	R	2010	R
Baroda	88.3%	1	85.8%	1	74.5%	1	28.8%	11
UBA	71.1%	2	61.0%	2	41.3%	6	29.7%	9
SCB	65.0%	3	60.4%	3	52.5%	2	46.6%	3
CAL	58.3%	4	49.8%	5	35.3%	7	22.5%	16
GTB	58.0%	5	47.1%	6	35.2%	8	34.4%	6
ZBL	52.8%	6	38.2%	11	35.0%	9	26.0%	15
Stanbic	51.0%	7	40.7%	10	33.5%	10	29.3%	10
BBGL	50.9%	8	51.0%	4	50.7%	4	38.1%	4
GCB	50.8%	9	44.8%	8	10.3%	20	27.4%	13
ABG	48.7%	10	36.9%	12	17.9%	18	54.3%	1
EBG	44.9%	11	45.4%	7	44.4%	5	49.9%	2
HFC	42.1%	12	25.4%	17	20.0%	17	30.7%	8
EBL	34.0%	13	44.0%	9	-	-	-	-
RBG	33.7%	14	-	-	-	-	-	-
NIB	33.7%	15	12.3%	21	12.7%	19	1.6%	22
Fidelity	31.8%	16	26.4%	14	51.9%	3	14.8%	20
SG-GH	30.0%	17	32.2%	13	30.7%	12	27.7%	12
ADB	29.7%	18	11.1%	22	22.0%	14	15.6%	18
ICB	27.2%	19	3.9%	24	31.1%	11	34.2%	7
UGL	25.6%	20	25.9%	15	24.9%	13	20.3%	17
FCPB	21.4%	21	-	-	-	-	-	-
PBL	20.0%	22	18.2%	19	21.2%	16	14.9%	19
FABL	15.8%	23	18.6%	18	6.1%	22	37.8%	5
UTB	10.8%	24	25.5%	16	21.9%	15	26.6%	14
BOA	-4.5%	25	4.6%	23	-38.6%	23	-51.7%	23
BSIC	-16.4%	26	14.4%	20	7.5%	21	-56.1%	24
UMB	-	-	-	-	-	-	7.6%	21
Industry	45.3%		37.3%		30.5%		27.2%	

Profit before tax margin

The industry's profit before tax (PBT) margin consistently improved from 37.3% in 2012 to 45.3% in 2013. During the global financial crisis between 2008 and 2011 the banking industry in Ghana did not suffer significant losses but it appears that the industry's profitability was impeded because of the slowdown in the global economy.

Over the same period the Ghanaian economy has grown especially with the leapfrog in 2011 arising from commercial production of oil. The

improvement in PBT is attributable to the increase in total income by 38% from GHS3,346m in 2012 to GHS4,591m in 2013 with a less than proportionate increase in expenses. Interest income from loans increased by 32% from GHS1,993m in 2012 to GHS2,623m in 2013.

Returns from investment securities increased by 88% from GHS855m in 2012 to GHS1,608m in 2013. During the period the yield from risk free government securities were very attractive as the industry holdings in these securities grew by 43% from

GHS6,534m to GHS9,342m. Interest rates from short term money market instruments increased between 2012 and 2013. The average interest rates for 91 and 182 day treasury bills increased from 18.7% and 18.92% in 2012 to 21.5% and 22.0% in 2013 respectively. There was a similar trend with long dated instruments as the average interest rate on 1 year and 2 years note also increased from 18.74% and 19.51% in 2012 to 21.23% and 21.43% in 2013, respectively.

Fees and commissions continued to be a strong source of unfunded income for

banks as it accounted for 18% of total industry income in 2013. Net fees and commission increased from GHS738m in 2012 to GHS821m in 2013. Generally competition kept transaction fees stable during the period. However the growth in trade related activities and the 31% increase in industry loan portfolio boosted income from this source.

The industry's other income increased from GHS514m in 2012 to GHS770m in 2013. This was mainly driven by income from foreign currency trading and translation or revaluation of asset and liabilities denominated in various foreign currencies. The increase is a result of movements in exchange rates, as the Ghana Cedi depreciated against the major trading currencies in 2013. Even though there was a downturn in the business activities in the country, the volume of foreign exchange transactions increased, mainly driven by funding of oil, energy and telecommunication industries.

Trading income which largely comprised of trading in foreign currency is likely to be a source of income with the potential for significant growth because of the opportunities created by the gap in foreign currency availability.

Baroda may have eased its risk approach and extended loans to customers but it continued to remain a very conservative bank. Over half of its operating assets are held in risk free government of Ghana securities thus supporting Baroda to maintain its position of having the highest PBT in the industry. Baroda contributes less than 1% of the industry's PBT but will continue to show good operating results so far as the average yield from government securities remain or exceed the average 2013 levels.

ICB experienced a tenfold improvement in its PBT from GHS1m in 2012 to GHS11m in 2013 boosted by growth in income from investments in government securities and on the foreign currency market. Despite the GHS11m impairment loss suffered on its loan portfolio in 2013, ICB took advantage of the high yield on government securities and the foreign currency market. These income streams contributed GHS19m to ICB's income in 2013 compared to GHS7m in 2012.

ADB more than doubled its PBT within one year. This is a successful outcome from its strategy plan to redefine the business operating model. The bank liquidated its subsidiary which yielded dividend of properties surplus of its requirements making a gain of GHS 26.3m. Further, the bank also achieved 40% reduction in its operating expenses.

NIB's improved profitability is attributable to the gains of GHS20m from the disposal of listed equities held and gains on foreign exchange of GHS27m. NIB created a recovery trust as part of the restructuring of its credit (loan) portfolio but continues to suffer charges from existing loan defaults. The impairment charge of GHS26m eroded the significant gains from its operations during the year.

Sustaining profitability in ADB and NIB may be a challenge as the one off income streams from disposal of investments are unlikely to re-occur.

The growth in HFC's PBT is mainly an outcome of the doubling of interest from commercial loans from GHS33m in 2012 to GHS67m in 2013. HFC's income from government securities also went up from GHS16m in 2012 to GHS29m in 2013. In common with market trend

HFC's income from foreign currency dealings went up four fold from GHS4m in 2012 to GHS16m in 2013. This strategy to inject additional capital in 2013 and to deepen its universal banking activity appears to be paying off. Originally set up as a mortgage bank, HFC does not appear to have an edge in that market sector as mortgage income did not change and remained at GHS13m.

BOA and BSIC are experiencing a downturn in their performance and recorded losses of GHS3m and GHS4m respectively in 2013. Both banks appear to be saddled with non-performing loans and despite past efforts to 'clean up' the loan book, existing loans deteriorate and have to recognise steep impairment charge. The phenomenon for these banks may not be unusual because loan book is likely to be dominated by customers' with a higher risk profile who are more susceptible to economic shocks.

GCB's contributed 13% of the industry's interest income in 2013. 57% of GCB's investment income comes from government securities and 41% from loans and advances. This may buttress the fact that most of the banks opted to invest in government securities rather than in loans and advances. The profitable growth being experienced now may not be sustainable if the government borrowing decline and the yield on its securities drops.

SCB investment income followed a similar trend with its interest income contributing about 9% to the industry's interest income. The interest income from investment securities and interest income from loans and advances represents about 51% and 47% respectively of the total interest income.

6

Profitability and Efficiency

Despite being the bank with the largest holding of operating assets, EBG contributes only 10% of the industry's interest income. The mix of interest income does not follow the same concentration pattern as SCB and GCB. EBG's interest income from loans and advances constituted 62% while returns from investment securities accounted for 31% of the EBG's total interest income.

The industry's interest expenses increased by 45% from GHS 932 million in 2012 to GHS 1,354 million in 2013. Customer deposits and placements from other banks account for 71% and 29%, respectively of interest expense. Increase in the interest expense of

customer deposits was mainly driven by the growth in deposits and the upward revision in deposit rates especially term and savings deposits. Interest expense on placements from other bank's increased by 63% during the year. The increase is attributable to growth in interbank deposits.

The intense competition in the industry and prevailing adverse economic condition suggests that banks will have to be both innovative and creative with their strategy to develop products to sustain the profitable growth they have achieved so far.

Cost income ratio

	2013	R	2012	R	2011	R	2010	R
Baroda	0.12	1	0.14	1	0.26	1	0.52	7
UBA	0.27	2	0.35	2	0.46	4	0.60	14
SCB	0.31	3	0.37	4	0.43	2	0.47	4
CAL	0.34	4	0.37	3	0.48	6	0.53	9
ZBL	0.41	5	0.52	10	0.59	11	0.60	13
BBGL	0.41	6	0.44	6	0.47	5	0.60	15
GTB	0.41	7	0.43	5	0.56	10	0.57	10
ABG	0.44	8	0.46	7	0.45	3	0.43	1
Stanbic	0.44	9	0.53	12	0.53	9	0.59	12
EBG	0.46	10	0.49	9	0.53	8	0.47	3
NIB	0.46	11	0.48	8	0.51	7	0.66	19
ICB	0.46	12	0.76	23	0.59	12	0.61	16
GCB	0.47	13	0.53	11	0.85	22	0.51	6
HFC	0.49	14	0.66	17	0.69	16	0.64	17
ADB	0.58	15	0.78	24	0.83	20	0.53	8
Fidelity	0.60	16	0.62	14	0.67	14	0.72	20
SG-GH	0.60	17	0.64	16	0.68	15	0.66	18
PBL	0.64	18	0.74	22	0.72	18	0.81	22
FABL	0.66	19	0.70	20	0.78	19	0.47	2
EBL	0.66	20	0.56	13	-	-	-	-
RBG	0.66	21	-	-	-	-	-	-
UTB	0.70	22	0.62	15	0.60	13	0.58	11
UGL	0.71	23	0.70	21	0.71	17	0.79	21
BOA	0.72	24	0.67	19	0.89	23	0.88	23
FCPB	0.75	25	-	-	-	-	-	-
BSIC	0.80	26	0.67	18	0.84	21	1.49	24
UMB	-	-	-	-	-	-	0.50	5
Industry	0.5		0.5		0.6		0.6	

Cost income ratio

The industry's cost grew by 20% from GHS1,800m to GHS2,145m in 2013 but the cost income ratio which took a dip in 2011 has improved from 54% in 2012 to 47% in 2013.

Generally banks were unable to reduce their cost in 2013 because the banking industry faced stiff cost rises from inflationary pressures, exchange rate fluctuation, increases in petroleum prices and increased use of fuel-powered generators. Despite these challenges, the cost control strategies adopted by the banks had a positive impact on the operating cost income ratio, as the increase in industry operating cost was

of a lower magnitude than the growth in industry income.

As a service industry, employee emoluments is the largest component in the cost structure as it accounts for 48% of the total industry's selling general and administrative cost. Staff numbers did not change significantly because of the slowdown in branch expansion in 2013, but staff cost increased from GHS642m in 2012 to GHS741m in 2013.

This is attributable to increase in pension and provident fund costs upward revision in allowances pegged against inflation and the exchange rates.

ICB and ADB recorded over 15%

improvements in their cost income ratios. These banks were successful at reducing cost while at the same time growing income. ICB's 30% decline in the cost income ratio was the most drastic in the industry in 2013. ICB achieved this by reducing cost by 2% but very successful in growing interest income by 58%. ADB's 20% decline in the cost income ratio is attributable to the 12% decrease in cost together with the 17% improvement in total income. ADB's favourable performance can be attributed to the business reengineering and process improvement embarked upon as part of its 2013- 2015 strategic plan.

6

Profitability and Efficiency

Net interest margin

	2013	R	2012	R	2011	R	2010	R
RGB	23.2%	1	-	-	-	-	-	-
Baroda	22.4%	2	17.1%	1	8.5%	9	4.2%	24
GCB	17.3%	3	13.3%	5	9.5%	5	14.1%	1
UBA	17.1%	4	13.2%	6	7.5%	14	7.2%	16
ABG	16.7%	5	16.4%	2	8.2%	13	10.4%	5
BSIC	15.3%	6	15.4%	3	13.3%	1	8.7%	11
ADB	14.9%	7	14.5%	4	8.3%	12	12.1%	2
BBGL	14.2%	8	12.0%	8	9.2%	7	10.8%	4
CAL	14.2%	9	10.5%	11	6.6%	19	7.8%	13
ICB	13.2%	10	9.2%	15	9.4%	6	7.9%	12
EBG	12.8%	11	11.3%	10	7.2%	16	7.4%	15
SCB	12.8%	12	8.9%	17	8.9%	8	9.9%	8
EBL	12.4%	13	10.2%	12	-	-	-	-
HFC	12.4%	14	10.1%	13	10.6%	3	10.1%	7
SG-GH	12.0%	15	9.0%	16	9.6%	4	10.4%	6
Fidelity	11.4%	16	9.5%	14	6.9%	17	5.7%	20
GTB	11.4%	17	12.6%	7	8.4%	10	9.2%	10
PBL	10.9%	18	8.4%	18	7.2%	15	7.0%	18
ZBL	10.7%	19	7.3%	22	3.4%	23	5.5%	21
UTB	10.0%	20	11.3%	9	12.2%	2	11.0%	3
Stanbic	8.9%	21	8.2%	19	6.7%	18	7.4%	14
NIB	7.2%	22	7.6%	20	5.7%	21	4.3%	23
UGL	6.9%	23	7.4%	21	8.4%	11	6.8%	19
BOA	6.6%	24	7.0%	23	6.3%	20	5.3%	22
FABL	6.4%	25	4.5%	24	5.0%	22	7.1%	17
FCPB	0.6%	26	-	-	-	-	-	-
UMB	-	-	-	-	-	-	9.4%	9
Industry	16.7%		15.4%		8.0%		9.3%	

HFC's cost income ratio also dropped by 17%; its cost increased by 36%, whilst its total income almost doubled this year. SCB, ZBL, Stanbic, PBL and UBA have success stories arising from their cost control strategies. These banks are foremost in the industry's drive towards lowering cost income ratio. The banks continue to streamline their cost structure in order to be more efficient in the face of rising operating cost.

Net interest margin

In 2013 the industry experienced a 1.3% increase in the net interest margin. The marginal increase in net interest margin was mainly driven by the increase in interest income earned from investment securities because it offered favourable yields with very limited risk exposure.

On the other hand the yield from the government of Ghana securities competed with the banks because it provided alternative investment options for customers.

To remain competitive banks were compelled to revise upwards the interest rate for customer's deposits especially for the high end corporate customers.

With the exception of Baroda, none of the banks achieved an increase in net interest margin in excess of 4% in 2013.

This is mainly because growth in interest income margins was squeezed by the increase in the cost of funds from deposits.

Eight banks (BSIC, GTB, UTB, NIB, UGL, BOA and TTB) recorded a decline in their net interest margin between 2012

and 2013. UTB and GTB suffered the greatest decline by 1.3% and 1.2% respectively.

UTB's returns on lending and investment securities improved but relied on the expensive time deposits for funding credits and holdings in investment securities. UTB held more than 50% of deposits in time deposits which had an adverse impact on the net interest margin because of a steep increase in interest expense.

UGL earned GHS194m as income from its operating assets but applied 62% of the amount in settlement of time deposit costs. Out of its interest income of GHS187m, UGL paid GHS 98m as interest expense.



7 Return to Shareholders

Return on assets

	2013	R	2012	R	2011	R	2010	R
Baroda	8.5%	1	6.8%	1	2.9%	8	0.8%	19
SCB	7.0%	2	5.7%	4	3.9%	2	4.3%	1
BBGL	6.2%	3	5.3%	5	4.4%	1	3.6%	4
GCB	6.0%	4	4.7%	6	0.7%	21	2.6%	9
CAL	5.9%	5	4.3%	8	2.3%	12	1.8%	15
UBA	5.8%	6	6.7%	2	3.9%	3	2.3%	11
GTB	5.6%	7	5.7%	3	3.1%	6	2.8%	8
ADB	5.0%	8	1.8%	18	2.8%	9	3.3%	6
ABG	4.6%	9	4.3%	7	3.0%	7	4.2%	2
EBG	4.0%	10	4.2%	9	3.3%	5	3.9%	3
ZBL	3.8%	11	3.2%	11	3.4%	4	1.7%	16
HFC	3.7%	12	2.2%	14	2.3%	13	2.1%	13
Stanbic	3.7%	13	3.3%	10	2.5%	11	2.2%	12
RBG	3.3%	14	-	-	-	-	-	-
NIB	3.2%	15	1.3%	22	0.9%	20	0.3%	22
SG-GH	3.0%	16	2.8%	12	2.7%	10	2.8%	7
Fidelity	2.6%	17	2.1%	16	0.9%	19	0.7%	20
ICB	2.5%	18	0.0%	24	2.1%	14	2.4%	10
EBL	2.3%	19	2.7%	13	-	-	-	-
UGL	2.0%	20	1.8%	19	1.8%	15	1.2%	17
PBL	1.7%	21	1.4%	21	1.5%	17	1.0%	18
FABL	1.3%	22	1.5%	20	0.5%	22	3.4%	5
FCPB	1.1%	23	-	-	-	-	-	-
UTB	0.7%	24	2.1%	15	1.8%	16	1.9%	14
BOA	-0.5%	25	0.4%	23	-3.5%	23	-4.0%	23
BSIC	-2.0%	26	1.9%	17	1.0%	18	-5.3%	24
UMB	-	-	-	-	-	-	0.6%	21
Industry	4.2%		3.5%		2.4%		2.3%	



Return on Assets

The banking industry's ROA has consistently improved over the last three years (2011 to 2013). ROA increased from 2.4% in 2011 to 3.5% in 2012 and is now at 4.2% in 2013. During those periods total assets grew by 33% from GHS27,100m in 2012 to GHS36,100m in 2013, but the steeper growth in net profits by 64% from GHS940m in 2012 to GHS1,530m in 2013 contributed to the favourable returns. Baroda continues to post the highest ROA.

The bank's operating model has not changed and its total assets continue to be less than 1% of the industry's total assets.

A total of 9 banks recorded ROA above the industry average of 4.2% with ADB, BBG, SCB and GCB showing much improvement compared to their prior year ROA performances. UBA and UTB's ROA declined the most in 2013. The 'high street' banks; BBG, SCB and GCB, are returning to their former glory. Over 5% ROA's posted by these banks to keep

pace with the competition had eroded the profit margins.

SCB, BBG and GCB have undergone significant business transformation to realign their operations towards sustainable profitable growth and are now posting favourable returns.

BBG, SCB and GCB hold significant operating assets and only experienced marginal growth in their total assets. The higher return is largely attributable to growth in the net interest income



from investments held in Government securities and the loan portfolios. SCB and GCB's net profit increased by 53% from GHS136m in 2012 to GHS 208m in 2013 and 62% from GHS139m in 2012 to GHS224m in 2013 respectively.

The total assets of these banks only increased by 25% and 14% respectively from GHS2,390m in 2012 to GHS2,990m in 2013 for SCB and from GHS2,970m in 2012 to GHS3,390m in 2013 for GCB.

UBA and UTB's ROA declined while BSIC recorded the least ROA in the industry. Although UBA's net profit increased by 91% from GHS48m in 2012 to GHS90m 2013, its total assets more than doubled from GHS 705m in 2012 to GHS1,552m in 2013.

The growth in UBA's total assets is attributable to borrowings from the parent bank. These funds were largely invested in Government securities.

On the other hand UTB's dip in ROA is attributable to a decrease in net profit by 54% from GHS20m in 2012 to GHS9.7 million in 2013. Impairment charges from the deterioration in the quality of its loan book almost doubled from GHS13m in 2012 to GHS24m in 2013. At the same time UTB's operating costs increased by 34% from GHS 64m in 2012 to GHS 87m in 2013.

ADB's net profit grew threefold from GHS26.6m in 2012 to GHS 81m in 2013 mainly on account of proceeds from the liquidation of properties and interest income on investment securities held while its total assets grew only by 13% from GHS1,400m in 2012 to GHS1,600m in 2013.

ADB seems to be consolidating its operating results on the back of recent IT upgrades and operational reorganisation. Returns from these one off transaction may not be sustainable.

7

Return to Shareholders

Return on equity

	2013	R	2012	R	2011	R	2010	R
UBA	51.1%	1	38.0%	3	23.8%	4	12.9%	11
GCB	45.3%	2	49.1%	1	9.8%	16	22.6%	6
SCB	42.7%	3	43.8%	2	33.4%	1	36.8%	1
EBG	33.4%	4	31.4%	4	27.9%	2	26.8%	3
CAL	32.6%	5	24.3%	7	19.7%	8	11.5%	15
BBGL	32.1%	6	28.2%	5	26.2%	3	24.5%	4
Stanbic	30.7%	7	24.2%	8	15.9%	12	17.4%	8
ZBL	30.2%	8	21.6%	10	21.3%	6	12.6%	12
ADB	28.7%	9	13.5%	15	19.1%	9	23.2%	5
Fidelity	28.5%	10	22.9%	9	17.5%	11	13.1%	10
GTB	28.3%	11	27.1%	6	13.2%	15	12.0%	13
HFC	22.2%	12	10.2%	19	13.4%	14	10.9%	16
ABG	21.1%	13	20.4%	11	8.6%	18	9.6%	18
SG-GH	18.8%	14	17.8%	12	15.2%	13	16.7%	9
UGL	17.3%	15	17.5%	13	20.6%	7	11.8%	14
Baroda	14.9%	16	10.8%	18	4.1%	20	1.8%	22
PBL	14.7%	17	11.3%	17	17.5%	10	10.3%	17
NIB	13.5%	18	11.6%	16	9.0%	17	3.7%	21
ICB	8.7%	19	0.2%	24	6.8%	19	7.0%	20
RBG	8.5%	20	-	-	-	-	-	-
EBL	7.9%	21	8.9%	20	-	-	-	-
UTB	7.6%	22	16.3%	14	21.3%	5	19.4%	7
FCPB	7.6%	23	-	-	-	-	-	-
FABL	6.7%	24	5.2%	21	2.0%	22	33.8%	2
BOA	-3.5%	25	3.4%	23	-31.1%	23	-452.5%	24
BSIC	-5.8%	26	5.0%	22	3.1%	21	-17.4%	23
UMB	-	-	-	-	-	-	7.5%	19
Industry	27.5%		23.8%		17.8%		16.6%	

Return on Equity

The banking industry continues to make significant returns on equity mirroring the average returns on the money markets in the past two years. Industry average return on equity was 27.5% compared to 23.8% in 2012. Total shareholders' fund increased by 39% from GHS3,953m in 2012 to GHS 5,507m in 2013. This is largely driven by

the earnings retained by the banks. Capital injection by way of share capital increased by only GHS161m during the year.

UBA, GCB, SCB and EBG have the highest RoE. Aside GCB which was not in this group in 2011, the other 3 banks have been in group for the past four years. The high RoE recorded by these banks is driven by a growth in profits

after tax compared to the growth in average shareholders' fund.

Eight banks recorded single digits ROE which are far below the industry average with BoA and BSIC recording negative ROE of 3.5% and 5.8% respectively. Impairment charge and operating expenses for BoA increased by 32% and 16% respectively while those for BSIC increased by 112% and 32%

respectively. The new banks, RBG and FCPB are yet to achieve the strong returns which characterise the industry. These banks are building their profile and market penetration strategies.

BOA's net interest income remained unchanged at GHS 32m in 2012 but its interest expenses increased by 58% from GHS30m in 2012 to GHS 48m in 2013 as a result of increased cost of funds arising from the growth in its long term borrowings. BOA's long term borrowing increased by more than eight fold from GHS11m in 2012 to GHS103m in 2013 and the high interest cost associated with this accounted for the significant decrease in net profit and hence the negative ROE.

Though BSIC's shareholders' fund increased by only 8% from GHS66m in 2012 to GHS72m in 2013 mainly as a result of capital surplus recorded on some revalued properties. The higher impairment charge and operating expenses led to lower profit and thus the negative RoE.

Impairment charge and operating expenses for UTB increased by 85% and 34% respectively resulting in a 113% decrease in net profit. Even though the shareholders' fund of the bank remained largely unchanged at GHS128m, the increased operating cost and impairment charges had a significant impact on the RoE posted by the Bank.

The fortunes of UTB after its business combination with UT Financial Services Limited in 2010 appear to have dipped and show the largest decline in RoE. The optimism for shareholders may be fading as its position moved from the fifth in 2011 to fourteenth in 2012 and now at twenty-second position in 2013.

FABL shows an increase in RoE between 2012 and 2013 following the capital injections in 2011. The bank is continuing with its reorganisation and branding efforts to re-position itself.

Dividend pay-out

The high RoE recorded by the banks has not resulted in similar dividend payment to shareholders. The number of banks paying dividend decreased compared to 2012 even though total dividend paid increased from GHS233m in 2012 to GHS375m in 2013. Though investment returns are also in the form of capital appreciations, it is not uncommon to have many investors in these banks placing more emphasis on dividends they receive to the capital appreciation of their investments especially where many of these banks are not listed and the marketability and liquidity of these investors are limited.

After posting the highest dividend pay-out ratio in 2012, ICB goes back to non-payment of dividend. For the first time in many years, ADB pays dividend to its shareholders even though the pay-out ratio was only 4.5%. HFC's boardroom challenges seem to have also prevented the bank from paying dividend for the first time in many years.

The current minimum stated capital of GHS60m was set in 2009. At end of 2009 the minimum capital was an equivalent of USD 42 million. At 31 December 2013 the US dollar equivalent had eroded to USD28m and further to USD20m at 30 June 2014. The capacity of banks to underwrite big transactions has been impaired and a continuation of this trend may be of increasing concern to the Bank of Ghana.

The banks will continue to find the balance between satisfying these shareholder requests vis-à-vis the need to retain earnings for reinvestment and shore up operating capital. This will allow banks to underwrite some of the big ticket transactions in the public private partnerships towards infrastructure developments and opportunities in the oil sector without always resorting to waiver applications to the Bank of Ghana to be able to undertake such transactions.

8 Liquidity

Liquid funds/ total deposits

	2013	R	2012	R	2011	R	2010	R
EBL	2.35	1	1.70	2	-	-	-	-
Baroda	1.58	2	2.26	1	3.61	1	1.66	2
RBG	1.40	3	-	-	-	-	-	-
FABL	1.23	4	0.66	13	0.53	18	0.50	21
ZBL	1.10	5	0.76	8	0.83	8	0.65	15
UBA	1.03	6	0.73	11	0.84	7	0.92	5
ICB	1.03	7	0.88	3	1.03	4	1.35	3
GTB	0.90	8	0.85	5	1.12	3	0.88	6
HFC	0.80	9	0.60	14	0.70	10	0.83	9
GCB	0.78	10	0.82	6	0.90	5	0.64	17
SCB	0.76	11	0.75	10	0.86	6	0.99	4
FCPB	0.75	12	-	-	-	-	-	-
BBGL	0.74	13	0.78	7	0.81	9	0.86	7
BSIC	0.74	14	0.75	9	0.64	14	0.64	18
Stanbic	0.66	15	0.59	15	0.63	15	0.68	13
ABG	0.64	16	0.86	4	1.13	2	1.85	1
BOA	0.64	17	0.48	19	0.58	16	0.50	22
EBG	0.62	18	0.67	12	0.68	11	0.79	10
CAL	0.62	19	0.45	21	0.57	17	0.71	12
ADB	0.57	20	0.58	16	0.50	19	0.55	19
Fidelity	0.55	21	0.57	17	0.65	13	0.75	11
NIB	0.52	22	0.48	20	0.44	21	0.51	20
SG-GH	0.38	23	0.55	18	0.66	12	0.68	14
PBL	0.37	24	0.38	22	0.48	20	0.43	23
UGL	0.32	25	0.37	23	0.31	23	0.37	24
UTB	0.30	26	0.27	24	0.37	22	0.64	16
UMB	-	-	-	-	-	-	0.83	8
Industry	0.68		0.65		0.71		0.73	

Liquid Funds/Total Deposits

The industry's liquidity cover to meet deposit remained fairly stable in 2013. The tendency for banks to hold money market financial instruments is greater than carrying out the core activity of lending. The money market securities are held in Treasury bills and bonds

issued by the government of Ghana. Also, the industry continues to be risk averse which may be prudent in the light of the economic challenges businesses are facing.

EBL and Baroda maintained unusual high level of liquidity for banks. The liquid asset to deposit cover for these

banks was over 150%. EBL was established in 2010 and is in the early stages of growth. With the limited lending experience EBL is being very cautious in lending. Baroda's operating model has not changed.

BBG and GCB show a decline in liquid funds to total deposit ratio over the past

Liquid funds/ total assets

	2013	R	2012	R	2011	R	2010	R
EBL	0.89	1	0.87	1	-	-	-	-
UBA	0.88	2	0.59	7	0.68	4	0.71	3
RBG	0.69	3	-	-	-	-	-	-
Baroda	0.65	4	0.71	2	0.83	1	0.86	2
GTB	0.64	5	0.60	6	0.67	5	0.61	10
ZBL	0.61	6	0.63	4	0.69	3	0.55	12
GCB	0.61	7	0.64	3	0.75	2	0.48	14
FABL	0.57	8	0.40	17	0.36	20	0.39	19
ICB	0.56	9	0.56	9	0.59	9	0.69	4
SCB	0.55	10	0.53	10	0.65	7	0.65	7
BBGL	0.55	11	0.60	5	0.64	8	0.67	6
Stanbic	0.55	12	0.48	12	0.51	12	0.56	11
EBG	0.49	13	0.53	11	0.55	11	0.62	9
BSIC	0.47	14	0.45	14	0.41	17	0.42	16
ABG	0.47	15	0.58	8	0.67	6	0.86	1
Fidelity	0.46	16	0.48	13	0.57	10	0.64	8
FCPB	0.44	17	-	-	-	-	-	-
BOA	0.41	18	0.41	16	0.44	14	0.44	15
HFC	0.41	19	0.37	20	0.44	15	0.42	17
ADB	0.37	20	0.39	18	0.35	21	0.29	23
NIB	0.34	21	0.38	19	0.36	19	0.35	21
CAL	0.33	22	0.31	22	0.42	16	0.41	18
PBL	0.31	23	0.31	23	0.40	18	0.36	20
SG-GH	0.30	24	0.44	15	0.49	13	0.49	13
UGL	0.27	25	0.31	21	0.26	22	0.31	22
UTB	0.23	26	0.22	24	0.18	23	0.23	24
UMB	-	-	-	-	-	-	0.68	5
Industry	0.50		0.50		0.54		0.52	

three years. This can be an outcome of a strategy to respond to the need of customers and boost their loan portfolio in the face of intense competition. This strategy is not new to these banks. In 2012, the two banks grew their loan portfolio by 25% and 28% respectively

as compared to a 3% and 13% growth in liquid funds.

FAMBL's liquidity position has improved by more than tenfold as compared to 2012. This improvement is mainly associated with the increase in offshore

borrowings as well as increase in customer deposits which was primarily channelled into investment in government securities. The bank's restructuring is underway and with improved funding, the bank is becoming well placed for investment opportunities.

ICB's liquidity improved considerably. This may be an indication that during the period of 'take over' significant investment decisions were on hold pending the outcome of the deal. This abnormal liquidity holding is likely to change in the subsequent year.

PBL, UGL, UTB however show a less than 40% liquidity cover over their deposits. The focus for these banks is on growing their loan book for sustainable profitability.

The industry on a whole remains risk averse with over 80% of banks holding enough liquid assets to meet at least 50% of customer deposit withdrawal demands. This trend can only be sustained in current

8 Liquidity

economic circumstances where the government borrowings from the public are at an all-time high.

The risk appetite of banks in the industry in terms of the ratio of liquid funds to total assets did not show any change from 2012. Holding half of its total assets in liquid funds for two consecutive years indicates that Ghanaian banks are neutral in terms of their risk appetite.

UBA's liquid funds to total assets show a significant increase. The bank applied the significant funding from foreign banks to purchase government securities. Up to a third of the government securities are held in bonds with tenors over one year.

ABG has consistently shown a decline in the liquid funds available to meet its interest bearing liabilities which dropped from 80% in 2012 to 62% in 2013. The downward trend is an outcome of re-aligning its investment portfolio after the business combination in 2011.

Half of the banks in the country are still below the 62% industry average with UGL and UTB maintaining the most illiquid positions in the industry. UTB's loan book constitutes 79% of its total assets and it increased its loan portfolio by 30% as compared to the previous year.

The liquidity profile of Ghanaian banks has not changed significantly from the prior years. The industry is being very cautious in maintaining liquid funds to meet its contractual obligation when it arises.

Liquid funds/ total interest bearing liabilities

	2013	R	2012	R	2011	R	2010	R
Baroda	1.58	1	2.00	1	2.92	1	1.51	2
EBL	1.34	2	1.29	2	-	-	-	-
RBG	1.16	3	-	-	-	-	-	-
UBA	1.03	4	0.73	10	0.84	6	0.92	4
GTB	0.81	5	0.77	5	0.91	3	0.82	6
ICB	0.80	6	0.77	6	0.86	5	1.07	3
GCB	0.75	7	0.76	7	0.86	4	0.61	16
BBGL	0.74	8	0.78	4	0.81	9	0.85	5
BSIC	0.74	9	0.75	9	0.64	11	0.64	14
SCB	0.73	10	0.67	11	0.81	8	0.80	7
FABL	0.72	11	0.59	13	0.52	17	0.47	20
ZBL	0.72	12	0.75	8	0.83	7	0.65	12
Stanbic	0.65	13	0.58	14	0.62	14	0.66	11
ABG	0.62	14	0.80	3	1.09	2	1.64	1
EBG	0.59	15	0.64	12	0.64	10	0.74	9
HFC	0.56	16	0.49	17	0.55	16	0.55	17
FCPB	0.53	17	-	-	-	-	-	-
Fidelity	0.52	18	0.55	16	0.62	13	0.70	10
BOA	0.51	19	0.47	19	0.55	15	0.48	19
NIB	0.48	20	0.44	20	0.42	21	0.41	22
ADB	0.47	21	0.48	18	0.42	20	0.39	23
CAL	0.42	22	0.39	21	0.49	18	0.52	18
SG-GH	0.38	23	0.55	15	0.64	12	0.65	13
PBL	0.36	24	0.37	22	0.46	19	0.41	21
UGL	0.31	25	0.36	23	0.30	23	0.35	24
UTB	0.26	26	0.26	24	0.35	22	0.62	15
UMB	-	-	-	-	-	-	0.77	8
Industry	0.62		0.61		0.67		0.66	



9 Asset Quality

Impairment allowance/ gross loans and advances

	2013	R	2012	R	2011	R	2010	R
Baroda	0.0%	1	0.0%	1	0.0%	1	1.6%	2
EBL	0.0%	1	0.8%	2	-	-	-	-
RBG	0.0%	1	-	-	-	-	-	-
UGL	1.3%	4	1.2%	3	1.0%	2	0.4%	1
FCPB	2.3%	5	-	-	-	-	-	-
ABG	2.6%	6	15.2%	22	2.6%	5	6.2%	12
Stanbic	2.8%	7	4.3%	8	4.5%	8	7.0%	14
CAL	3.8%	8	4.3%	9	6.0%	12	5.4%	11
UBA	3.9%	9	1.5%	4	7.4%	15	7.5%	17
SCB	4.0%	10	3.8%	6	5.0%	10	5.4%	10
EBG	4.2%	11	4.1%	7	1.6%	3	4.7%	7
Fidelity	4.9%	12	3.8%	5	3.2%	6	3.2%	5
HFC	5.0%	13	4.9%	12	5.2%	11	4.9%	8
ZBL	5.4%	14	8.9%	18	11.3%	17	7.3%	16
SG-GH	5.5%	15	5.0%	13	7.0%	13	7.2%	15
ADB	5.9%	16	4.8%	11	2.4%	4	4.1%	6
UTB	5.9%	17	4.7%	10	4.8%	9	8.5%	18
PBL	7.3%	18	7.1%	14	7.2%	14	6.3%	13
GTB	7.3%	19	8.3%	15	9.2%	16	5.0%	9
BBGL	8.3%	20	8.8%	17	14.1%	18	20.1%	22
GCB	10.7%	21	14.7%	21	22.1%	22	11.0%	20
NIB	14.5%	22	12.4%	19	34.4%	23	26.9%	24
FABL	17.7%	23	15.4%	23	17.9%	20	18.6%	21
ICB	18.9%	24	13.2%	20	14.2%	19	22.2%	23
BOA	20.1%	25	17.2%	24	18.5%	21	10.2%	19
BSIC	24.8%	26	8.4%	16	4.1%	7	2.4%	4
UMB	-	-	-	-	-	-	1.7%	3
Industry	6.3%		6.6%		9.4%		9.1%	

Overall the industry has achieved remarkable success in ensuring an improvement in the quality of the loan book. The impairment allowance as a percentage of gross loans and advances remained fairly stable 6.3% in 2013. The industry became very aggressive in its loan underwriting practices between 2006 and 2009 and as a consequence suffered high default rates.

In a turnaround, banks 'cleaned up' their books after 2010 and strengthened the credit assessment, monitoring, remedial and recovery processes. Legislative changes as part of BOG credit administration reforms led to the establishment of three credit reference bureaux, collateral registry and the Borrowers and Lenders Act for effective credit administration. These changes contributed to the improvement in quality of the loan book.

The appreciable improvement in the quality of the industry loan book from the credit

administration reforms had a downside. The industry's credit expansion grew at a slower pace in 2013 than 2012. Gross loans and advances grew by 41% in 2012 but dropped to 32% in 2013.

Baroda, EBL and RBG virtually did not experience any default in their loan portfolio. These banks are in their infancy and have adopted an extremely risk averse approach to extending credits.

However, default is inherent in the banking business and default may not be readily apparent in the early stages. A bank may institute measures to mitigate the risk of default but this cannot be eliminated especially where economic conditions are not favourable.

Baroda's operating model is one of investing in money market securities and rarely extends credits. Their impairment allowance as an indicator of default on loans is negligible and it appears that Baroda's lending strategy is directed at few customers whom they have deep knowledge, hence slow in branch expansion.

ZBL doubled its gross loans from GHS358m in 2012 to GHS715m in 2013 without experiencing a deterioration of the loan book. The bank only recovered GHS0.57m during the year, In the prior year the bank was more successful and recovered of GHS4.2 m from defaulters in 2012.

In ZBL's loan portfolio, credit to individuals which are usually prone to default did not show a tendency of increasing default.

ABG's impairment allowance to gross loans declined from 6.6% in 2012 to 2.3% in 2013. ABG began streamlining its operating assets after its business combination with Intercontinental Bank in 2011. In 2012, the concentration of non-performing loans was in respect of term loans.

In 2013 the bank eased long term lending and realigned its lending resources to overdrafts. This may have contributed to the improvement in quality of loan as shorter term lending in overdraft offers less susceptibility to long term economic shifts and movements.

As part of its business transformation, NIB is aggressively pursuing recovery of non-performing loans. The bank set up an asset recovery trust in 2010 to recover loans from defaulters. Further, NIB has focused on enhancing its risk management and credit administration practices. The outcome of these actions is a decline in the bank's impairment charge in 2013. GTB also recorded an increase in their loan book by 21%, from GHS265m in 2012 to GHS320m in 2013. However, the bank experienced a decline in the impairment charge. This is attributable to the significant improvement in recovery from loan

defaulters and better credit administration practices.

FABL and ICB show a worsening of the impairment allowance to gross loans ratio. This is not surprising because after the change in ownership of these banks, in 2012 and 2013 respectively, the new owners are pursuing various reorganisation strategies.

As part of that process non-performing loans are fully provided for, to 'clean up' the loan book. The slow pace of growth in lending is an indicator that both FABL and ICB are being cautious in extending credit. The quality of the loan book may begin to improve in subsequent years.

SCB's impairment allowance to gross loans increased from 3.8% in 2012 to 4.0% in 2013. While the quality of the loan book in SCB consumer banking segment did not change the wholesale banking segment which contributed 75% of SCB's profit experienced significant impairment charge in 2013.

The impairment allowance for the year increased from a meagre GHS0.59m in 2012 to GHS11.2m in 2013 which is attributed to specific customer defaults. This is an indication that despite strong risk management practices the wholesale segment which caters for big ticket corporate customers is exposed to the shocks from the downturn in the economy.

9 Asset Quality

Loan portfolio profitability

	2013	R	2012	R	2011	R	2010	R
Baroda	40.9%	1	39.7%	1	37.3%	23	4.9%	23
FCPB	36.5%	2	-	-	-	-	-	-
UBA	21.0%	3	12.1%	18	3.2%	1	4.6%	24
CAL	19.9%	4	12.3%	17	12.0%	8	15.5%	13
UGL	19.9%	5	16.8%	6	15.9%	14	18.8%	8
Fidelity	19.6%	6	18.4%	4	13.9%	11	16.8%	11
GCB	18.9%	7	14.9%	11	24.5%	22	25.7%	3
GTB	16.5%	8	18.6%	3	20.8%	21	19.6%	7
BBGL	15.9%	9	14.9%	12	12.4%	9	14.6%	14
UTB	15.4%	10	16.7%	7	17.0%	18	20.9%	6
ABG	14.8%	11	21.0%	2	7.9%	2	6.8%	22
HFC	14.6%	12	12.9%	14	18.7%	19	21.6%	4
ADB	14.3%	13	16.1%	8	15.1%	12	7.3%	21
SCB	14.0%	14	11.4%	19	10.4%	6	16.1%	12
PBL	13.8%	15	14.9%	10	16.1%	15	21.2%	5
RBG	13.2%	16	-	-	-	-	-	-
SG-GH	12.7%	17	12.9%	15	16.8%	17	16.9%	10
FABL	12.5%	18	12.9%	13	15.8%	13	30.2%	1
ICB	12.5%	19	11.3%	20	12.8%	10	11.3%	20
Stanbic	12.0%	20	12.3%	16	9.8%	5	13.8%	15
EBG	10.8%	21	15.2%	9	8.3%	3	13.4%	18
BOA	10.4%	22	10.0%	22	11.0%	7	13.6%	16
ZBL	8.3%	23	10.4%	21	16.5%	16	13.4%	17
BSIC	7.6%	24	18.1%	5	19.8%	20	17.7%	9
NIB	7.4%	25	7.0%	23	9.1%	4	11.6%	19
EBL	6.2%	26	4.9%	24	-	-	-	-
UMB	-	-	-	-	-	-	28.8%	2
Industry	14.3%		14.2%		13.4%		17.1%	

The industry has sustained a profitable loan portfolio in the last 3 years since the dip in 2011. Various strategies adopted by banks to entrench sustainable growth is yielding favourable results on the performance of the industry's loan book.

Baroda operating model has not changed and continues to maintain the strong loan portfolio profitability.

FCPB entered the banking industry in 2013 with a loan portfolio profitability better than most banks in the industry.

Prior to becoming a bank FCPB's operated as a savings and loans company.

The customer pool for savings and loans companies usually come from the informal sector of the economy. Banks

shy away from these customers because they lack proper records and good management practices and are characterised by high default. However, FCPB loan profitability of 36.5%, demonstrates that with discipline in credit origination, monitoring and recovery, the informal sector can be profitable.

GCB and CAL bank experienced improvement in loan portfolio profitability from 14.9% in 2012 to 18.9% in 2013 and 12.3% to 19.9% in 2013 respectively.

GCB experienced a growth in its interest income from GHS137m in 2012 to GHS224m in 2013. Despite the increase in loans to customers, GCB only recorded a 2% increase in impaired loans compared to 2012.

The conversion of TOR debt to bonds in 2011 and better risk management practices has considerably eased the drawback from significant non-performing loans on GCB. It is also noteworthy that GCB also released impairment release of GHS10m that it no longer considered necessary during the year.

CAL bank's 2010 – 2012 strategy to become a top tier bank is gaining ground. The prudent underwriting practices embarked on are showing an improvement in the profitability of the loans written. On the other hand, BSIC and EBG experienced a decline in the loan profitability.

BSIC showed a stable interest income from loans of GHS16m even though loans and advances increased by 70%. The decrease is attributable to the increase in impaired loans from GHS12m in 2012 to GHS35m in 2013.



EBG experienced a dip in the loan portfolio profitability. This is attributable to the deterioration of specific term loans extended to corporate customers. The biggest challenge facing banks is the deterioration in the quality of the term loans which were granted between 2011

and 2012 when the economic outlook was optimistic. With the downturn and resulting scaling down or closures of businesses in Ghana, the profitability of the industry's loan portfolio may decline because borrowers are unable to service the loans when due.

Glossary of key financial terms, 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

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

List of participants

26 out of the 27 banks currently operating the country participated in this year's survey as listed in the table below.

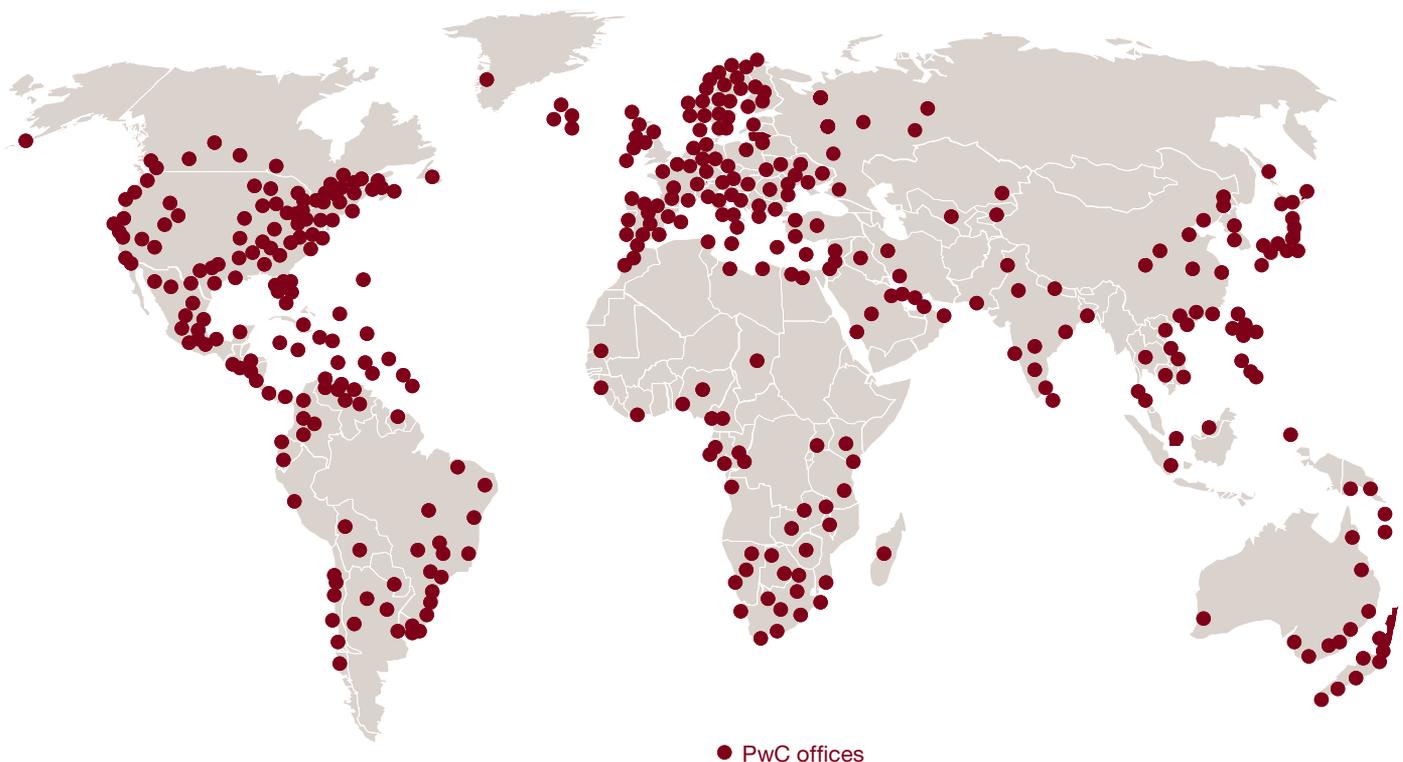
Name of Bank	Year of Incorporation	Majority Ownership	Number of Branches (as at June 2014)	Chief Executive Officer (as at June 2014)
Access Bank (Ghana) Limited	2008	Foreign	39	Dolapo Ogundimu
Agricultural Development Bank Limited	1965	Local	78	Stephen Kpordzih
Bank for Africa	1997	Foreign	19	Kobby Andah
Bank of Baroda (Ghana) Limited	2007	Foreign	2	Arvind Kumar
Barclays Bank of Ghana Limited	1917	Foreign	59	Patience Akyianu
BSIC (Ghana) Limited	2008	Foreign	15	Adama Diop
CAL Bank Limited	1990	Local	19	Frank Brako Adu Jr.
Ecobank Ghana Limited	1990	Foreign	78	Samuel Ashitey Adjei
Energy Bank (Ghana) Limited	2010	Foreign	7	Sam Ayininuola
Fidelity Bank Limited	2006	Local	43	Edward Effah
First Atlantic Bank Limited	1994	Foreign	8	Gabriel Edgal
First Capital Plus Bank Limited	2009	Local	15	John Kofi Mensah
GCB Bank Limited	1953	Local	158	Simon Dornoo
Guaranty Trust Bank (Ghana) Limited	2004	Foreign	28	Olalekan Sanusi
HFC Bank Ghana Limited	1990	Local	28	Asare Akuffo
International Commercial Bank Limited	1996	Foreign	12	Oluseyi Oyefeso Popoola
National Investment Bank Limited	1963	Local	29	Ernest Mawuli Agbesi
Prudential Bank Limited	1993	Local	31	Stephen Sekyere Abankwa
The Royal Bank Limited	2011	Local	11	Robert Ekow Bentil
Societe-Generale (SG) Ghana Limited	1975	Foreign	45	Gilbert Hie
Stanbic Bank Ghana Limited	1999	Foreign	26	Alhassan Andani
Standard Chartered Bank Ghana Limited	1896	Foreign	25	Kweku Bedu-Addo
UniBank (Ghana) Limited	1997	local	22	Felix Nyarko-Pong
United Bank for Africa (Ghana) Limited	2004	Foreign	27	Abiola Bawuah
Universal Merchant Bank Ghana Limited	1971	Local	22	Nilla Selormey
UT Bank Limited	1995	Local	30	Prince K. Amoabeng
Zenith Bank (Ghana) Limited	2005	Foreign	28	Daniel Asiedu

10 *Our Profile*

A global presence

PwC is the world's largest integrated professional services organization. Drawing on the knowledge and skills of more than 184,000 people in 157 countries, PwC helps its clients solve complex business problems and

measurably enhance their ability to build value, manage risk and improve performance. PwC provides a full range of business and financial advisory services to leading global, national and local companies and to public institutions.



Our network in Africa

The PwC network in Africa has member firms in 32 countries with over 8,500 professional staff. We have the largest footprint of all professional services firms on the African continent.

We are proud that all our African firms are locally-owned and that we are committed to the development and prosperity of the African people and economies.

From these strategically located member firms, professionals provide a range of professional business advisory services to the public and private sectors throughout the continent.

All African member firms are committed to the development and prosperity of the African people and economies. Our local capability and network of available expertise is a key qualification for providing clients with services of the highest standard.

The visible presence of our organisation across the African continent owes its origin to the track record built from assisting our clients, to build and improve on their business and create value. We therefore possess a unique capability to respond promptly and comprehensively to our clients' requirements.

10 Our Profile

Our presence in Ghana

PwC is one of the largest professional services firms in Ghana. With over 300 employees and ten directors/partners, we provide audit, assurance, tax and advisory services to our clients. The Ghanaian firm, which is a member of the network of firms of PwC, has unrestrained access to the global network's vast resource base of proprietary knowledge, methodologies and experience.

Our clients and their needs are increasingly more diverse and complex than ever, but with our collective

knowledge, resources and professional expertise, and continuing membership in PwC's global network of member firms, the Ghanaian firm continues to deliver quality service in accordance with the international professional standards of the PwC network.

Over the years, PwC has been trusted advisor to the Government of Ghana in many areas of the country's socio-economy, including the transportation sector.

We also play an active part in supporting the private sector to operate effectively, by advising investors in various areas

including company formation, tax planning, human resource management and international assignments.

Our services

Our service offerings have been organised into three core Lines of Services, with highly qualified, experienced professionals, bringing industry specific experience and focus. The figure below summarises our key service offerings.



Assurance

We are the world's leading global network of audit and assurance firms. We assist companies improve their corporate reporting and provide assurance that their systems are operating effectively within a well-controlled environment

Our audit and assurance services include:

- Assistance in capital market transactions
- Corporate reporting improvement
- Financial statement audit
- IFRS reporting
- Independence controls & systems process assurance
- Regulatory compliance and reporting
- Sarbanes-Oxley compliance reporting

Tax

We are a global leader in tax services. We assist businesses in assessing their tax obligations across multiple international jurisdictions. In addition we have dedicated corporate services experts who assist companies with local legal requirement in the jurisdictions where we operate.

Our tax services include:

- Compliance and tax audit support
- International assignments
- Merges and acquisitions
- Tax reporting
- Tax strategy and implementation
- Tax structuring
- Tax training

Our corporate advisory services include:

- Assistance with the registration
- Company secretariat services
- Immigration services
- Intellectual property advisory services
- International investment advisory services
- Regulatory compliance services

Advisory

Our Advisory practice includes consulting and deal advisory teams.

PwC is well-known in the market place for our knowledge and experience in all types of financial transactions. Our focus is on long-term returns from the entire deal spectrum, from strategy development and evaluation to post acquisition integration.

Our deals advisory services include:

- Corporate finance, including mergers & acquisitions
- Project Finance
- Infrastructure
- Transaction services
- Valuation and strategy
- Debt advisory
- Business recovery services (insolvency, receiverships, business reviews)
- Dispute analysis & investigations (including forensic audits)

Our consulting services include:

- Governance, risk and compliance
- Finance
- Technology
- Operation
- People and Change
- Strategy
- Fraud Risk and Forensic

Our leadership team



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