2017 Ghana Banking Survey

Risk-based minimum regulatory capital regime: what it means for banks in Ghana

August 2017

pwc

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A message from our CSP

Vish Ashiagbor

Country Senior Partner

That we chose for this year's banking survey a theme that focuses on bank capital – in particular, *risk-based minimum regulatory capital* – is, itself, not surprising. For almost a year now, the industry has been buzzing with news of an imminent increase in the minimum stated capital from the current GHS120 million. Many senior bank executives have granted interviews in the media and commented on the pros and cons of such an increase in bank's capital, and the possible impact on the future of the industry and its capacity for financial intermediation. The commentary run on the subject has had as many sides as commentators. At different points over the period, the industry's regulator, Bank of Ghana ("BoG"), has been compelled to make some pronouncements on the matter.

While different amounts – ranging from GHS150 million to about GHS800 million – have been bandied about in the media by various sources, the central bank itself has not given a clear signal as to (1) what the new minimum stated capital would be, and (2) the time frame within which all banks currently operating in the industry would be expected to fully comply with the new regulation.

The first time in the last decade where banks in Ghana were required to raise their minimum regulatory capital was in 2008. The regulator increased the minimum regulatory capital from GHS7 million to GHS60 million. The industry was put on a two-track race to compliance: banks with majority foreign ownership had two years, and banks with majority local ownership were given a more lax time frame of five years. The fact is, all banks that were in operation at the time managed to meet the new capital requirement before the respective deadlines.

Some industry analysts at the time criticised the central bank for its approach, expressing views that the industry had missed a golden opportunity to achieve market consolidation. These persons cited the example set by the Central Bank of Nigeria (CBN), which, in one sweep, reduced the number of banks in operation in Nigeria from 89 to 25, and in the process also created some Nigerian-owned regional (and even global) banks. There were still others – both operators and analysts/commentators – that played the "local, protectionist" card, and protested against any attempt to force the industry to consolidate.

Now, we see the same story being replayed. Though BoG has not shown its hand regarding the new minimum regulatory capital and timeframe for compliance, various industry analysts and commentators have already taken positions in the arena of public debate, with each school of thought extolling the benefits of adopting one approach or another.

Whatever decisions that the central bank takes with regard to the new level of minimum stated capital, in our view, they should be informed by a certain ultimate objective that the central bank targets, which hopefully would be indicative of the future that the regulator envisages for the sector. However, with the central bank having – within the past year and a half – issued four new bank licences, it does not seem to us that market consolidation is a primary or critical focus for the central bank… at least, not immediately.

An equally interesting element of the ongoing conversation on bank capital is the regulator's indication of its intention to require the industry to adopt a risk-based approach to capital management, in accordance with the principles of the Basel accord. The current banking legislation -Banks and Special Deposit Taking Institutions Act, 2016 (Act 930)- makes reference to this accord. Of particular interest is the expected requirement for banks to, at all times, maintain a capital buffer that reflects the level of risk inherent in their asset portfolio. Additionally, the Act no longer allows BoG to extend the single obligor limits of banks which is determined by the level of capital.

In light of these expectations of the banking industry, we have been asking ourselves some key questions, including the following:

- Is the banking industry ready and capable of implementing such complex approaches to capital management?
- Is BoG itself well equipped to ensure effective supervision, based on this approach?
- How will the implementation of such a capital management regime impact on the real economy of the country?
- In particular, given that Ghana's economy has a significant presence

of micro and small scale private sector players, whose structures and operations are, predominantly, informal, what impact on economic growth will the implementation of such a regime of capital have?

To see what players in the industry think, we posed some of these questions to the industry's senior executives in this year's survey. In particular, we tried to establish the industry's general readiness for the implementation of this new approach to capital management. We asked industry chieftains to tell us if they have the talent, data, structures, processes, and technology that will support a smooth transition to such a complex approach to capital management.

The feedback received generally paints an image of an industry not quite ready for the implementation of the proposed risk-based method of capital management. The survey report provides responses, but I would pique your interest with a few notable results. For instance, when asked about having a detailed plan for the implementation of a risk-based capital regime, a majority of respondent banks noted that they do not; however, they hastened to add that they had initiated discussions internally to produce and implement such plans.

What is most instructive about banks' perceptions of likely impact of a transition to a risk-based capital regime is that no single bank has considered or is considering mergers and acquisitions as a route to enhance capital resources. Indeed, almost three-quarters of respondent banks envisage that their incremental capital requirements under a risk-based capital regime would not exceed 25% of their current levels. About 40% expect to adjust their portfolio mix to optimise capital requirements, with regulatory capital management. In the short-term, as banks go through a transition phase during which they try to master the art of keeping their ships on an even keel, this new capital management regime may lead to banks being overly cautious resulting in suppressed credit growth. It would be helpful that BoG pays attention to this possibility, as it "partners" the government in its role as the central bank to help create an enabling environment supportive of rapid business and economic growth.

Our Financial Services Industry Group and the banking survey team will be pleased to engage with stakeholders that are eager to learn more or share their own thoughts with us. Do contact us using the details provided on the back cover of this report.

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A message from the Executive Secretary of Ghana Association of Bankers

D. K. Mensah

Executive Secretary, Ghana Association of Bankers

The Basel Accord is a set of banking regulations put forth by the Basel Committee on bank supervision, which regulates finance and banking internationally. Basel II attempts to integrate Basel capital standards with national regulations, by setting the minimum capital requirements of financial institutions with the goal of ensuring capital adequacy of banks. Unlike the first accord, Basel I, where focus was mainly on credit and market risks, Basel II introduces operational risk considering that many failures and difficulties experienced by banks in history were not only attributable to credit and market risks but largely to operational risk.

The developed world now talks about Basel IV but Ghana is yet to adopt Basel II. Is the wait worth it and have all the concerns that led to the delays in implementation been resolved, well contextualised in the African and more importantly the Ghanaian banking environment? Is the expected implementation year of 2018 ideal and are the key players (the regulator and the banks) ready?

The developing world is cautious about implementing Basel II and Ghana is no exception. Is the current minimum regulatory capital regime not risk based? Certainly it is and perhaps the concern is the extent to which the current regime is risk sensitive to the activities of the financial institutions which expose them to various types of risks. This is one of the issues Basel II is expected to improve on when implemented in Ghana.

The definition of regulatory capital remained unchanged and refers to the total capital a bank holds based on the risks it is taking. Regulatory capital could be tier 1 or tier 2 with the possible disallowance of some capital component items by regulators for instance the case of "credit risk reserve" in Ghana which can only be used with the prior approval of the regulator.

Since the awareness creation on Basel II in 2008, led by the regulator, the Ghanaian banking industry has gone quiet on the implementation of Basel II. Officials of many financial institutions have indicated their readiness for implementation, but the problem is that these claims of readiness in many instances are self-declared and have not been tested or independently verified. The survey will try to assess the status of readiness by the key players especially the financial institutions, the factors likely to drive the implementation, benefits, issues and challenges expected.

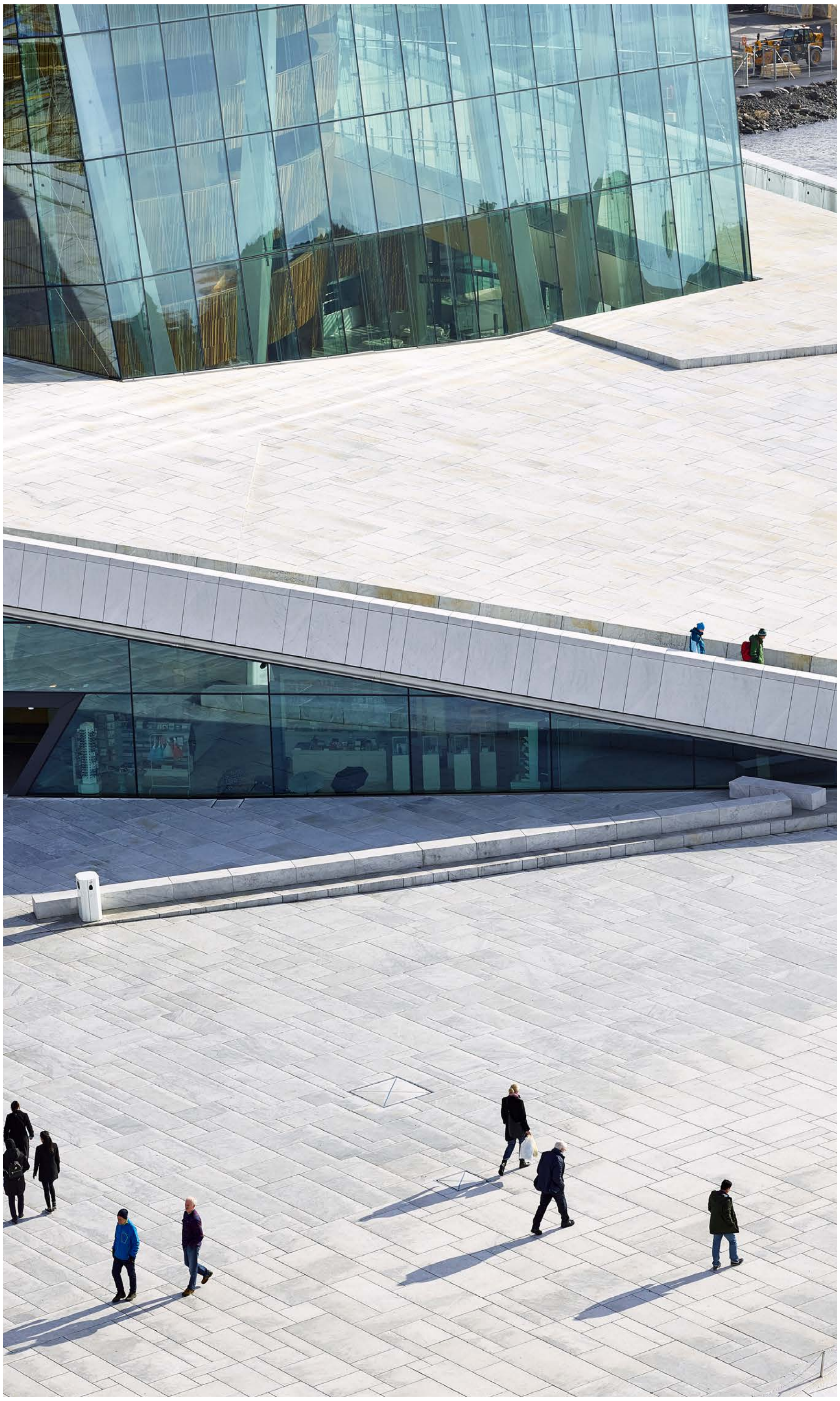
Some of the benefits expected from the implementation of Basel II include explicit supervisory review with a comprehensive recognition of credit risk mitigations and enhanced risk sensitivity. Others relate to the flexibility offered by Basel II, with different approaches available to measuring risks, and the fact that it has addressed market discipline and included operational risk in the assessment of capital adequacy.

The implementation of the Basel II Accord will come with challenges which include; the need to build long and reliable database to run sophisticated risk assessment models, the need to build supervisors' capacity to assess, validate and monitor the use of these sophisticated models, competitiveness of banks and access to credit by Small and Medium Sized Enterprises – SMEs.

Many of the banks have also expressed concerns as to whether the implementation of Basel II will result in the cancellation of the current statutory reserve requirements which were largely introduced to ensure banks were protected and limit distributions to shareholders without sufficiently providing for the risks the banks faced. Some are of the view that if the industry will be implementing Basel II soon, why then the need for the current industry wide calls to increase the minimum capital for all banks?

If the outcome of some of the current fund raising activities undertaken by some banks in the country is anything to go by, there is a strong indication that banks will struggle to raise additional capital especially the locally owned banks. Given these expected challenges in raising funds, will the expected increase in the minimum capital enhance the consolidation prospects and reduce the number of banks operating in Ghana? It is unlikely to affect foreign owned banks. Larger capitals will in no doubt enhance the ability of banks to underwrite bigger transactions and support economic growth but will it be fair to the local banks? Should the regulator take a relook at the licensing regime for banks once again?

In conclusion, a more risk sensitive regulatory capital regime will provide some benefits to the financial sector. However, the implementation challenges and experiences from those who have already implemented Basel II should be considered by the regulator in determining the best and most suitable framework for Ghana. The industry is expectant and we believe the key actors will play their roles well to ensure a smooth implementation.



A message from our Tax Leader

George Kwatia

George Kwatia is the tax leader in PwC Ghana

Increase in minimum regulatory capital– the Tax and regulatory implications

Historically, banks in Ghana have raised additional capital through private placements. Other options available to banks include, but not limited to, mergers and conversion of earnings retained to stated capital. The tax implications will depend on the option used by the banks to meet the proposed minimum capital requirements.

Corporate income tax ("CIT") implications

Whether recapitalization is achieved through private placements or through consolidations, a bank's assets will be deemed realised where there is a change in underlying ownership of a bank by more than 50%. As an illustration, if a bank has 100 issued shares and needs to issue 150 new shares to an entirely new shareholder then the assets of the bank will be deemed realised since the underlying ownership has changed by more than 50%. Any unrealized capital gain (excess of market value over book value) is taxable at 25%. However, where the realization results in a loss, the loss may be deductible against income of the bank that incurred the loss.

However, restrictions may apply to subsequent deductibility of tax losses, bad debt and finance cost incurred by the bank prior to change in underlying ownership.

The mere transfer of shares does not come with any associated CIT obligations for either the transferor or the transferee.

Capital gains tax ("CGT") implications

Shareholders of the target bank will not be required to pay CGT on gains related to the swap of their shares for the shares of the acquiring bank, based on the argument that they will be acquiring a replacement asset (shares of the acquiring bank).

Value Added Tax ("VAT") implications

The issue of shares as a vehicle for consolidation is not subject to VAT, as that is not a taxable supply. Also, if the consolidation is achieved through transfer of assets rather than transfer of shares, VAT would not be applicable given that the assets of the target bank will be transferred as a going concern and not as a piecemeal transfer of assets.

Withholding tax ("WHT") implications

During the consolidation process, 3% WHT may apply on the value of the asset being transferred, unless the receiving bank has a valid WHT exemption certificate.

Stamp duty implications for additional capital

Depending on the amount involved, the stamp duty applicable to the additional capital to be raised will range from 0.25% to 1% of the additional share capital. The stamp duty is payable as part of the process to register the related instrument(s) with the Lands Valuation Board.

The new capital will also be subject to a stamp duty of 0.5% when documentation related to the additional capital is filed with the Registrar General's Department.

The 2017 budget statement proposes a two-year stamp duty waiver for investments in the financial services. If this is passed into law, the banks should get relief from payment of stamp duty related to the additional capital they have to raise.

For the other taxes discussed above, a case could be made by industry to the government to get exemptions from the other applicable taxes. This will help make the recapitalisation process less painful.

Relevant tax developments for banks

Repeal of VAT on fee-based financial services

In January 2015, the Government implemented VAT charges on fees levied by financial institutions for certain services. However, this was criticised by many industry players due to cost and administrative burden the implementation put on financial institutions and their customers. In April 2017, this VAT requirement was abolished.

Compliance with transfer pricing regulations

The Ministry of Finance has indicated that the GRA pursues compliance with Transfer Pricing ("TP") Regulations 2012 (LI 2188) which became effective in September 2012. The banking industry is not exempted from TP regulations. Typical arrangements subject to the TP Regulations include management and technical service payments, financing arrangements (including guarantees) with related parties and components of employee compensation package priced at sub-market interest rates. Under the TP Regulations, taxpayers who have related party transactions are required to maintain sufficient and relevant documentation to demonstrate compliance with the 'arm's length' requirement. In addition, annual TP returns are required to be filed and banks can be subjected to audit by the GRA.

1 Capitalisation of banks

Introduction

In recent years, banks in Ghana have been improving their capital management practices to meet the challenge of growing capital requirements. The increase in capitalisation – which has often been regulator-driven – has generally been through organic earnings growth and fresh equity injections. Given the current prudential regime, banks would not have had a meaningful chance to manage capital requirements through managing risk-weighted assets and other optimisation efforts. We think this is about to change.

The Bank of Ghana has in the recent past directed banks in Ghana to increase their capital substantially in line with the emerging risk dynamics in the banking industry. In 2003, the regulator issued a directive to commercial banks to increase their capital to a minimum of GHS7 million as part of measures to strengthen the capital base of the Ghanaian banking industry. In 2008, the regulator further announced an upward revision of the minimum capital of banks to GHS60 million in a bid towards making banks more resilient against unforeseen or expected losses. In real terms however, the minimum capital of GHS60 million has significantly eroded as the cedi to dollar parity has declined from less than 1 to almost 4.5 times. Moreover growth of earnings retained has slowed down because of the deterioration in asset quality.

The current level of capitalisation in the industry raises some concern because the risk exposure of banks both locally and globally is on the rise and there is a need to mitigate this exposure by building up the capital base in order to better contain shocks. To this end, in February 2017, the regulator gave indications that the minimum regulatory capital will be further raised, the exact amount and deadline are yet to be officially announced.

It is the view of industry analysts that the upward revision of minimum regulatory capital requirements would help banks to better contribute to the growth of the economy as they would have the capacity to invest into real sectors of the economy. With good underwriting practices, banks will be better placed to underwrite bigger credits to other sectors of the economy.

The proposed capital requirement is unique in some sense, as it obliges banks to, in addition to the minimum capital, hold a buffer level of capital that reflects the inherent risks in their portfolio.

This is new in our market and it has the potential to significantly improve the capital management practices of banks in Ghana.

The concept of risk-based capital

Risk-based capital requirement seeks to ensure that bank capital adequately reflects relevant risks to which the bank is exposed. Having a risk-based capital regime ensures that financial institutions have sufficient capital on hand to withstand losses while maintaining a safe and efficient market. It protects financial institutions, investors, depositors and the economy as a whole.

The implementation of risk-based capital requirements in other jurisdictions

Over time, financial industry regulators appear to have come to the consensus that the best means of regulating bank capital is through a risk-based approach. This is because banks differ in their respective risk exposures as a result of differences in portfolios, markets and systems etc.

While financial industry regulators also agree on the need to match required capital levels to risk exposures, they differ in implementation of capital requirement rules. We note that even the Basel Committee on Banking Supervision (BCBS) member countries have implemented modified versions of Basel principles in their respective countries. On the other hand, most non-Basel jurisdiction members have either adopted, or are in the process of adopting portions of the Basel principles. This also suggests that Basel principles have become a de-facto global standard for capital regulation by financial industry regulators in both developed and developing countries.

What the required capital buffer means for banks

While introduction of the capital buffer is expected to benefit the industry, it comes with significant implications for banks. To determine the amount of buffer required from time to time, banks require structures, systems and tools capable of accurately assessing the risk inherent in the banking portfolios – often at very granular levels. This means that banks will have to review their existing risk frameworks and consider making the required investments to bring these up to the level capable of accurately quantifying risk exposure.

Moreover, the buffer requirement is expected to influence the risk appetite of banks and determine which portfolios –high, medium or low risk –banks might want to maintain while balancing profitability and investor targets. Banks that have difficulty in raising additional capital may be obliged to maintain lower risk portfolios, and this means that some banks would have to review the mix of their portfolios to reduce the quantum of the buffer requirement.

The positive relationship between risk and the capital buffer implies that, generally, banks will be required to top up their capital base during economic downturns. While this may provide comfort to depositors, it will put a strain on banks as access to capital is challenging during these periods – which makes having a robust, dynamic risk management and stress testing framework even more important.

How about the impact on the economy?

Typically, banks with proper risk management practices operate above minimum capital ratios with an additional capital buffer which, together with the regulatory minimum, forms banks' internal target capital ratio. Banks set this internal target to reflect their risk appetite and to minimise the probability of reaching the regulatory limit of solvency ratios should they face adverse developments. If the capital drops below the internal target capital ratio, banks seek to adjust their balance sheet to close the gap and reach the internal target by a combination of the following measures –increasing core capital, adjusting the security portfolio (collateral), reducing the risk exposure or shrinking lending to certain sectors of the economy. Since increasing capital is costly, especially during downturns when it is most needed to absorb losses, banks' adjustments may adversely impact the supply of credit to the economy.

2 Survey findings

Survey methodology

PwC surveyed executives – Chief Executive Officers, Chief Risk Officers and Chief Finance Officer - of banks in Ghana through interviews and questionnaires carefully designed to elicit candid assessment of indications from Bank of Ghana to implement a risk-based capital regime, based on Basel accord. Specifically, Basel II and some portions of Basel III (particularly in relation to liquidity risk) are options under consideration.

Our questionnaire was in eight sections, designed to ascertain the preparedness of the industry to transition to risk-based capital reporting. The sections are as follows:

- ***Planning for risk-based capital regime***
- ***Impact of risk-based capital regime on bank risk management practices***
- ***Impact of risk-based capital regime on bank capital and banking business***
- ***Availability of skills and data to comply with risk-based capital reporting requirements***
- ***Preferred approaches to measuring risk under risk-based capital regime***
- ***Regulatory reporting under risk-based capital reporting***
- ***Associated cost of transition to a risk-based capital regime***

17 banks participated in the survey and these are spread across the various tiers as well as foreign and local banks. The responses provided by the banks have not been weighted. Our analyses are therefore based on actual counts and feedback received.

The following section provides details of the responses we received from banks surveyed.

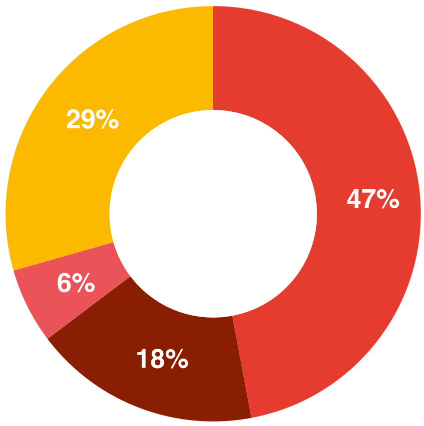
How are banks planning to transition to a risk-based capital regime?

A risk-based capital regime presents additional complexities to banks and tests banks' internal capacity to support a transition to such a system. Beyond facilitating capital sufficiency, risk-based capital frameworks such as Basel II also introduce rigorous risk management, financial and regulatory reporting requirements. As part of our survey, we assessed the readiness of Ghanaian banks to manage the complexities that will inevitably accompany a transition to a risk based capital regime.

Q1. Does your bank have a detailed, task-level project plan for a transition towards a risk-based capital regime, which includes suitable planning buffers for delays / unforeseen complexities during transition and implementation?

This question was aimed at gauging the preparedness of banks for the transition to a risk-based capital regime.

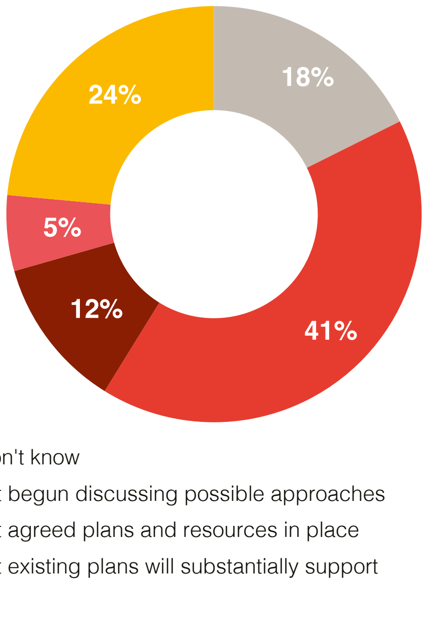
Bank detailed, task level plan for transition to a risk-based capital regime



More than 70% of responding banks indicated that they do not presently have a detailed, task level plan for transition to risk based capital regime. The overwhelming feedback from respondents was that it is not possible to develop a detailed transition plan when the regulator is yet to set specific guidelines on such a change. Interestingly, while majority of banks appear to be passively waiting for regulatory guidance, it appears that some have not considered the Basel II (or Basel III) text which serves as the de-facto global standard for risk-based capital regimes.

Q2. Have you planned the nature, timing and extent of communications with key stakeholders during the course of implementation of a risk-based capital regime (including Board Committees, Regulators, investors, analysts and external auditors)?

Bank stakeholder communications plan during the transition



The complexity of a change to a risk based capital regime will require a sound communication plan that ensures all key internal and external stakeholders are on the same page at all times. These stakeholders include the bank's management, board of directors, board committees, various regulators, external auditors and investors, among others. With this understanding, we inquired from bank executives whether they have planned the process and timing of communicating important pieces of information during the prospective transition.

To a large extent, the responses mirror those to the preceding question. Again, bank executives assert that lack of an official directive from the regulator limits their ability to develop a plan to engage stakeholders. About a quarter of the banks however have indicated that they have such a plan in place, and only 5% believe their existing plans will suffice. Our observation is that, most of those claiming to have plans – whether implementation or communication plans – in place are multinational banks. These include banks with parent companies in Europe and other parts of Africa where transition to Basel II, and even Basel III in some cases, has taken place.

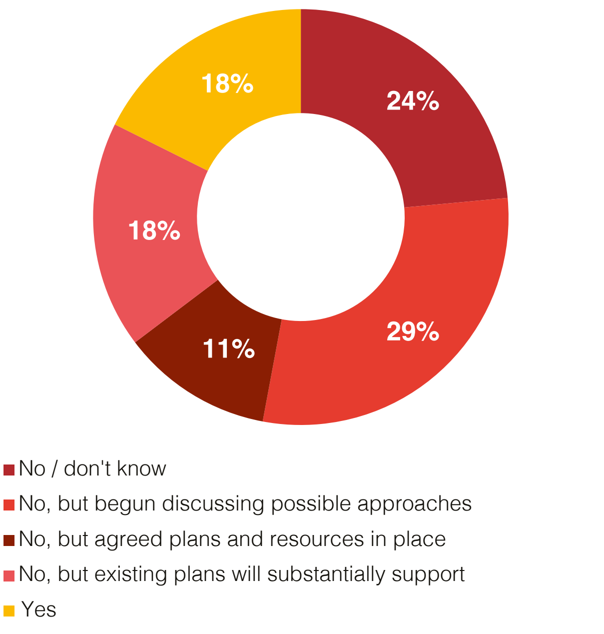
A communication strategy will ensure alignment among various stakeholders, achieve buy-in and manage conflicting interests. Banks, including those who already claim to have a plan in place, will therefore need to continually assess their communication plans. Focus should be given to key questions such as what specific stakeholders want to achieve as part of the transition, how much influence specific stakeholders hold, when to communicate what, and which media to use for the communication.

Q3. Do you have detailed plans of the required people and project costs implications over the course of transition towards a risk-based capital regime?

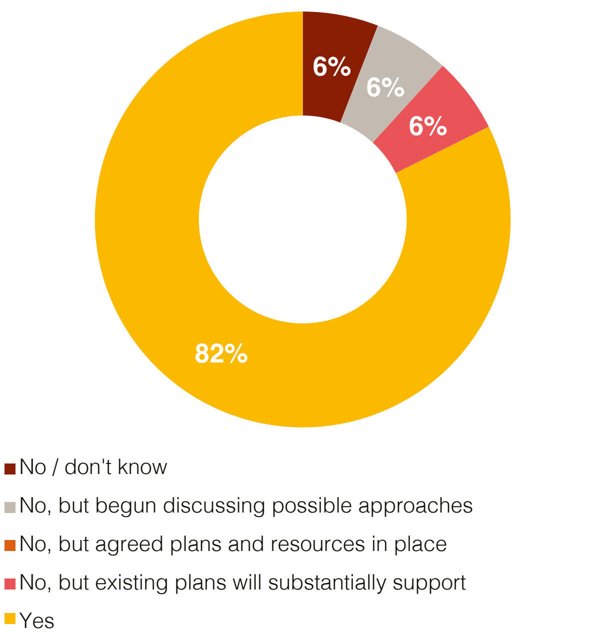
Based on our experience from territories that have already implemented Basel II, we are aware that the spending on people and systems make up a significant portion of total transition costs. People costs stem from identifying key people in the organisation to assign to the change effort, forming dedicated transition teams for different areas of the organisation, investing in training for in-house resources, supplementing in-house resources with additional hires, and adjusting existing working arrangements to accommodate the requirements of the implementation team and training for improved cooperation between the implementation team and regular work delivery teams. All these are compounded by the investments to be made into systems – whether through an upgrade of existing systems or procurement of completely new solutions.

Survey findings

Bank plans for required people and project costs for the transition



Bank plans for 'dry-runs' and quantitative impact assessments



It is not surprising that over 80% of bank executives interviewed do not have detailed plans for managing the people and systems costs associated with the potential transition. Even multinational banks, most of whom are already reporting to their groups based on Basel II or III, are no more certain when it comes to this area.

Most banks appreciate that there will be cost implications but believe that an estimate of costs for the transition will be firmer when guidelines are prescribed. Nonetheless, some banks are trying to stay ahead of the curve by identifying and training a core group of employees who will lead the change when it eventually comes. Such effort will help these banks build capacity and manage the costs over a few years instead of taking a substantial hit for recruitment, training and development in the year in which the changes are introduced.

Q4. Do you intend to perform risk-based capital 'dry-runs' or quantitative impact assessments to determine the increase in capital requirements at an individual business unit or product level?

A critical step in the transition to risk-based capital requirements will be the dry run stage. This will involve a period of testing the newly established regime and assessing the effects on business units and products. Sector dry runs have led to widely differing results among banks in some jurisdictions and some banks have also experienced differing results within their own portfolio of products and assets

There is no regulatory framework at the moment but we took our questions a step further by asking bank executives whether they would consider dry runs.

A decisive number of banks (82%) among our survey respondents confirmed that they plan to perform dry-runs or quantitative impact assessments at the product and business unit level to determine the changes in capital requirements.

35% of respondents indicate that they already have a detailed plan in place, complete with dedicated staff to execute a dry run. Another 6% believe that their existing plans will suffice. This implies that over half of the banks surveyed do not have plans in place to deliver dry runs. This is however not surprising as the lack of direction from the regulator has left most banks playing the waiting game and making high-level internal preparations pending definitive guidelines from the regulator.

Many banks have found that they will need to carry out several dry runs followed by extensive re-calibration of their models before they can go live. There are instances where, the same bank, depending on the changing of the weights of certain products and assets in their portfolios, can have either a positive or a negative effect on minimum capital requirement. This position is confirmed by PwC's global experience, which suggests that ultimately, banks need to allow enough time [for dry runs] before switching to new reporting systems.

Impact of risk-based capital requirements on risk management practices of banks

In this section, we sought the views of bank executives on whether or not the implementation of risk-based capital requirement in the banking industry would result in stronger risk management practices in banks.

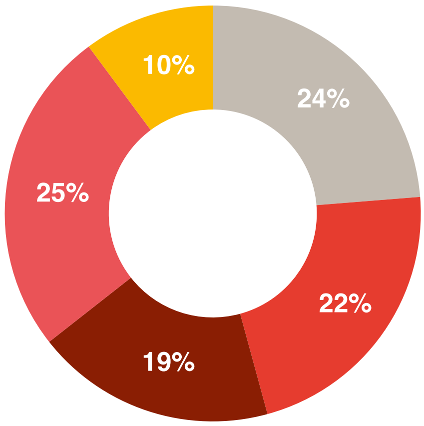
Q1: Do you believe a move towards a risk-based capital regime will result in stronger internal risk management processes (and risk culture) within the bank?

Bank executives are unanimous that a move towards a risk-based capital requirement would result in stronger risk management processes and risk culture within their respective banks. Bank executives admit however, that the board and management have to play leading roles in creating the required risk consciousness/ risk culture in banks. Laxity on the part of the board and management of banks – even if perceived – would defeat the purpose of risk-based capital requirements as far as risk management practices are concerned.

Q2: What risk management processes or activities do you believe may most benefit from a move towards a risk-based capital regime?

Generally, bank executives are of the view that a move towards a risk-based capital regime would positively impact on credit underwriting processes including monitoring (provisioning processes) as well as overall internal controls. They however differ on which of these processes/activities would be most positively impacted. 25% of bank executives believe that a risk-based capital regime would result in strengthening overall internal controls and the credit, operational and market risks management procedures. However, 24% of bank executives are of the specific view that credit granting processes would benefit most as banks would enhance their credit appraisal systems to better assess creditworthiness of loan applicants. In the view of these bank executives, loan default begins at the customer assessment stage and if they get it right at origination, it is likely that the other stages in the credit process can be significantly better managed.

Risk management processes or activities to benefit most from a move towards a risk-based capital regime



- Credit granting processes (including internal limit settings)
- Credit monitoring (including watchlist processes)
- Credit provisioning processes
- Improved overall internal controls
- Other

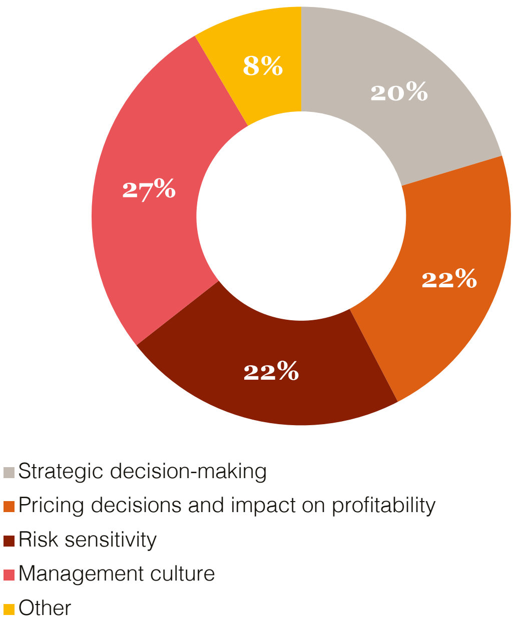
Q3: Which of the following organisational activities do you believe may be most positively impacted by a transition towards a risk-based capital regime?

We presented bank executives with four options – strategic decision making, pricing decisions and impact on profitability, risk sensitivity and management culture. Bank executives largely contend that a move towards a risk-based capital regime would positively impact these activities, and we support this view of banks executives. However, we note differences in the level of impact the executives expect on each activity. 27% of bank executives hold the view that management culture would experience the most impact. This, in their view, sets the tone for risk management across the organisation.

Survey findings

A total of 44% of bank executives also share the view that risk sensitivity and pricing decisions will be most impacted. These factors are at the heart of managing credit, which is arguably the most important risk in the Ghanaian market.

Organisational activities that may most positively be impacted by a transition towards a risk-based capital regime



Impact of risk-based capital requirements on bank capitalisation and business

As part of our survey, we sought to find out from banks, their assessment of the impact that a risk-based capital regime will have on their operations, specifically on the following:

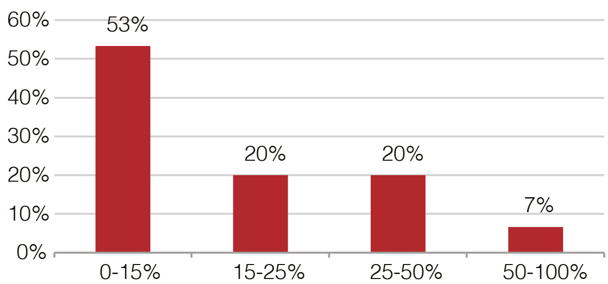
Business impact	
• Regulatory capital requirements	• Costs
• Product portfolio mix	• Systems and data
• Loan pricing	• People and skills
• Profitability	• Risk appetite

Banks were made to respond to questions on their assessment of the impact of a risk-based capital regime on their operations. The survey results are presented in the following sections.

Q1: What percentage increase do you estimate a risk-based capital regime may have on your overall regulatory capital requirements (compared to current requirements)?

88% of participating banks responded to this question while 12% could not respond. For those that failed to respond, the indication is that without a framework from the regulator, the impact on regulatory capital would be difficult to determine. As shown in the chart below, 53% of the respondents indicate that they expect their overall regulatory capital to increase up to 15% while 20% of respondents comprising largely of multinational banks suggest a percentage increase ranging from 15% to 25%. Their response tend to be based on the experience of their parent companies. The local banks relied on recent asset quality reviews conducted by Bank of Ghana and estimated the increase in the region of 25% to 50%.

Impact of risk-based capital on existing capital requirement

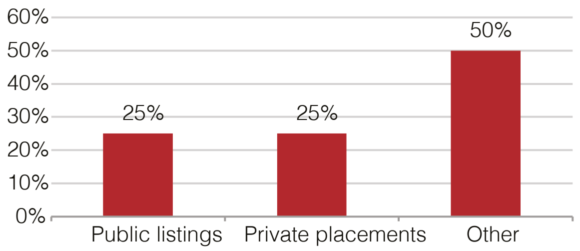


Q2: What management actions would you most likely consider to maintain or enhance capital resources under a risk-based capital regime?

Based on the experience in other jurisdictions the main options we provided were public listings, private placements, and mergers and acquisitions. However, half of the respondents indicated that they will consider 'other' options. Key amongst the 'other' options specified are plough back of profits and rights issue of shares. This is driven by the desire to maintain the bank shareholding structure. We note however, that the use of profits to meet the proposed minimum regulatory capital would only be possible if the regulator provides enough time for banks to accumulate sufficient earnings from undistributed profits.

The other 50% of respondents split equally between public listings and private placements, with no respondent indicating mergers and acquisitions as an option to be considered. In recent history, there has been no merger or acquisition driven by the need to increase minimum regulatory capital and we wait to see if this would ever be considered as the preferred option. Some bank executives are of the view that mergers and acquisitions in the industry is not likely to yield significant synergies as most banks serve similar market segments with very similar products and services.

Q2.Most likely management action to be considered for enhancements of capital resources?

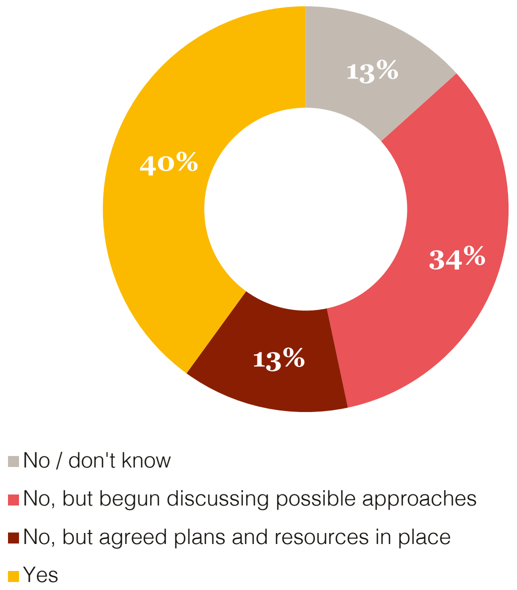


Q3: Do you have plans to adjust your current portfolios, or engage in strategic actions to change the current product mix, in order to optimise regulatory capital requirements under a risk-based capital regime?

Although 70% of respondent banks do not have detailed plans for a transition to risk-based capital regime, up to 87% of bank executives see a need to adjust current product portfolio mix in order to optimise regulatory capital requirements under a risk-based capital regime. These banks either have some high level plans in place, agreed plans and resources in place or have begun discussing possible approaches to adjusting product portfolio mix. An adjustment of the product portfolio mix of banks is expected but it is important to consider the effect this adjustment will have on the economy. Higher risk sectors such as agriculture, real estate downstream energy are likely to suffocate from want of capital and this could have dire economic consequence. The regulator in consultation with banks should agree on sector-specific risk weightings that would not severely disadvantage some sectors of the economy.

13% of the bank executives are either of the view that there is no need to review their portfolio mix or they are unaware of the possibility to optimise regulatory risk-based capital by adjusting product portfolio mix. We believe the position of these banks on adjustment to their portfolio mix will change as more information becomes available.

Q3. Any plans to adjust product portfolio mix to optimise regulatory capital requirements?



Q4: Which business lines or product sets are you most likely to consider re-evaluating in portfolio mix decisions?

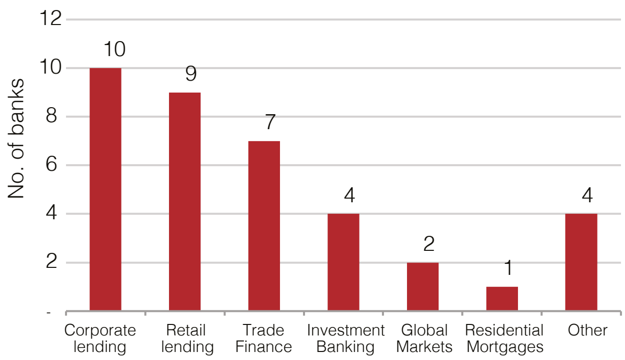
The survey results show that corporate lending, retail lending and trade finance are the leading product sets that banks are most likely to consider re-evaluating in their portfolio mix decisions. Banks would certainly want to optimise their regulatory risk-based capital by reducing their exposure in these areas. On the other hand, few banks are considering to re-evaluate residential mortgages, trading (global markets) and investment banking as the risks associated with these products are relatively low.

Indications are that, traditional banking products will remain the key focus because it is the driver of growth in the market.

Survey findings

However, banks will consider modifying these traditional products in order not to burden themselves with huge capital requirements resulting from high risk in their portfolio.

Business lines or product sets most likely to consider re-evaluating in portfolio mix decisions

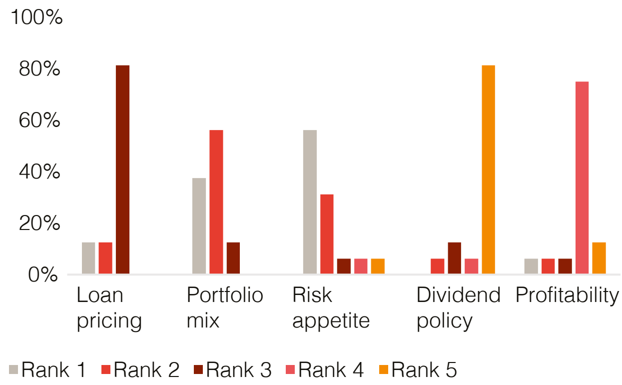


Q5: Rank the impact on the following areas from (1) most significant impact to (5) least significant impact as a result of a transition to a risk-based capital regime

The options provided for this question were loan pricing, portfolio mix, risk appetite, dividend policy and profitability.

All 17 participants responded to this question, with risk appetite (56%), portfolio mix (38%) and loan pricing (13%) showing up as the areas that banks expect to record the most significant impact (that is, ranked 1) as a result of transition to a risk-based capital regime. We note that the three highest ranked variables inter-link. Risk appetite, which is the amount and type of risk that a bank is willing to take determines the bank's portfolio mix and loan pricing. Bank executives indicated that relatively high risk portfolios such as SME lending might not be attractive under a risk-based capital regime due to its potential to attract a high risk weighting. This must be considered in the light of Government's commitment to grow the economy by propelling the private sector. In our view, the central bank and bank executives must agree on a framework which will not jeopardise financing of SME and start-up businesses in a risk-based capital regime. The chart below illustrates bank executives' rankings of the impact of risk-based capital regime on five selected variables.

Ranking of impact of risk-based capital regime on various variable

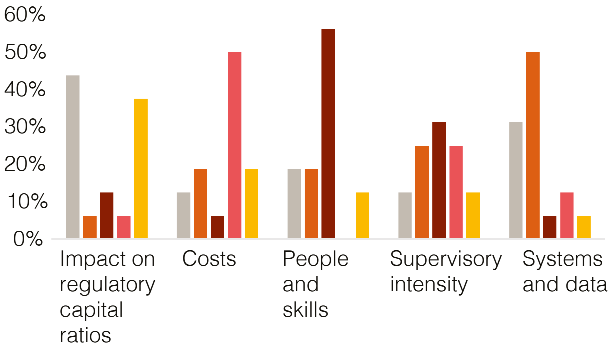


Q6: Overall, rank the following in terms of your (1) most significant concern to (5) least significant concern in relation to a transition towards a risk-based capital regime

The options provided for this question were impact on regulatory capital, costs, people and skills, supervisory intensity, systems and data.

The banks surveyed responded to this question with regulatory capital (44%), systems and data (31%) and people and skills (19%) showing up as the areas of most concern (that is, ranked 1) in relation to a transition towards a risk-based capital regime. The local banks appear quite concerned about the impact of risk-based capital framework on their capital requirement. Even under the existing framework, some local banks may require capital injection as evidenced by the recent asset quality test commissioned by the Bank of Ghana. On the other hand, multinational banks appear to be less concerned about regulatory capital as well as systems and data and people and skills. These banks believe they already have the systems in place and could easily reach out to their network for assistance. The charts below illustrates the rankings given by respondents to five areas expected to be impacted by a transition to risk-based capital regime.

Ranking of significant concern in relation to a transition towards a risk-based capital regime



Do banks possess the skills and data required to transition to risk-based capital regime

The rankings from the most significant concerns of bank executive indicates that right skill set and adequate data are considered critical in a risk-based capital reporting environment. We therefore explored the views of bank executives on their preparedness vis-à-vis skill set and data requirement.

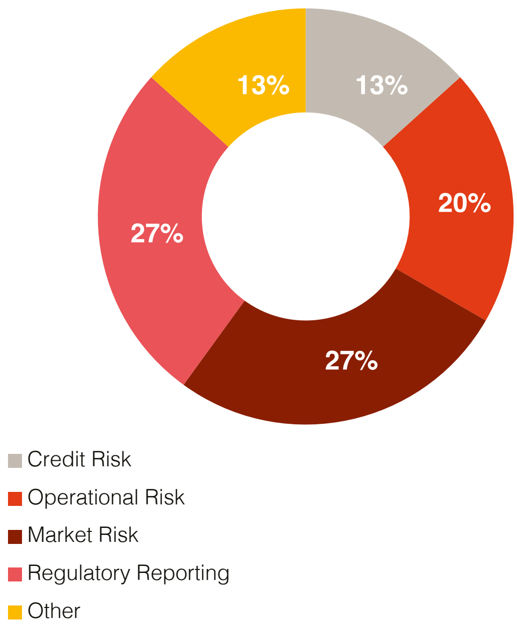
Q1: Does the bank possess the necessary technical skills, knowledge and expertise in the area of risk-based capital requirements, or prudential regulation?

Bank executives interviewed are of the view that their banks have the necessary resources and technical skills needed for the successful implementation of Basel II framework. 53% of banks surveyed believe that their existing human resources have the skills set and know-how required to report under risk-based capital regime. These are mostly banks whose parent companies report under the Basel framework in other jurisdictions and are obliged to submit compliant reports to their parent companies.

47% of the respondents agree that though they do not currently have the required level of expertise and technical know-how for risk-based capital reporting, they are positive that existing plans can support their transition to risk-based reporting. While this is encouraging, it appears that some of these banks are unaware of the depth of knowledge required to report under risk-based capital regime and only assume that their existing plans are adequate. As the transition to risk-based regime becomes imminent it is just the right time for banks to decide on the specific skills and experience required.

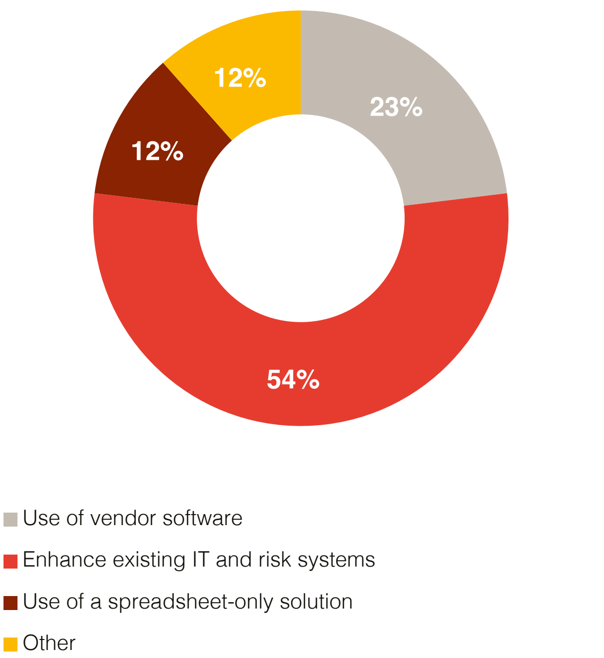
We further questioned respondents which skill set they would need to supplement prior to the industry adopting risk-based capital regime. 27% of banks consider an urgent need to supplement their market risk skill sets. Market risk is critical in our market due to volatilities around interest rates and foreign exchange rates, and we believe enhancing capabilities in this area is paramount. 20% of banks prioritised operational risk management skills. In the wake of the spectre of bank fraud and cyber security concerns, the need to deepen skills in operational risk management cannot be underestimated. Only 13% of respondents indicated the need to augment their credit risk skills. The industry has been bedevilled with loan defaults in recent years, revealing a weakness in the credit risk management of banks. We expect that banks will be keen to build their know-how in this area in order to reduce their future losses. Credit risk is likely to be weighted highly in determining the risk-based capital of banks and therefore calls for greater attention.

Technical areas that would most urgently need supplemental technical and regulatory skills?



Q2: How do you intend to manage information technology requirements to support risk-based capital requirements and associated data analysis?

Management of information technology requirements to support risk-based capital requirements and associated calculations



54% of bank executives intend to enhance their information technology and risk systems to support risk-based capital requirements and its related data compilation. In fact, some of these banks have systems which generate relevant information for their parent companies for purposes of reporting in a Basel framework compliant jurisdiction. 23% of respondents plan to use vendor software, banking applications developed with Basel framework in mind. In their view, this could be more cost effective in the long term, compared to system upgrades. This may be an indication that the existing system has to be scrapped because it cannot cope with the task of conducting banking business and data analysis for strategic decisions.

However, approximately 12% of respondents are worried about the associated cost of transitioning to Basel reporting and therefore prefer to use spreadsheet-only solutions. The challenges this approach will pose on data integrity and availability of relevant data for risk management and decision making cannot be over emphasised.

Others are also confident that once the regulator issues the directive, it should take a couple of months to upgrade or activate additional modules of their existing systems.

Bank executives also expressed their views on the quality of data to be used in preparing regulatory reports in a risk-based capital regime. 75% of bank executives assert that they have already considered plans to ensure that data to be used to determine risk-based capital is subject to appropriate quality and assurance reviews. It is a common practice that banks could either use their internal control function to assist in providing quality and assurance review of data or outsource the role to service delivery centres.

Banks rely on their internal control functions to provide quality assurance at varying levels on various data audits and are likely to default to the use of this function for reliable data.

Preferred risk measurement approaches in a risk-based capital regime

Risk measurement under a risk-based capital regime can be carried out using any of the following options:

Risk type	*Approach*	*Description*
Credit risk	Standardised approach	Banks use ratings from External Credit Rating Agencies to quantify required capital for credit risk
	Foundation Internal Ratings Based Approach (F-IRB)	Banks develop their own empirical model to estimate the probability of default for customers groups with shared characteristics
	Advanced Internal Ratings Based Approach (A-IRB)	Banks develop their own empirical model to quantify required capital for credit risk subject to approval by the regulator
Operational risk	Basic indicator approach	Uses a bank's total gross income as a risk indicator for the bank's operational risk exposure. It sets the required level of operational risk capital as 15% of the bank's annual positive gross income averaged over the previous three years
	Advanced measurement approach	Banks develop their own empirical model to quantify required capital for operational risk subject to approval by the regulator
	Standardised approach	Standardised approach falls between basic indicator approach and advanced measurement approach in terms of degree of complexity
Market risk	Standardised approach	Based on mechanical methodologies to calculate capital charge required
	Internal models approach	Based on bank's internal Value at Risk (VaR) models to quantify capital charge required

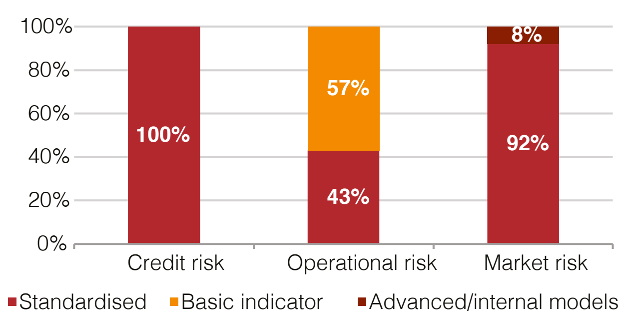
We sought from banks which risk measurement approaches they would prefer to adopt following the introduction of a risk-based capital regime.

Banks responded to questions relating to credit risk, operational risk and market risk. Overall, most banks indicate they are most likely to make use of the standardised approach rather than the internal model-based approaches. The survey results are presented in the following sections.

Q: For the measurement of credit, operational and market risks capital requirements, which approaches are you likely to adopt?

A total of 15 participants responded to this question, with every single one of the respondents indicating their preference for the Standardised Approach in measuring credit risk capital requirement. The banks interviewed were mostly of the view that they would commence with the Standardised Approach at the initial stages of implementation and then graduate to the model-based approaches in the long term. They are of the view that the Standardised Approach provides the opportunity for level playing field, with minimum subjectivity and improved comparability in the process.

Preferred risk management approaches under RBC regime



In respect of operational risk, 57% of respondents indicate their preference for the Basic Indicator Approach. The remaining 43% are most likely to adopt the Standardised Approach. While the standardized approach to calculate a bank's credit and market risk capital is the simplest approach outlined in the Basel II Accord for these risks, for operational risk, this is an intermediate level approach. Some banks were of the view that their choice of approach would be dependent on the competition within the market.

92% of the respondents prefer the Standardised Approach to market risk measurement. The remaining 8% prefer to use the Internal Models Approach.

For a market that will be implementing a risk-based capital regime for the first time, we share the thoughts of the banks that it will be most appropriate to adopt the Standardised Approach as starters because this will provide useful guidance to the industry and prepare banks for migrating to more sophisticated model-based approaches in the near future.

Reporting and market discipline

The Basel framework has established principles as the core objective. It is likely that a risk-based capital rulebook developed by the regulator will embody these objectives. Briefly, these objectives are set out as three pillars, being:

- Pillar 1 focuses on the minimum capital requirements addressing credit, market and operational risks of banks using their risk weighted assets.
- Pillar 2 addresses the minimum capital process via the level of supervisory review and control. It assesses other risks such as concentration and reputational risks while focusing on internal capital assessment process.
- Pillar 3 covers market discipline and deals with additional reporting requirements. It expands the content and improves the transparency of financial disclosures to the market. These disclosures will allow bank counterparties to price and transact business appropriately with them.

We understand that the rule book, which is the manual for risk-based capital reporting, is currently in preparation. While the industry waits on the Regulator to issue the rule book to banks, we asked how bank executives intend to seek understanding of the content in order to comply

Q1. Have you considered plans to assess technical interpretations or engage in a 'top-down' rule assessment of a new risk-based capital rulebook?

Generally, bank executives do appreciate the need for technical interpretation of the proposed risk-based capital rule book. 59% of bank executives plan to engage the regulator to provide the support to understand the technical interpretation of the rule book. The top down assessment constitutes engaging the Bank of Ghana to provide an interpretation of the new risk based capital rulebook.

We note that bank executives are also unanimous in the view that fora to debate technical interpretations of the risk-based capital rulebook with representatives of BoG would add value to the implementation of the risk based capital framework. We consider that existing networks of bank executives could serve as platforms for such discussions. Some bank executives are also of the view that the 'one cap fits all' approach may not be appropriate and some modifications should be considered to suit banks serving certain market segments.

Q2. Have you considered how you intend to respond to the potentially new and more granular levels of regulatory reporting under a risk-based capital regime?

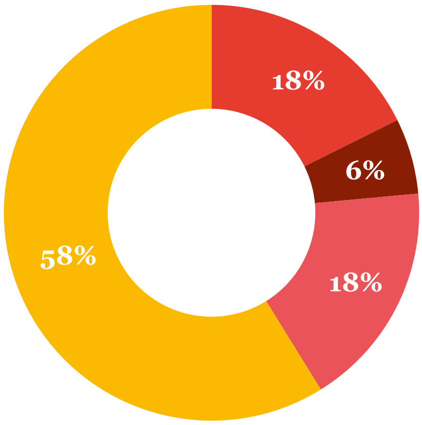
Under a risked based capital regime, banks will be expected to disclose more detailed (granular) information to the regulator for the purpose of accurately assessing the risk specific to each bank. All survey respondents acknowledge that they have some knowledge on the granularity of the regulatory reporting under Pillar 3. However, only 44% have gone a step further to consider how they intend to respond to the new reporting requirement. Another 31% of respondents admitted that they have begun discussions on how to respond to the new levels of regulatory reporting. 6% of banks have already commenced the enhancement of their systems to include that level of data granularity.

A key concern for banks and the regulator would be the quality and the integrity of the data that will be reported by banks. The banks need sufficient time to upgrade their systems and internal processes in order to meet the reporting requirements of the Bank of Ghana. Local banks expressed the need to bring on board experts to assist with this process.

In other markets, the first challenge that banks face when preparing for Pillar 3 disclosures is the establishment of a governance structure around the disclosure process. This is because it involves the spectrum of organisational units. The key risks associated with disclosures is the lack of ownership of the entire process, and the late involvement of key stakeholders. Usually, successful Pillar 3 reporting is driven by the CFO and will involve the board of directors, finance department, internal and external auditors, information technology experts etc. A key role of the driver would be to ensure that all inputs are considered and that responsibilities are clearly defined.

58% of banks have considered plans to ensure that there would be appropriate level of internal controls, oversight and governance over the regulatory reporting processes. 18% of the respondents indicated that existing internal control and governance of the regulatory reporting are adequate, while another 18% have begun to engage in discussions on possible approaches. Establishing a strong governance structure early is critical for banks to enable them to provide the required information in a transparent manner.

Q2. Level of internal controls, oversight and governance in regulatory reporting



Q3. Have you considered that there may be a potential need for the regulator to impose 'market discipline' through enhanced requirements for public disclosure of regulatory capital information (i.e. Pillar 3 requirements)?

Market discipline places the responsibility on banks to conduct business while managing the risks to their stakeholders and promote transparency by disclosing existing risks. 94% of our survey respondents have considered the potential need for the regulator to enforce market discipline through enhanced public disclosure; 6% have not considered this, although they already had plans in place to support it considering the fact that Pillar 3 will considerably increase the level of public disclosure around risk management. Banks should embed in their business processes a well-established communication and disclosure strategy particularly in the areas of credit and operational risk.

Cost associated with transition to risk-based capital regime

The transition to a risk-based capital regime is expected to call for additional capital injection for most banks, if not all. The increase in capital could be done through public share issuance, private placement, right issue etc. Whichever option is used, there will be cost implications.

The move would also result in aligning banking systems to the reporting requirement of risk-based capital and an investment in people and skilled resources.

This section of our survey focuses on cost implication of the transition to risk-based capital regime.

Q1: What is the estimated incremental impact on costs that you believe may result from the transition towards a risk-based capital regime and what would be the primary driver of this cost

Two banks did not respond to this question with the reason that they can only estimate the associated cost of risk-based capital transition after the regulator has issued the rule book. 50% of the respondents are of the view that risk-based capital requirement would cost in excess of GHS500,000. This is primarily attributed to the cost of raising capital as well as systems, especially for the local banks. 22% of respondents hold the view that the transition would cost between GHS200,000 to GHS400,000 while the rest of the banks surveyed believe that the cost associated with transition would be less than GHS200,000. These are mainly foreign banks already preparing Basel compliant report and have the financial support to easily raise capital. They already have skill sets and systems which can easily be configured to comply with risk-based capital requirements.

Survey findings

Our point of view

Globally, the transition of banks to risk-based capital regime stems from an understanding that capital management and risk management are inextricably linked. The minimum capital required by any bank is dependent on the level of risk inherent in its business, the classification of these risks and probability of the risks materializing. It is therefore positive to learn from our survey that bank executives in Ghana are unanimous in the belief that a transition to a risk-based capital regime would strengthen risk management and risk culture, as well as a more practical way of managing capital adequacy.

Impact

We fully agree with the views expressed by the bank executives that a transition to a risk-based capital regime could have a wide-ranging impact on the operations of banks. In fact, we have tested this view with other territories within our network who have already been through the process of implementing a risk-based capital regime. The most obvious area of impact will be capital adequacy. Depending on the specific requirements of any new risk-based capital regime introduced, most banks will have to reassess the level of their minimum capital. We believe that, a majority of banks will have to either increase their current level of minimum capital or substantially restructure their business operations, product portfolio mix, or both. While some banks will raise funds to match the new minimum capital required to continue their businesses as before, others will have to shed risky, less profitable assets, products, services or even departments in order to be compliant. The attempts to be compliant will therefore have a cascading effect on areas of operations such as systems, data, people, and product mix.

Another area of significant impact will be risk management. Since risk management and capital adequacy will be linked, banks will have to re-evaluate their risk culture, risk management frameworks and systems – including, to some extent, performance measurement systems, both for individuals within the organisation and for the organisation as a whole. We therefore agree with the view expressed by most bank executives that a risk-based capital regime will strengthen risk management among Ghanaian banks.

Readiness

We are also encouraged by the level of awareness among bank executives in Ghana about the processes, commitments and costs associated with a transition to a risk-based capital regime. In our experience relating to similar transitions in other territories, implementing such regimes tend to be more costly and resource consuming than many banks originally envisage. Ghanaian bank executives are therefore adopting the right approach by having initial discussions, developing preliminary plans and sometimes even training people in anticipation of the move towards a risk-based capital regime. These efforts will help make such a transition in the near future less painful than it would normally be, therefore we commend them.

The sound of silence

While we are encouraged by the level of awareness and preparation among banks, we also perceive the measure of uncertainty that the lack of guidelines from the regulator is engendering among bank executives. There has been occasional snippets of information from the regulator over the last year, hinting at attempts to adjust the minimum capital requirements of banks but there has been no firm communication as to the nature and form of the change. This presents planning challenges to the banks. While some banks may overestimate the nature of the change, others may also be well underprepared when the directive eventually comes, if it does. We therefore urge the regulator to expedite any ongoing reviews and consultations to enable it to swiftly communicate its plans. This will ease uncertainty and provide much needed clarity to the banks and other industry participants. In the meantime, we would encourage banks to take a proactive approach and utilise the Basel text (e.g. Basel II) – which is well understood by territories who have gone through the intensive process of implementing – to inform their planning.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3 | Overview of the economy

The Global and Sub-Sahara African economy

The world economy in 2016, according to the International Monetary Fund, experienced a rather turbulent twist of events, leaving global growth stagnant at 3.1% (0.1% short of 2015 projections). The economy however gained momentum towards the last quarter of 2016 and is thus expected to boost the global growth rate to 3.5% in 2017 and a further 3.6% in 2018.

The expected recovery is as a result of fiscal initiatives already in place, notably in China and the United States. These are expected to facilitate private economic activity and increase global demand[1].

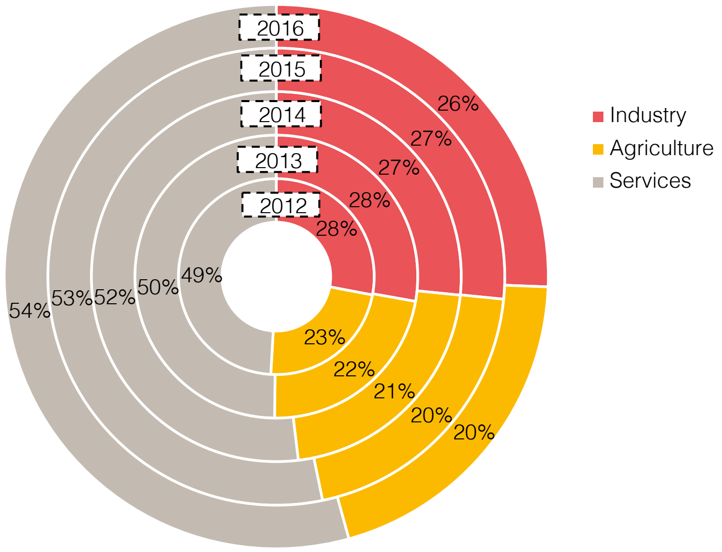
Economic growth in Sub-Saharan Africa ("SSA") slowed to 1.5% in 2016, the lowest level in about two decades, and is projected to recover marginally in 2017 to 2.6%. Growth is projected to continue to increse in 2018, facilitated by improvements in commodity prices and domestic conditions. However, the recovery remains fragile with most of the uplift coming from Africa's three largest economies – Angola, Nigeria and South Africa – as they rebound from a sharp slowdown in 2016[2].

The Ghanaian economy

The sectoral contribution of Ghana's GDP has remained the same over the years. Contributions from the Services sector continues to be the largest, accounting for 54% in 2016. The contributions of the Agriculture and Industry sectors have consistently declined each year since 2012, reducing from 23% and 28% respectively in 2012 to 20% and 26% respectively in 2016.

[1]Source: International Monetary Fund - World Economic Outlook – April 2017 OECD Interim Economic Outlook, 2017 Source: World Bank –
[2]Overview of Africa – April 2017

Sectoral Structure of the Economy 2012 - 2016



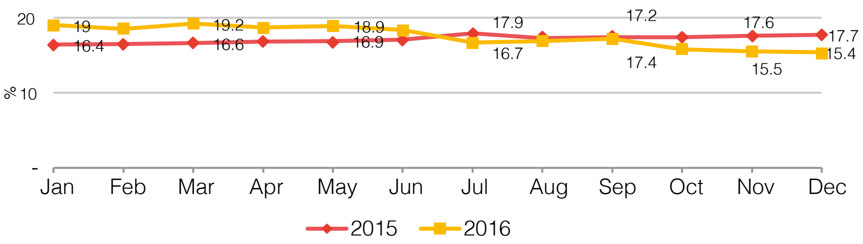
Source: 2017 Ghana Budget Statement, PwC Analysis

Inflation

Headline inflation eased in the last quarter of 2016, moving from 19.2% in the first quarter of 2016 (17.7% in December 2015) to 15.4% in December 2016 but did not achieve the revised target of 13.5% for 2016. The ease in headline inflation was driven mainly by a combination of restricting credit and increasing interest rates over the past years as well as the relative stability of the exchange rate.

The movement in the prices of non-food items also contributed to the slowdown in inflation. Non-food inflation declined from 23.3% in December 2015 to 18.2% in December 2016, supported by stability in the domestic currency and favourable effects arising from the downward revision in petroleum products prices a year earlier. In contrast, food inflation picked up from 8.0% in December 2015 to 9.7% in December 2016, driven largely by domestic food components.

Monthly year-on-year Inflation rates: 2015 vs. 2016



Source: BoG Monetary Policy Report, Jan 2017, PwC Analysis

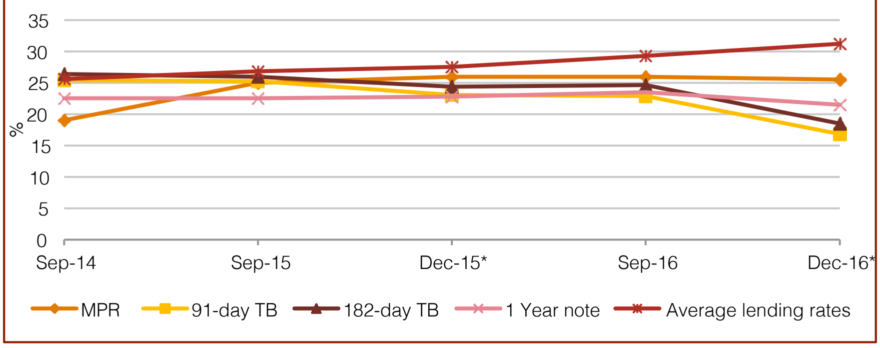
Interest rates

Yields on short-term Government securities declined, while those on medium to long-term GoG bonds increased. This is consistent with Government policy to align the yield curve and extend the maturity profile. The yield on short dated treasury securities declined significantly in December 2016.

Government intends to cut down on borrowings, particularly from the domestic market, as part of efforts to reduce the high interest rates.

Overview of the economy

Interest rates and average lending rates

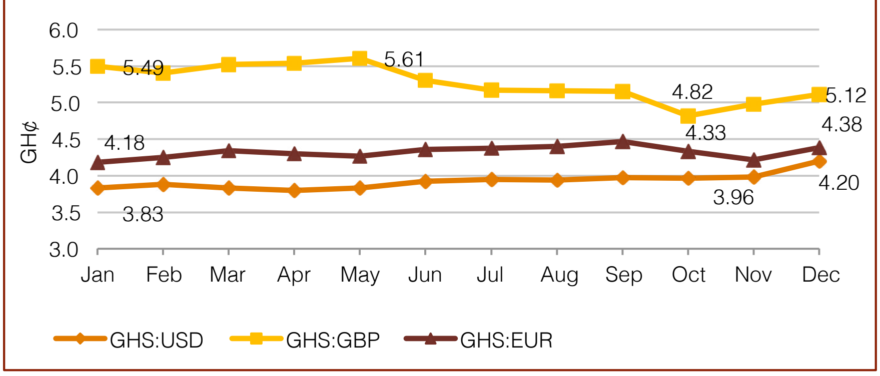


*Source: BoG Statistical Bulletin, October 2016;*2017 Budget Statement and Economic Policy*

Exchange rates

The Ghana Cedi recorded a cumulative depreciation of 9.6% and 5.3% against the US dollar and the Euro respectively. Exchange rates appeared to have been largely stabilised in the second half of 2016 mainly due to inflows from the Eurobond (US$750.00 million), COCOBOD syndicated loan (US$1,800.00 million) and the IMF Extended Credit Facility programme (US$116.20 million) in the third quarter of 2016. Exchange rates appreciated by 10.0% against the pound sterling in the interbank market in 2016.

Monthly trend in exchange rates - 2016



Source: BoG Monetary Policy Report, Jan 2017

In comparison, the rate of depreciation in the prior year was steep with cumulative depreciation of 15.7%, 6.2% and 11.5% against the dollar, euro and the pound sterling, respectively, in 2015.

4 Overview of the banking industry

New regulatory legislation

Parliament, in July 2016, passed the Banks and Specialised Deposit-Taking Institutions Act, 2016 (Act 930). This Act applies to banks, affiliates of banks, specialized deposit-taking institutions and financial holding companies. The Act seeks to address the supervisory and regulatory gaps to enable the Bank of Ghana (BoG) better oversee non-bank financial institutions whiles promoting financial consumer protection, innovation and financial inclusion.

The regulator's concerns on capital requirements is echoed in the Act which forbids a bank, specialised deposit-taking institution or financial holding company whose capital adequacy ratio is less than the ratio prescribed by the Bank of Ghana from taking inter-institutional placements or receiving a loan or deposit from any bank, specialised deposit-taking institution, or financial holding company in the country except with the express written approval of the BoG.

Additionally, the Act is expected to enhance licensing procedures and cooperation with regional counterparts to improve cross border supervision within the region. The Act also takes from BoG the right to extend the single obligor limit of banks. This means that banks have to increase their capital base if they are to extend their single obligor limits.

Monetary Policy rates

In May 2017, the Central Bank's monetary policy committee set the monetary policy rate ("MPR") at 22.5%. This represented 100 basis point reduction from the previous rate of 23.5% set in March 2017. This was in response to the steady decline and further projected decline in inflationary pressures with headline inflation decreasing from 17.2% in September 2016 to 15.4% in December 2016 and further to 13.0% in April 2017. Other factors necessitating the revision of the MPR include the increasing pace of economic activity driven by growth in private sector credit, improved business sentiment and an easing credit stance.

Deposit protection scheme

The Deposit Protection Bill, 2015 was passed into law by parliament in July 2016 to protect depositors from unforeseen circumstances that may result in loss of funds. The law seeks to establish two entities, the Deposit Protection Fund which constitutes the assets of the scheme and the Deposit Protection Corporation to manage the scheme efficiently.

The Act is essentially an insurance scheme where depositors may receive up to GHS6,250 in compensation for deposits with banks and GHS1,250 for depositors with other specialised deposit taking institutions. Amidst calls for an upward revision of the compensation available to depositors in times of crisis, this scheme is seen as a laudable first step in instituting an insurance scheme for depositors and instilling confidence in the country's banking sector. The fund is however yet to commence operation.

IFRS 9 implementation

The industry adopted International Financial Reporting Standards (IFRS) in 2007. Since then there has been a couple of new standards and amendments to the existing framework. The most significant of these changes which becomes effective from January 2018 is IFRS 9 – Financial instruments. The standard which replaces IAS 39 Financial Instruments – Recognition and Measurement –introduces new principles for measurement, impairment and derecognition of financial instruments.

Although the IFRS impairment concept may prove more stringent, the credit risk reserve introduced by BoG may ease the impact of this transition. BoG directed all banks to carry out an impact assessment of their 2016 audited financial statements in preparation for effective implementation of the standard by January 2018.

Basel II/III Implementation

To improve the quality of risk management, corporate governance and internal control practices in the banks, the BoG is considering implementing Basel II/III Capital Framework. The introduction of this regulatory development will provide a more risk sensitive approach for the measurement of capital as against Basel I and will ensure that banks capital is commensurate with their risk profile and control environment.

Review of minimum capital requirement

Throughout the year, a number of initiatives and regulations were instituted to strengthen the banking industry. In a bid to increase the ability of banks in Ghana to handle big ticket transactions and improve investor confidence in the banking sector, BoG setup a capital requirement review committee in September 2016. This committee was tasked to review and recommend an appropriate level of minimum capital requirement for commercial banks.

Energy Sector debts

Debts owed to banks by State Owned Enterprises (SOE) especially in the energy sector has been a primary cause of defaults in 2016. The energy sector levy was introduced as part of the solution to retire these nagging facilities in the books of banks. The restructuring and on-going payment of the legacy debts owed by SOEs to banks, has contributed to an improvement in the non-performing loan (NPL) ratios in the last quarter of 2016. NPL ratio improved from 19% to 17.3% between September and December 2016 with the onset of payments of the restructured Tema Oil Refinery (TOR) and Volta River Authority (VRA). This was made possible through negotiations with banks and with proceeds from the Energy Sector Levy.

The Ghana Interbank Payment and Settlement Systems Limited

The Ghana Interbank Payment and Settlement Systems Limited (GhIPPS) is responsible for implementing and managing interoperable payment system infrastructure for banks and non-bank financial institutions in Ghana. The drive towards a cashless economy took another step forward. In June 2016, GhIPPS successfully launched its Instant Pay system which effectively reduced cross-bank account transactions from between 72 hours to within a matter of minutes.

Mobile money

Mobile money has evolved from simply a means to transfer money from one user to another to become a fully functional digital financial service that allows people to store, send and receive money on a mobile phone. All this without requiring a bank account or internet connection.

As part of its regulation of this emerging financial services offerings by the telecom service providers BoG approved the payment of interest to mobile money customers from 11 September 2016. Interest ranging from 1.5% to 7% is to be paid by partner banks on mobile money floats they hold. Telecom service providers are then mandated to pay 80% of this interest to their customers in quarterly installments.

For the first half of 2016, mobile phone network operators paid interest in the region of GHS14.5 million.

New entrants to the industry in 2016

In 2016, BoG issued new licenses to four financial institutions to carry out universal banking. These institutions are:

- Heritage Bank, a wholly owned Ghanaian bank, received a universal banking licence from BoG in the last quarter of 2016. The bank began operations in February 2017.
- Sovereign Bank, a full service bank, was incorporated on 9 October 2015. The bank received a universal banking licence from BoG in first quarter of 2016.
- Premium Bank, formerly City Investments Company Limited, received regulatory approval to provide universal banking services in the second quarter of 2016.
- OmniBank, formerly Union Savings and Loans, was licensed to operate as a bank in July 2016.
- Ghana Home Loans, a specialised mortgage finance institution, operating as a non-bank financial institution, was issued a provisional universal banking licence in the third quarter of 2016.

The new entrants brought the total number of licensed banks in the country to 33 as at 31 December, 2016, with 16 locally owned and 17 foreign controlled.

BoG has since issued two new universal banking licence to Construction Bank and Beige Capital.

5 Quartile analysis

This year,

25 banks

participated in our banking industry financial analysis;

8 banks

declined for various reasons. While some were new entrants and did not have full set of accounts, others sought dispensation from Bank of Ghana to delay publishing of their accounts.

Our analysis

is therefore based on the participating banks' accounts only. The industry numbers in our report represent aggregates of the 25 participating banks.

Total operating assets (Millions of Ghana Cedis)

		2016	2015	2014	2013	2012	2011	Change*	Δ%*
1	EBG	7,279	5,954	5,428	4,422	3,199	2,032	1,325	22%
2	GCB	5,686	4,327	4,000	3,217	2,833	2,361	1,359	31%
3	UGL	5,528	3,650	1,970	1,191	818	505	1,878	51%
4	BBGL	5,113	3,437	2,857	2,185	1,889	1,803	1,676	49%
5	Stanbic	4,974	3,984	3,270	2,819	1,679	1,117	990	25%
6	SCB	4,068	3,147	3,250	2,787	2,246	1,922	921	29%
7	Fidelity	3,981	3,948	2,925	1,609	1,277	1,001	33	1%
8	UBA	3,682	2,342	1,683	1,533	693	560	1,340	57%
9	CAL	3,198	3,151	2,590	1,498	1,109	747	47	1%
10	ZBL	3,193	2,396	3,003	1,888	923	681	797	33%
11	UMB	2,582	1,230	-	-	829	-	1,352	110%
12	ABG	2,437	2,250	1,575	900	741	263	187	8%
13	SG-GH	2,329	1,878	1,572	1,110	1,006	758	451	24%
14	HFC	1,701	1,469	1,253	930	561	407	232	16%
15	PBL	1,511	1,286	1,058	787	642	518	225	18%
16	GTB	1,493	1,319	1,114	894	651	413	174	13%
17	FABL	1,292	1,079	849	396	244	169	213	20%
18	BOA	1,004	1,080	844	598	535	367	(76)	-7%
19	GNB	658	484	421	0	0	0	174	36%
20	FBN	542	421	349	294	300	243	121	29%
21	Bsic	537	466	331	191	167	88	71	15%
22	SBL	348	-	-	-	-	-	348	-
23	EBL	324	329	276	233	217	194	(5)	-2%
24	Baroda	291	266	194	149	115	91	25	9%
25	FNB	255	132	-	-	-	-	123	93%
	Industry	**64,006**	**50,025**	**40,812**	**29,631**	**22,674**	**16,240**		

Note: Change and Δ%* represent the movement between total operating assets as at 31 December 2015 and 31 December 2016*

Quartile analysis

The year under review -2016 was characterised by growing credit risk arising from economic challenges and political uncertainty. Under these circumstances the prior year's trend of shifting from extending credits to investments in other liquid assets continued to deepen. The composition of loans and advances declined from 47% in 2015 to 41% in 2016.

Growth and profitability of banks depend largely on efficiently deploying funds to enhance the generating capacity of their resources. A common measure for the banking industry is their operating capacities determined by the resources available to earn returns for shareholders, lenders and depositors. Together these resources make up the operating assets of a bank.

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 investments, loans and advances. It excludes investment in intangible assets, property, plant and equipment that provide a platform to facilitate a bank's business.

We also recognise that there are other qualitative aspects; level of technology, specialised skills, and customer services, distribution channels, among others that enhance the operating capacities of banks.

For a reasonable comparison and analysis of the industry, we group participating banks into quartiles based on the book values of their operating assets as at 31 December 2016.

First Quartile

Total operating assets in the first quartile grew by 29% from GHS28.4 billion in 2015 to GHS36.6 billion in 2016 and approximates 57% of the industry total operating assets. The first quartile banks have gained a bigger market share from 52% in the prior year.

With a 23% increase in total operating assets, EBG continues to hold the largest operating assets in the industry.

UGL recorded the highest increase in operating assets in the industry from GHS3.6billion in 2015 to GHS5.5billion in 2016 representing a 51% increase over the period.

SCB's made significant investments in securities to grow its operating asset by 29%.

Second Quartile

The second quartile banks witnessed a growth of 30% from GHS14.7 billion in 2015 to GHS19.1 billion in 2016. With an increase of more than 50% in operating assets, UBA and UMB significantly contributed to the growth in the quartile's operating assets.

As a result of a significant growth in net loans and advances resulting from a favourable increase in customer deposits by 60% in 2016, UMB more than doubled its operating assets to earn a place in the second quartile.

CAL Bank, with an increase in operating assets of 1%, moved to the second quartile having dropped from the first quartile in 2015.

HFC moved from the third quartile to the second quartile.

Third Quartile

Total operating assets in Q3 shows a 15% growth from GHS6.1 billion in 2015 to GHS7 billion in 2016. PLB operating assets grew by 18% from GHS1.2 billion in 2015 to GHS1.5 billion to be the lead bank in the third quartile.

BOA recorded a decline in total operating assets by 7% mainly because funding from borrowing dropped by GHS67 million resulting in a decline in government securities held.

BSIC made its debut among the third quartile banks in 2016 with growth in total operating assets from GHS466 million in 2015 to GHS537 million attributable to 15% increase in its funding from deposits.

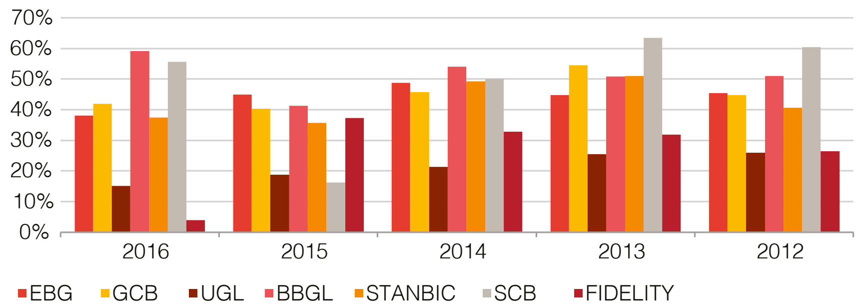
Fourth Quartile

The Q4 operating assets grew by 67% from GHS727 million in 2015 to GHS1.2 billion in 2016. The growth in this quartile is attributable to the new entrants, FNB and SBL. EBL showed a marginal decline in its operating assets driven mainly by a reduction in cash assets.

The new entrant into this quartile, SBL, commenced operations during the year under review. At the end of 2016, its operating assets of GHS348 million was higher than the existing players in the quartile.

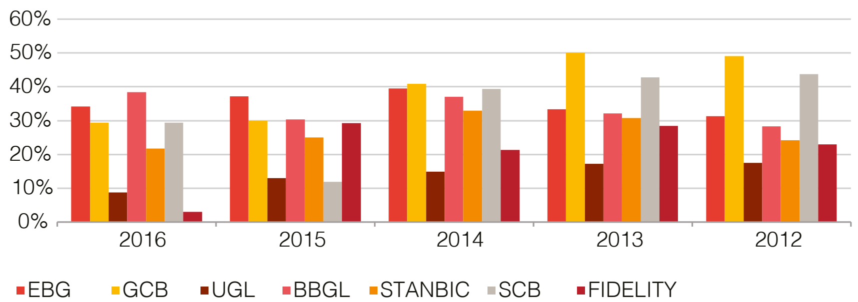
First Quartile

First Quartile-Profit before tax margin



The profit before tax margin for BBGL improved from 41% in 2015 to 59% in 2016. The results recorded the most favorable profit before tax margin amongst the first quartile banks. This can be attributed to growth in income from investment securities and improved asset quality. SCB's cost efficiency contributed to improved profitability for the year. Fidelity's significant slump in profit is attributable to the impact of non-performing loans on the bank.

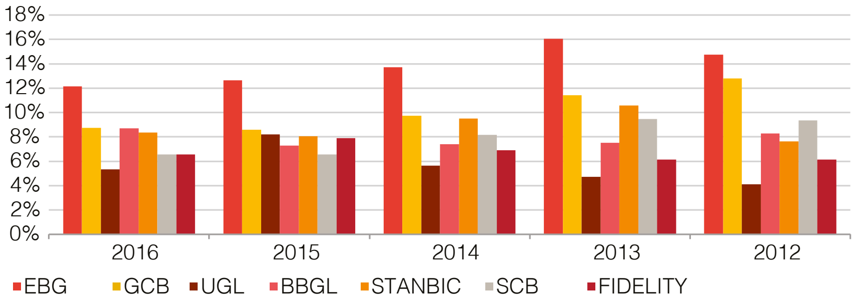
First Quartile-Return on equity



With the exception of BBGL and SCB, all the first quartile banks recorded a decline in return on equity, mainly driven by the worsening economic challenges and the impact of non-performing loans on the banks. Fidelity and UGL's reduced profits had an adverse impact on shareholder returns. Returns on equity for the first quartile banks averaged 23.6% during the year which is worse than 25.2% in the prior year.

Quartile analysis

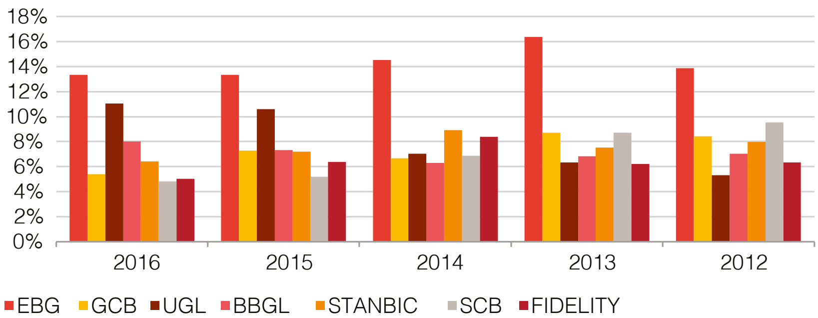
First Quartile-Share of industry deposits



EBG continued to hold the largest market share of industry deposits. BBGL's deposit mobilisation drive yielded results with an increase in industry deposits from 6.6% to 8.7%. The first quartile banks' market share of deposits of 56.3% remained fairly the same in comparison with 54% in the prior year.

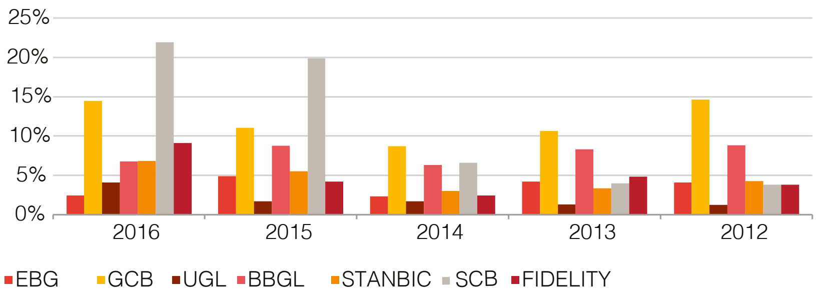
UGL's loss in market share of deposits can be attributable to the competition during the year because the new entrants are aggressively pursuing customers in the same segment of the market which largely comprise of small business undertakings.

First Quartile-Share of industry advances



UGL's aggressive lending strategy to the middle market appears to be successful although it lost market share of deposits. EBG continues to be the industry's largest lender with a significant portion of its loans in the services, commerce and finance sectors.

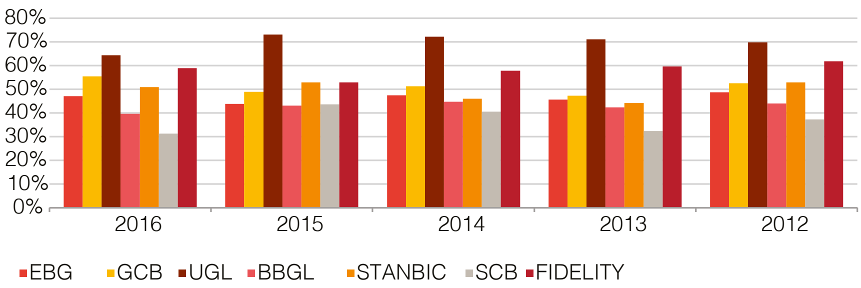
First Quartile-Impairment allowance-gross loans and advances



The quartile experienced a deterioration in the quality of the loan book. This may have arisen from restructuring of the energy sector debts and economic challenges in the business environment. The impact is most significant in Fidelity as its impairment allowance of GHS132 million is more than double the prior year's charge. EBG however showed an improvement from 4.9% to 2.4%.

SCB has maintained its aggressive provisioning stance on loans. There is no indication that the loan recovery efforts is yielding results.

First Quartile-Cost income ratio



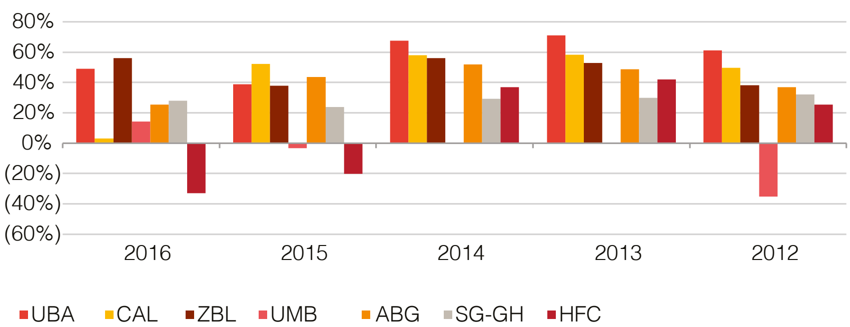
The average cost to income ratio for the first quartile banks showed a marginal decline from 51% in 2015 to 50% in 2016. The general trend is an outcome of the growing cost of operations in Ghana attributable to inflation and the depreciation of the cedi.

UGL's cost efficiency declined but continued to be above the 60% industry threshold.

BBGL's measures to reduce and control costs seem to have yielded results because it decreased its costs income ratio from 43% in 2015 to 40% in 2016.

Second Quartile

Second Quartile- Profit before tax margin

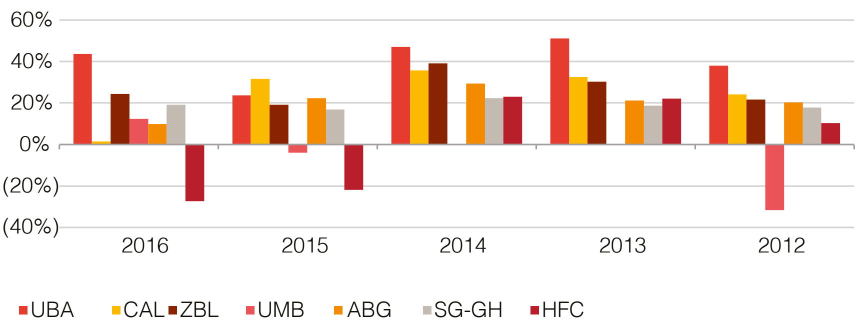


Profit before tax margin for the second quartile banks dropped from an average of 24.7% in 2015 to 20.4%. The quartile appears to be the group which may have been most exposed to SOE and BDCs and worst hit by impairment.

HFC's operating loss worsened mainly as a result of declining interest margin arising from the cost of its term deposits and growing operating expenses.

CAL recorded a significant decline in operating results which was mainly driven by an increase in impairment charge from GHS36 million in 2015 to GHS199 million in 2016.

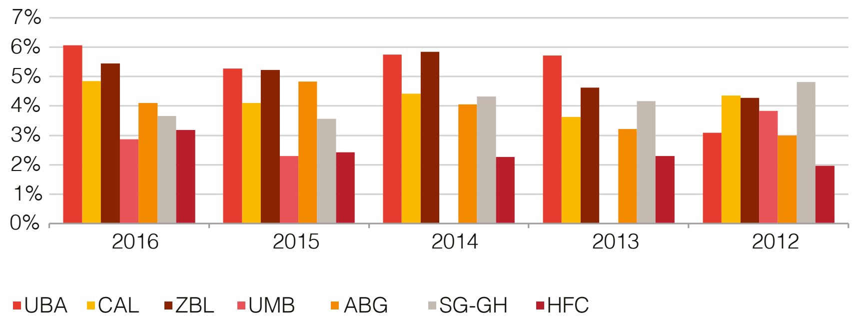
Second Quartile- Return on equity



The last two years have seen the return on equity in this quartile dwindle. UBA recorded a significant increase in its return on equity mainly as a result of a steep rise in interest income from GHS278 million in the prior year to GHS640 million.

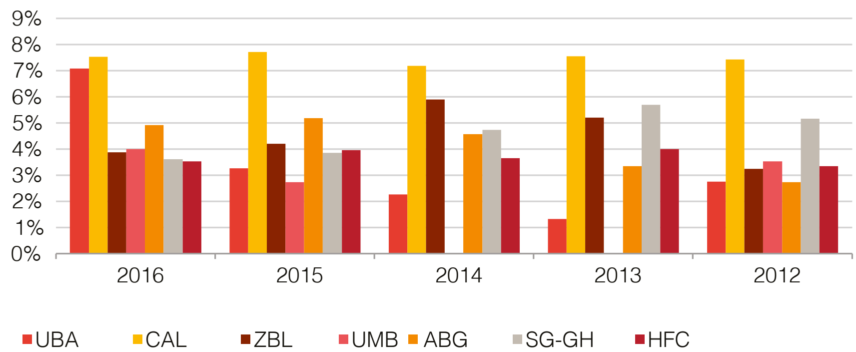
Quartile analysis

Second Quartile- Share of industry deposits



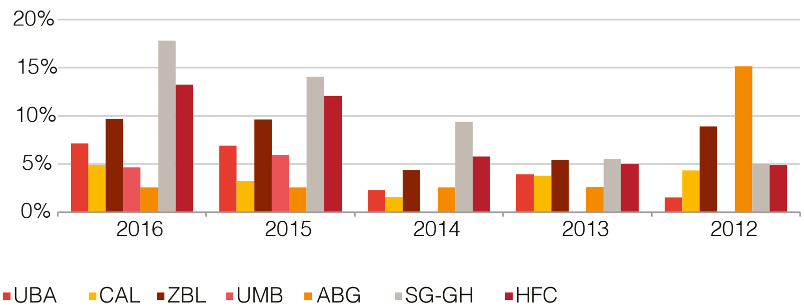
The group has consistently shown aggression in market practices to grow deposits. UBA's gain in market share of deposits is mainly a result of the increase in fixed deposits. With the exception of ABG, all banks in the second quartile achieved marginal gains in the market share in deposits.

Second Quartile- Share of industry advances



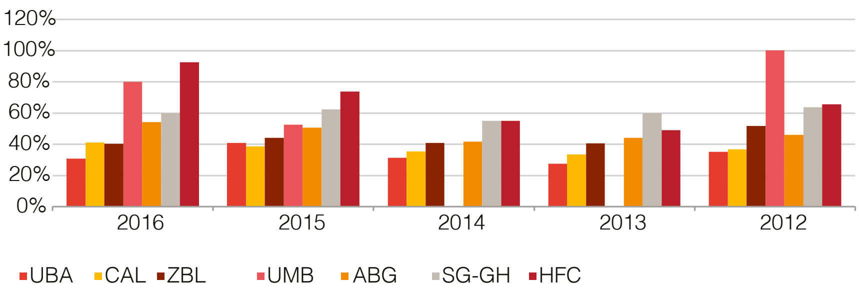
The banks in this group have generally remained conservative. The industry trend is characterised by an unusually high default rate attributable to the energy sector and unfavourable economic conditions. The banks are reluctant to be exposed because of the limitations in their ability to absorb defaults from economic shocks.

Second Quartile- Impairment allowance/gross loans and advances



The impairment allowance to gross advances ratio for the second quartile banks averaged 8.6% in 2016 which is worse than 7.8% of the prior year. The challenging business environment during the year contributed to the deterioration of the quality of the loan book.

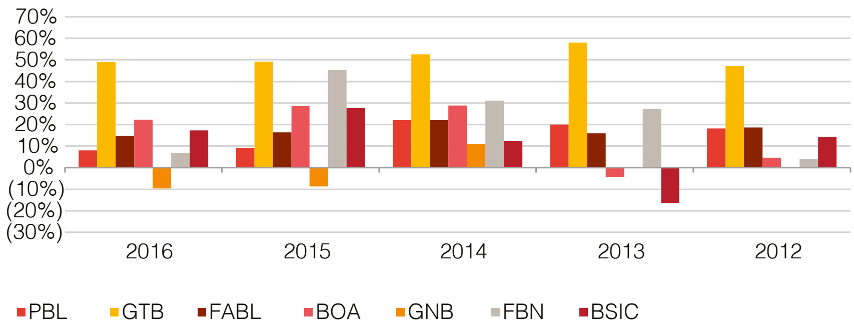
Second Quartile- cost income ratio



HFC's cost efficiency worsened during the year. This can be attributed to the steep increase in operating expenses. UBA continued to pursue its aggressive drive on cost reduction which begun in 2012.

Third Quartile

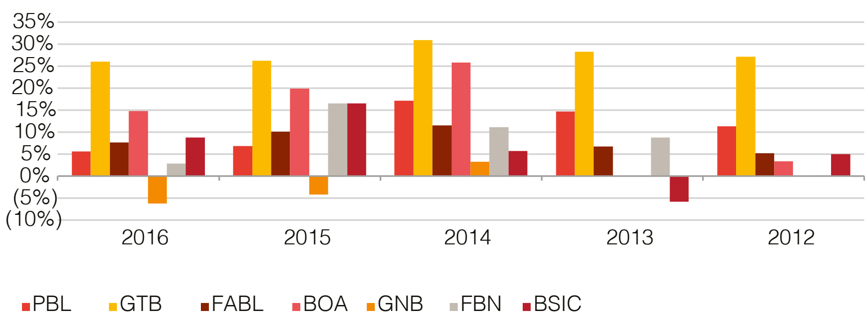
Third Quartile- Profit before tax margin



GNB continued to report losses because it is unable to generate sufficient income to cover cost and its impairment charges for loan defaulters.

Although there was a marginal decline from 49.2% in 2015 to 48.9% in 2016, GTB maintained very favourable profit before tax margin among the third quartile banks.

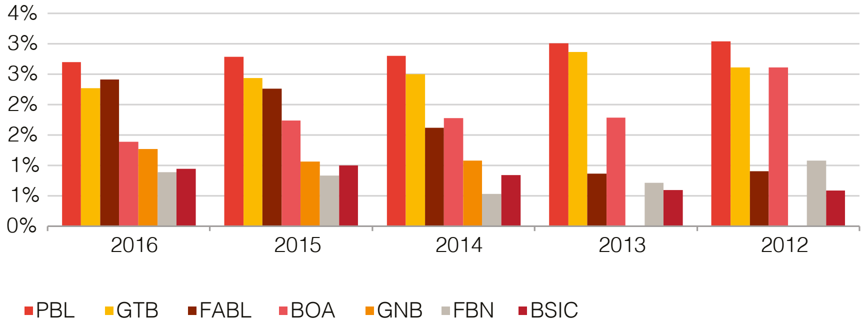
Third Quartile- Return on equity



All the banks in the third quartile recorded a decline in their return on equity. Despite intense competition in the group, GTB has sustained the most favorable returns on equity over the years.

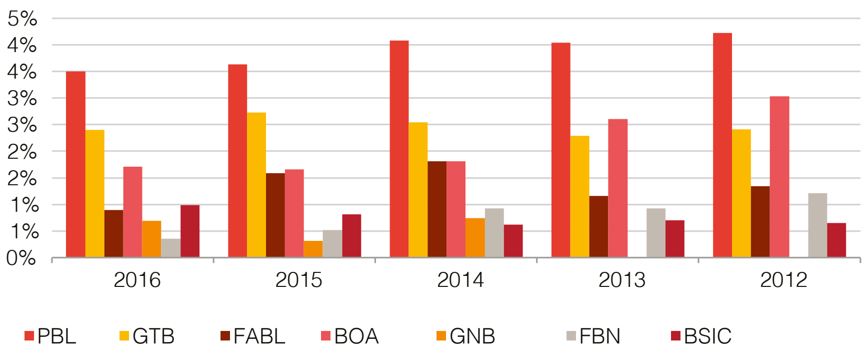
Quartile analysis

Third Quartile- Share of industry deposits



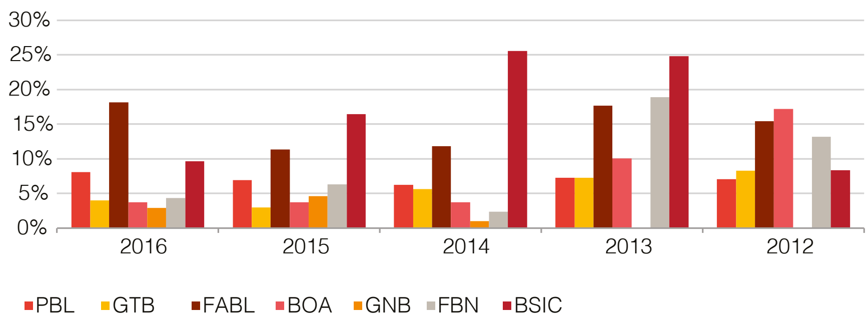
PBL has consistently maintained the largest market share of deposits among the banks in this group. GNB's deposit mobilisation strategies appear to be yielding results as it recorded a 50% growth in deposits mainly attributable to its branch expansion and deposit promotional campaigns. GNB has the largest branch network in this group.

Third Quartile-Share of industry advances



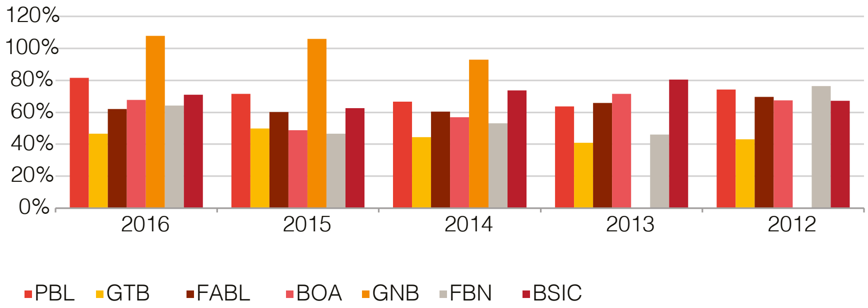
In general, the third quartile banks contribute 10.5% of the industry's market share of advances. This did not change significantly from prior year. PBL has the largest exposure of advances in the quartile with a focus on the service, commerce and finance sectors.

Third Quartile-Impairment allowance-gross loans and advances



BSIC continues to show consistent improvement in the quality of its loan book since 2014. Despite the restructuring and growth strategy, the default in FABL's portfolio has not improved.

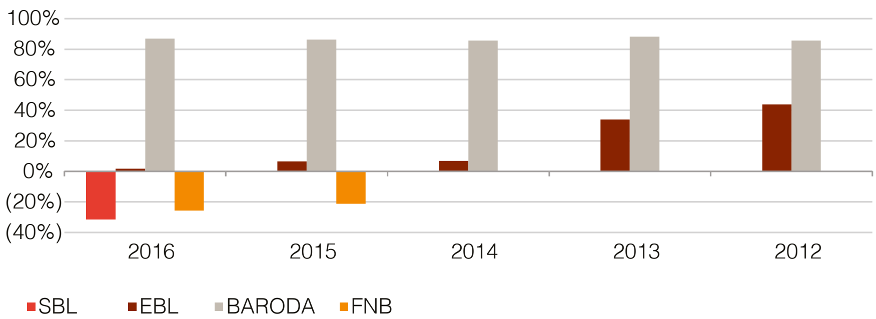
Third Quartile-cost income ratio



GNB's cost income ratio is the worst in this group and does not seem to be improving as it is unable to recover its costs from operations. GTB appears to be very successful in its cost reduction strategy as its cost income ratio dips below the industry average.

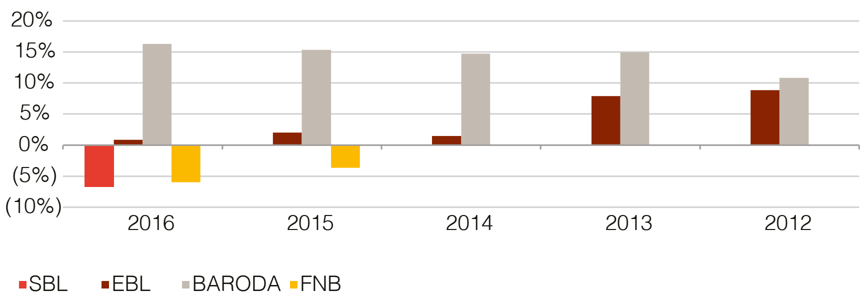
Fourth Quartile

Fourth Quartile-Profit before tax margin



SBL being a startup posted a loss in its first period of operations. Baroda continues to post a strong profit before tax over the years as it maintains its low cost drive.

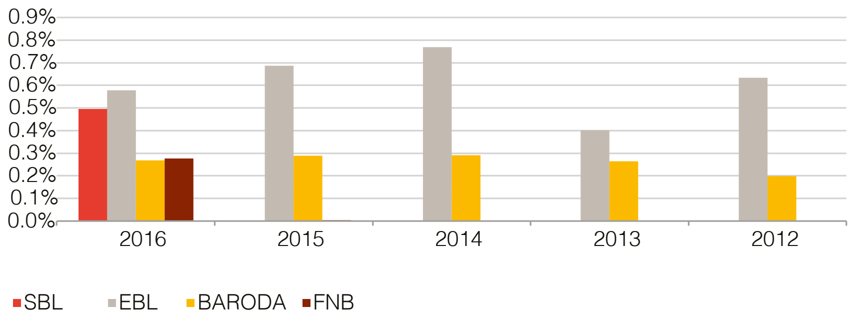
Fourth Quartile-Return on equity



With the exception of Baroda which continues to post strong return on equity and SBL the new entrant in the quartile, all other banks recorded a worse return on equity over the year.

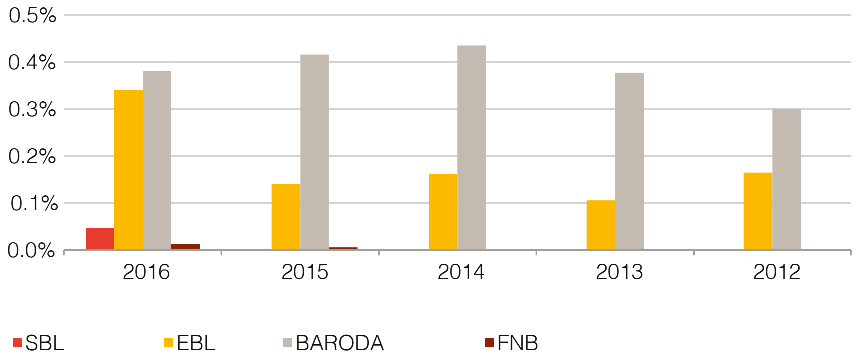
Quartile analysis

Fourth Quartile-Share of industry deposits



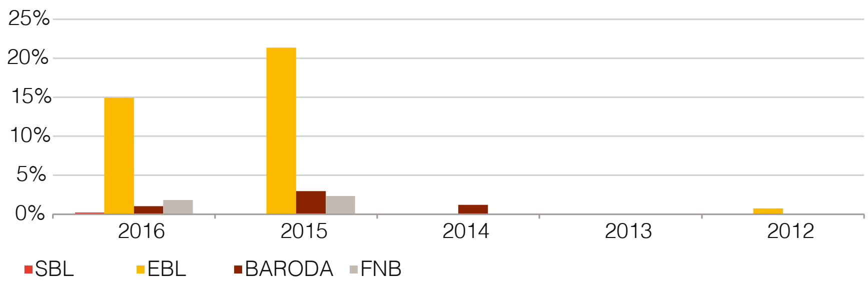
The fourth quartile banks together held less than 2% of the industry deposits as at the end of 2016. The banks in this quartile are yet to gain strong visibility in the market and face intense competition from the non – bank financial institutions.

Fourth Quartile-Share of industry advances



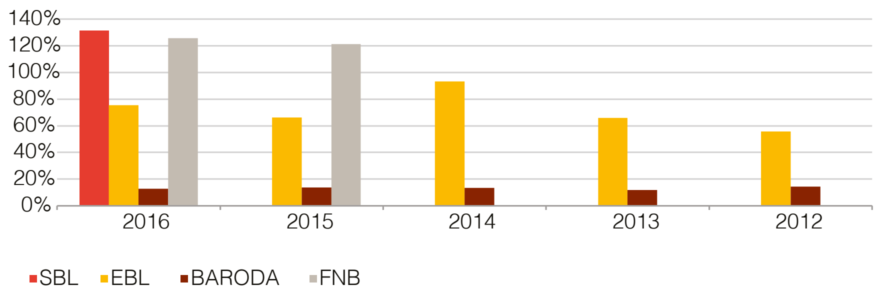
EBL grew its loan book three-fold with significant exposure in the agriculture, electricity, gas and water sectors. Baroda continues to be risk averse with its lending practices.

Fourth Quartile-Impairment allowance-gross loans and advances



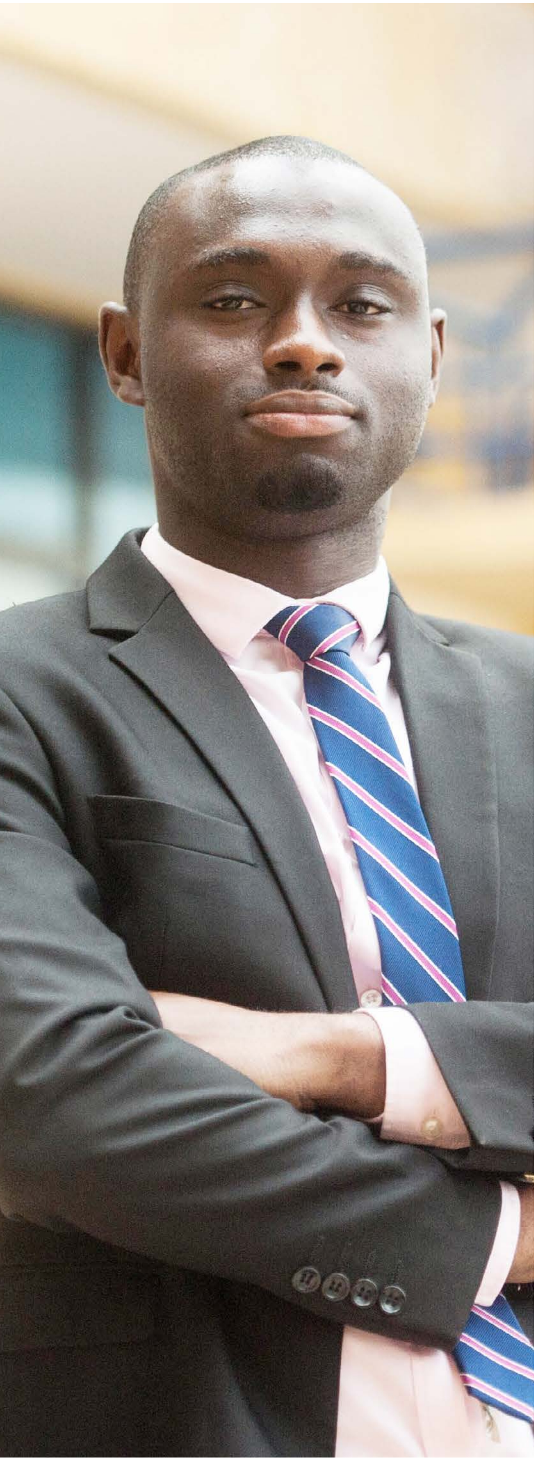
EBL maintained a steady improvement in the quality of its loan book which may be attributable to the strengthening of its credit administration procedures.

Fourth Quartile-Cost income ratio



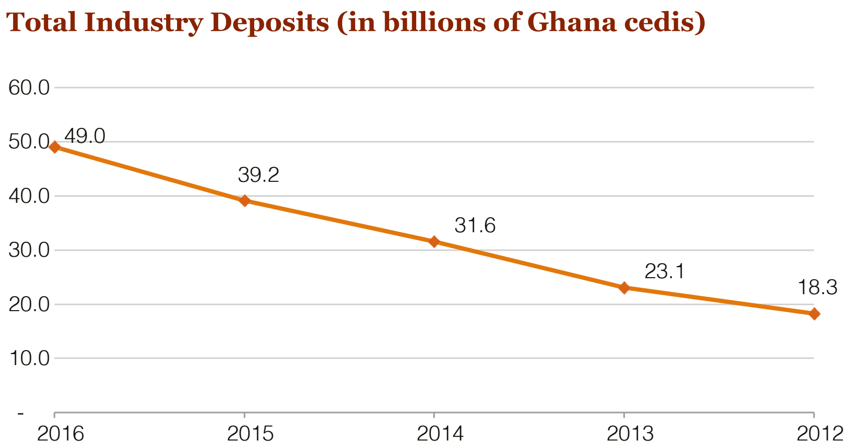
SBL's significant under-recovery of its cost is not unusual with start-ups as it begins to build its customer base. Baroda continued to demonstrate the efficiency of its operating model which appears to target a specific market segment.

6 Market share analysis



The year 2016 saw increased market activity driven by new entrants, the deployment of technology to support distribution channels, and network expansions for existing banks. The new entrants into Ghana's banking landscape include two savings and loans companies growing and transitioning into universal banks.

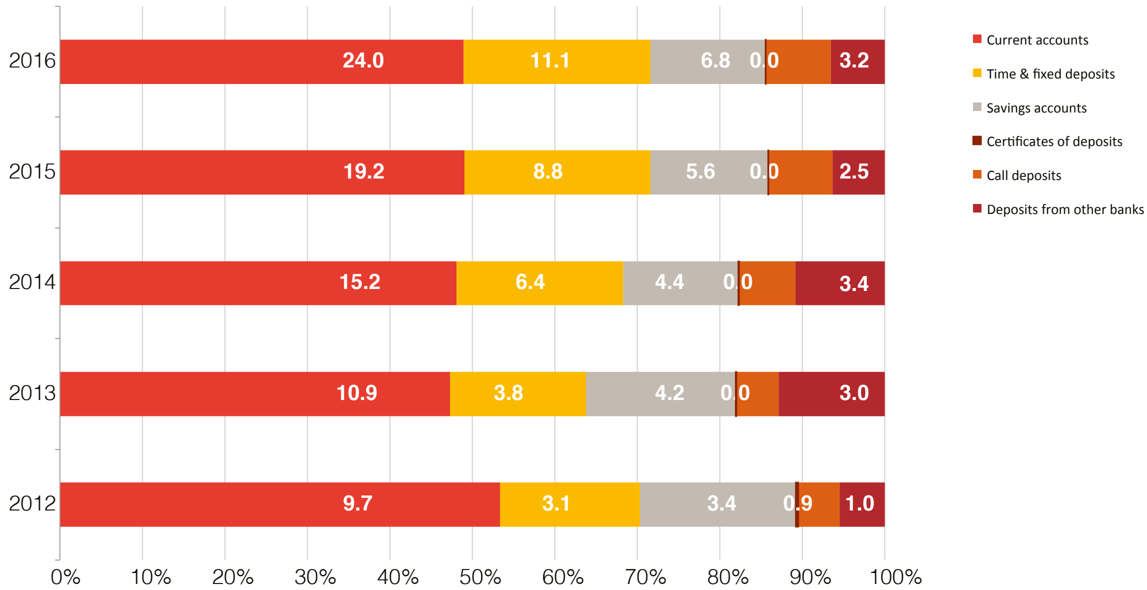
Share of industry deposits

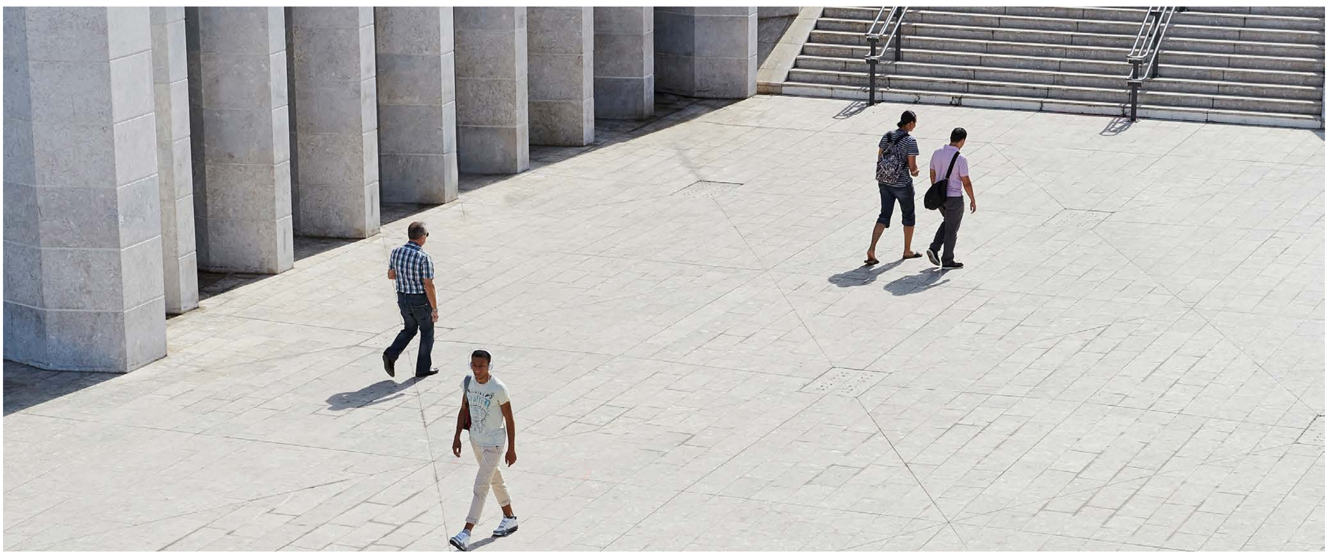


Growth in the industry deposits has been steady over the years. There is growing awareness of the contribution by financial institutions and regulators to drive efforts aimed at improving Ghana's level of financial inclusion. A Financial Inclusion Technical Committee was inaugurated in August 2016 to oversee the development of a strategy to enable the country meet its target of full financial inclusion by 2020. The Bank of Ghana also launched the Ghana Digital Financial Services program, a five-year program to improve financial inclusion by increasing access to low cost financial services.

The industry's deposit mix did not show a significant change as illustrated as follows:

Total Industry Deposits (in billions of Ghana cedis)





Market share analysis

The ability of players in the industry to deliver a more diversified range of products to customers within the sector is becoming vital to remaining relevant in the industry.

Share of industry deposits

	2016	R	2015	R	2014	R	2013	R	2012	R
EBG	12.1%	1	12.6%	1	13.7%	1	16.0%	1	14.7%	1
GCB	8.7%	2	8.6%	2	9.8%	2	11.4%	2	12.8%	2
BBGL	8.7%	3	7.3%	6	7.4%	5	7.5%	5	8.3%	4
Stanbic	8.3%	4	8.1%	4	9.5%	3	10.6%	3	7.6%	5
Fidelity	6.6%	5	7.9%	5	6.9%	6	6.1%	6	6.1%	6
SCB	6.5%	6	6.5%	7	8.2%	4	9.5%	4	9.4%	3
UBA	6.1%	7	5.3%	8	5.8%	8	5.7%	7	3.1%	12
ZBL	5.4%	8	5.2%	9	5.9%	7	4.6%	9	4.3%	9
UGL	5.3%	9	8.2%	3	5.7%	9	4.7%	8	4.1%	10
CAL	4.8%	10	4.1%	11	4.4%	10	3.6%	11	4.4%	8
ABG	4.1%	11	4.8%	10	4.0%	12	3.2%	12	3.0%	14
SG-GH	3.7%	12	3.6%	12	4.3%	11	4.2%	10	4.8%	7
HFC	3.2%	13	2.4%	15	2.3%	15	2.3%	15	2.0%	17
UMB	2.9%	14	2.3%	16	0.0%	-	0.0%	-	3.8%	11
PBL	2.7%	15	2.8%	13	2.8%	13	3.0%	13	3.0%	13
FABL	2.4%	16	2.3%	17	1.6%	17	0.9%	17	0.9%	19
GTB	2.3%	17	2.4%	14	2.5%	14	2.9%	14	2.6%	16
BOA	1.4%	18	1.7%	18	1.8%	16	1.8%	16	2.6%	15
GNB	1.3%	19	1.1%	19	1.1%	18	0.0%	22	0.0%	-
BSIC	0.9%	20	1.0%	20	0.8%	19	0.6%	19	0.6%	21
FBN	0.9%	21	0.8%	21	0.5%	21	0.7%	18	1.1%	18
EBL	0.6%	22	0.7%	22	0.8%	-	0.4%	20	0.6%	20
SBL	0.5%	23	0.0%	25	0.0%	-	0.0%	-	0.0%	-
FNB	0.3%	24	0.0%	24	0.0%	-	0.0%	-	0.0%	-
Baroda	0.3%	25	0.3%	23	0.3%	22	0.3%	21	0.2%	22
Total	**100.0%**		**100.0%**		**100.0%**		**100.0%**		**100.0%**	

GCB pursued its transformation program introduced a few years ago. The bank opened 5 new branches during the year to bring its total number of branches to 161 and launched a mobile banking service. Another area of focus for the bank's management was Small and Medium Scale Enterprises (SMEs). It introduced services to meet the sector's needs and these strategies contributed to growth in customer deposits by 27% to GHS4.3 billion.

Towards its commitment to enabling digital access to consumers through real banking and value added products, BBGL launched a digitalised KNUST branch in Kumasi thereby bringing banking to the doorsteps of students. In addition, it launched the Barclays credit card proposition. These initiatives contributed to the growth in market share by 19% in 2016.

UGL's vision is to be the leading and preferred bank focused on SMEs and personal banking markets. During the year, the bank added 5 new branches to its network however its total deposits dipped by 4% from GHS2.7 billion in

2015 to GHS2.6 billion. The bank appears to place reliance on the interbank market to meet its liquidity needs as its interbank borrowings increased from GHS0.5 billion in 2015 to GHS2 billion at the end of 2016.

HFC's gain in market share can be attributed to a shift in the deposit mix. Of the GHS1.55 billion deposits held, 39% are deposits maturing over one year compared to 22% in 2015. This suggests the bank is matching its lending book with funding. Also, the bank's concentration of depositors remains undiluted and is consistent with 2015; a third of the deposits is from its top twenty customers.

UBA's significant growth in fixed deposits of GHS203 million in 2015 to GHS1.1 billion in 2016 contributed to the gain in its market share. Up to 30% of its overall deposits mature after 12 months which calls for the bank to step up its deposit mobilisation strategies to maintain the level of deposits.

Despite the 4% growth in deposits to GHS 3.2 billion in 2016, Fidelity experienced a drop in its share of industry deposits relative to prior year. Synergies from the business combination with Procredit in prior year seems to have been eroded. The bank may have to intensify its strategies in the subsequent years to maintain or improve its lead.

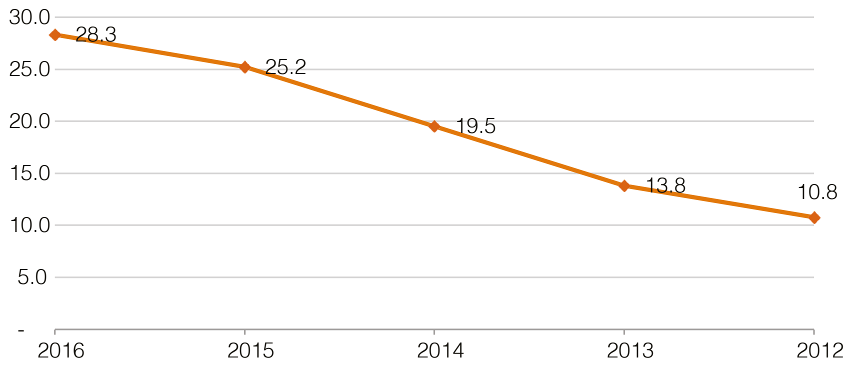
GNB leveraged on the various service offerings provided by the Group to offer bundled solutions to its customers. Customers could open an account online and enjoy benefits such as competitive interest on savings accounts, life insurance cover and access to funds from any of the bank's locations throughout Ghana. GNB extended its operational locations to 271 in 2016 from 207 in 2015 and is on course to meet its target of 300 branches nationwide.

The licensing of OmniBank and Premium Bank in 2016 introduces competition in deposit mobilization within the informal sector because these savings and loan companies predominantly supported the informal sector. The ability of other players in the industry to deliver a more diversified range of products to customers within this sector is becoming vital to remaining relevant in the industry.

Share of industry advances

The growth of the industry's credit portfolio has slowed down considerably from 29.1% in 2015 to 12.4% in 2016. Banks maintained a tightened stance on lending because of the challenges on the recovery of non-performing loans. High interest rates on borrowings has also been a deterrent for customers as returns on productive ventures are insufficient to meet the payment obligations.

Total Industry Loans & Advances (in billions of Ghana cedis)



The government and other stakeholders have begun restructuring loans due to banks from Tema Oil Refinery and Volta River Authority. The industry's exposure to these State Owned Enterprises (SOEs) was estimated to be GHS3.2 billion in 2016.

Similar arrangements have been initiated in respect of the Bulk Oil Distribution Companies' (BDCs) exposures. As at 31 December 2016, the industry's exposure to BDCs was in excess of US$500 million, emanating from foreign exchange losses and under recovery from subsidies on petroleum products.

The Energy Sector Levies Act (ESLA) was passed in 2015 to consolidate existing levies in Ghana's energy industry and redefine a framework for the use of proceeds. Government's repayment of energy sector related debts will primarily be made from collections under the ELSA.

An exposure in the region of GHS400 million to fifteen banks arising from default by a dominant customer has had an adverse effect on the quality of the industry's loan book. This brings into the fore the weakness of the industry's capital structure which can be disrupted by shocks from a dominant customer.

Given that these exposures are a significant component of non-performing loans for a number of banks, it is expected that the banking sector's asset quality and liquidity will improve as these loans are settled.

Market share analysis

Banks continue to maintain a balance between advancing credit to improve operating results and managing credit risk.

Composition of Industry Loans and Advances (%)

	2016	2015	2014	2013	2012
Agriculture, forestry & fishing	2.5	2.4	1.3	2.7	2.8
Mining & quarrying	3.2	3.8	3.5	2.9	3.5
Manufacturing	9.2	10.5	13.0	12.9	11.2
Construction	8.1	8.1	6.6	7.3	6.8
Electricity, gas & water	13.3	15.7	13.3	9.4	5.5
Commerce & finance	24.9	25.8	25.1	23.9	30.0
Transport, storage & communication	9.0	4.4	4.5	4.8	4.2
Services	18.9	17.9	19.5	27.0	26.5
Miscellaneous	10.1	10.6	13.1	9.2	9.5
Housing	0.8	0.9	0.0	0.0	0.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Despite the 20% GDP contribution from the agriculture industry, banks are reluctant to extend credit to the agriculture, forestry and fishing sectors of the economy due to their informal nature. Subsistence farming, inaccessible farms and inadequate skills to improve efficiencies may have contributed to the insignificant exposures to this sector.

Almost a third of the industry's loans and advances is concentrated within commerce and finance. The sector is dominated by importers, wholesalers and retailers. Gradually manufacturing is becoming less attractive, and loans and advances to the manufacturing sector has declined. The sector is experiencing reduced margins arising from high cost of capital, limited access to inputs, high cost of utilities and unreliable power supply. The elevated risk profile of manufacturing concerns does not encourage banks to extend credit facilities to customers in this sector.

The construction industry continues to benefit from the availability of credit year-on-year due to the relative low risk of default. Credit facilities to this sector are ordinarily backed by landed properties and domiciliation of proceeds from the rental of the property or government projects. Total loans and advances to the industry was in excess of GHS2.3 billion (2015: 2 billion).

Share of industry advances

	2016	R	2015	R	2014	R	2013	R	2012	R
EBG	13.3%	1	13.3%	1	14.5%	1	16.4%	1	13.9%	1
UGL	11.1%	2	10.6%	2	7.0%	5	6.4%	7	5.3%	8
BBGL	8.0%	3	7.3%	4	6.3%	8	6.8%	6	7.0%	6
CAL	7.5%	4	7.7%	3	7.2%	4	7.6%	4	7.4%	5
UBA	7.1%	5	3.3%	14	2.3%	15	1.3%	16	2.8%	15
Stanbic	6.4%	6	7.2%	6	8.9%	2	7.5%	5	8.0%	4
GCB	5.4%	7	7.3%	5	6.7%	7	8.7%	2	8.4%	3
Fidelity	5.0%	8	6.4%	7	8.4%	3	6.2%	8	6.3%	7
ABG	4.9%	9	5.2%	9	4.6%	11	3.3%	13	2.7%	16
SCB	4.8%	10	5.2%	8	6.9%	6	8.7%	3	9.5%	2
UMB	4.0%	11	2.7%	15	0.0%	-	0.0%	-	3.5%	11
ZBL	3.9%	12	4.2%	10	5.9%	9	5.2%	10	3.2%	13
SG-GH	3.6%	13	3.9%	12	4.7%	10	5.7%	9	5.2%	9
HFC	3.5%	14	4.0%	11	3.6%	13	4.0%	12	3.3%	12
PBL	3.5%	15	3.6%	13	4.1%	12	4.0%	11	4.2%	10
GTB	2.4%	16	2.7%	16	2.5%	14	2.3%	15	2.4%	17
BOA	1.7%	17	1.7%	17	1.8%	16	2.6%	14	3.0%	14
BSIC	1.0%	18	0.8%	19	0.6%	20	0.7%	19	0.6%	20
FABL	0.9%	19	1.6%	18	1.8%	17	1.2%	17	1.3%	18
GNB	0.7%	20	0.3%	22	0.7%	19	0.0%	-	0.0%	-
Baroda	0.4%	21	0.4%	21	0.4%	21	0.4%	20	0.3%	21
FBN	0.4%	22	0.5%	20	0.8%	18	0.9%	18	1.2%	19
EBL	0.3%	23	0.1%	23	0.2%	22	0.1%	21	0.2%	22
SBL	0.0%	24	0.0%	25	0.0%	-	0.0%	-	-	-
FNB	0.0%	25	0.0%	24	0.0%	-	0.0%	-	0.0%	-
Industry	100.0%		100.0%		100.0%		100.0%		100.0%	

Unlike most players in the industry, UBA was more aggressive on lending and more than doubled its gross loan book from GHS821 million in 2015 to GHS1.9 billion in 2016. The bank extended credit facilities to customers mainly in the transportation sector. In previous years, the bank's largest exposures was to the oil and gas sector.

BBGL extended corporate overdraft and specialized finance loans to the private sector by 38% from GHS948 million in 2015 to GHS982 million in 2016. This suggests that while others are shying away from loans BBGL is tailoring its facilities to meet the specific needs of customers. Also its advances to foreign related entities increased over tenfold to GHS329.6 million.

GCB had a cautious outlook to lending and consequently lost market share. The commerce and finance sector suffered the most significant curtailment. Unlike most banks, GCB's lending to the commerce and finance dropped by 26% from GHS641 million in 2015 to GHS508 million in 2016.

UMB's loan book grew and gained market share largely because its term loans increased by 46% from GHS328 million in 2015 to GHS478 million in 2016. Commerce and finance sectors benefited from these loans. However 57% of the

Market share analysis

loans amounting to GHS432 million are due in over one year. This profile does not match with deposits all of which are due within one year. The maturity gap may create intense challenges for UMB to maintain its level of deposits.

EBL's net loans and advances grew by 59% to GHS89 million and its largest exposure is to the energy sector which represents 53% of its total loan portfolio. However, after 5 years of operations, EBL seems to be moving away from the conservative approach and has pursued lending opportunities in the agriculture, services and transportation sectors. Advances totaling GHS20.9 million were made to these sectors as at the end of 2016.

Market share of FNB and SBL are infinitesimal because they just commenced operations and are yet to become active lenders.

Banks continue to maintain a balance between advancing credit to improve operating results and managing credit risk. The rigour of credit underwriting and loan recovery efforts has also strengthened as part of efforts to reduce non-performing loans.

Share of industry operating assets

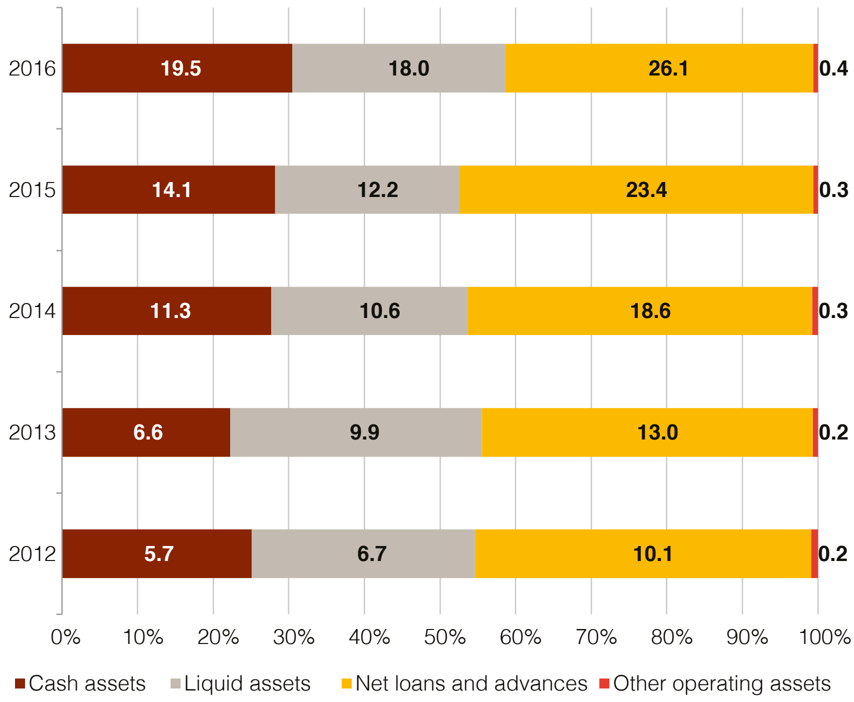
	2016	R	2015	R	2014	R	2013	R	2012	R
EBG	11.4%	1	11.9%	1	13.3%	1	14.9%	1	14.1%	1
GCB	8.9%	2	8.7%	2	9.8%	2	10.9%	2	12.5%	2
UGL	8.6%	3	7.3%	5	4.8%	9	4.0%	10	3.6%	11
BBGL	8.0%	4	6.9%	6	7.0%	7	7.4%	5	8.3%	4
Stanbic	7.8%	5	8.0%	3	8.0%	3	9.5%	3	7.4%	5
SCB	6.4%	6	6.3%	8	8.0%	4	9.4%	4	9.9%	3
Fidelity	6.2%	7	7.9%	4	7.2%	6	5.4%	7	5.6%	6
UBA	5.8%	8	4.7%	10	4.1%	10	5.2%	8	3.1%	13
CAL	5.0%	9	6.3%	7	6.3%	8	5.1%	9	4.9%	7
ZBL	5.0%	10	4.8%	9	7.4%	5	6.4%	6	4.1%	9
UMB	4.0%	11	2.5%	16	0.0%	-	0.0%	-	3.7%	10
ABG	3.8%	12	4.5%	11	3.9%	11	3.0%	13	3.3%	12
SG-GH	3.6%	13	3.8%	12	3.9%	12	3.7%	11	4.4%	8
HFC	2.7%	14	2.9%	13	3.1%	13	3.1%	12	2.5%	16
PBL	2.4%	15	2.6%	15	2.6%	15	2.7%	15	2.8%	15
GTB	2.3%	16	2.6%	14	2.7%	14	3.0%	14	2.9%	14
FABL	2.0%	17	2.2%	18	2.1%	16	1.3%	17	1.1%	19
BOA	1.6%	18	2.2%	17	2.1%	17	2.0%	16	2.4%	17
GNB	1.0%	19	1.0%	19	1.0%	18	0.0%	-	0.0%	-
FBN	0.8%	20	0.8%	21	0.9%	19	1.0%	18	1.3%	18
BSIC	0.8%	21	0.9%	20	0.8%	20	0.6%	20	0.7%	21
SBL	0.5%	22	0.0%	25	0.0%	-	0.0%	-	0.0%	-
EBL	0.5%	23	0.7%	22	0.7%	21	0.8%	-	1.0%	-
Baroda	0.5%	24	0.5%	23	0.5%	22	0.5%	21	0.5%	22
FNB	0.4%	25	0.3%	24	0.0%	-	0.0%	-	0.0%	-
Industry	100.0%		100.0%		100.0%		100.0%		100.0%	

With declining returns on government securities, the industry will be compelled to channel funds previously allocated for domestic government borrowing to the private sector.

Share of industry operating assets

The most significant portion of the industry's operating assets are held in loans and advances. However, the proportion has reduced from prior year and the other components of operating assets such as cash assets and liquid assets, are becoming more significant. The industry seems to have scaled down its lending, given the impact of non-performing loans on banks' performance in the previous years.

Operating Assets (In billions of cedis)



The attractive risk-free rate offered by government securities has been a preferred investment option for banks. However, with the slowdown in government borrowings and drastic decline in the rates offered, banks can no longer rely on the securities and may have to consider alternative banking activities to sustain profitability.

Consistent with its share of the industry deposits, EBG holds the largest share of industry operating assets. The bank's efforts to manage its credit risks seems to have paid off as its NPL ratio reduced to 16% from 18% in 2015. The bank channeled the additional funds generated during the year into cash assets which increased by GHS967 million to GHS3.2 billion as against loans and advances which increased by GHS290.6 million to GHS3.6 billion.

New entrant SBL, held 0.5% of the industry's operating assets. Given that this is the bank's first year of operations, a major part of its operating assets were held in money market placements and bonds.

UMB expanded its network from 28 to 32 branches. The bank's cash and cash equivalents, investment securities and interbank placements grew threefold to GHS876.4 million, GHS663.3 million and 288 million respectively. On the contrary, loans and advances only grew by 18% to GHS752.9 million. Although holding more liquid funds could reduce the bank's credit risk and also allow management to re-assess its investment opportunities, it may impact profitability given that relatively lower returns are earned from investment securities compared to loans and advances.

Despite a 31% growth in deposits, HFC held a significant portion of its funds in cash and liquid assets. 45% (2015: 35%) of the bank's total operating assets are held in cash and liquid assets and 54% (2015: 63%) in net loans and advances. As part of the ownership transition, management is still in the process of cleaning up the books and adopted a conservative approach to impairment provisioning. As a result, the bank recognised an impairment provision of GHS140.6 million (2015: GHS126.8 million) during the year, mainly on its exposures to BDCs.

With the declining returns on government securities, the industry will be compelled to channel funds previously allocated for domestic government borrowing to the private sector. By so doing, more businesses will be able to access credits and, subject to stronger credit administration, banks will in turn, experience an improvement in their net interest margin.

7 Profitability and efficiency

The main drivers of the industry's profitability remain its revenue growth and cost efficiency. Two thirds (2/3) of all the participating banks posted less than favourable results than the prior year; with profit before tax (PBT) margin across the industry improving marginally by 0.2% from 2015.

Profit before tax margin

	2016	R	2015	R	2014	R	2013	R	2012	R
Baroda	87.1%	1	86.3%	1	85.8%	1	88.3%	1	85.8%	1
BBGL	59.2%	2	41.2%	7	54.1%	5	50.9%	9	51.0%	4
ZBL	56.1%	3	38.0%	10	55.9%	4	52.8%	7	38.2%	10
SCB	55.7%	4	16.3%	18	50.0%	8	63.5%	3	60.4%	3
UBA	49.0%	5	38.9%	9	67.5%	2	71.1%	2	61.0%	2
GTB	48.9%	6	49.2%	3	52.6%	6	58.0%	5	47.1%	6
GCB	42.0%	7	40.3%	8	45.8%	11	54.5%	6	44.8%	8
EBG	38.1%	8	44.9%	5	48.8%	10	44.9%	11	45.4%	7
Stanbic	37.5%	9	35.7%	12	49.3%	9	51.0%	8	40.7%	9
SG-GH	28.0%	10	23.8%	15	29.2%	15	30.0%	14	32.2%	12
ABG	25.3%	11	43.6%	6	51.8%	7	48.7%	10	26.4%	13
BOA	22.4%	12	28.6%	13	28.7%	16	-4.5%	21	4.6%	19
BSIC	17.2%	13	27.7%	14	12.2%	20	-16.4%	22	14.4%	18
UGL	15.2%	14	18.8%	16	21.3%	19	25.6%	16	25.9%	14
FABL	14.9%	15	16.5%	17	21.9%	18	15.8%	18	18.6%	16
UMB	14.2%	16	-	-	-	-	-	-	-	-
PBL	7.9%	17	9.0%	19	22.1%	17	20.0%	17	18.2%	17
FBN	6.8%	18	45.4%	4	31.2%	14	27.2%	15	3.9%	20
Fidelity	4.0%	19	37.3%	11	32.8%	13	31.8%	13	36.9%	11
CAL	3.2%	20	52.1%	2	58.1%	3	58.3%	4	49.8%	5
EBL	1.9%	21	6.5%	20	-	-	-	-	-	-
GNB	-9.6%	22	-8.8%	24	10.9%	21	-	-	-	-
FNB	-25.8%	23	-	-	-	-	-	-	-	-
SBL	-31.6%	24	-	-	-	-	-	-	-	-
HFC	-33.0%	25	-20.2%	25	36.8%	12	42.1%	12	25.4%	15
Industry	**33.3%**		**33.1%**		**45.9%**		**48.0%**		**40.7%**	

The industry's profit before tax grew by GHS360 million from GHS2.35 billion in 2015 to GHS2.71 billion in 2016. Of the three key revenue streams, only net interest income recorded significant growth with an increase of 19% from GHS4.87 billion in 2015 to GHS5.81 billion in 2016. The net fee and commission income and other income recorded marginal growths of 9% and 2% from GHS1.09 billion and GHS1.15 billion in 2015 to GHS1.18 billion and GHS1.17 billion in 2016 respectively.

The improvement in the industry's net interest income is attributable to earnings from government securities and short term funds rather than loans and advances as in prior years. Earnings from loans and advances accounted for 56% of the industry's total; down from 64% in 2015. Although average lending rates remained fairly unchanged the drop in earnings is due to the extremely cautious lending practices adopted by many banks in their quest to stem losses from defaults.

Interest income from investment securities grew by 32.1% from GHS 2.3 billion in 2015 to GHS3.3 billion in 2016. This would seem unusual considering interest rates declined during the period with average interest rates for 91 and 182 day securities declining from 23.1% and 24.4% in 2015 to 16.4% and 17.6% in 2016 respectively. However, the heightened credit risks associated with investment in loans and advances would explain this as banks scale back on lending activities. Consequently, industry holdings of government securities rose by 47.3% to GHS18 billion in 2016 from GHS12 billion in 2015.

Interest expense increased by 44% from GHS2.56 billion in 2015 to GHS3.7 billion, with interest expense on deposits due to customers constituting 75% of total interest expense. Growth in deposits due to customers was at a slower rate in 2016 with the year recording an increase of 25% compared to a growth of 41% in 2015. Time and savings deposits recorded slower growths in the deposit mix as banks focused on obtaining cheaper source of funds.

Interest expense on placements with other banks increased by 45% in 2016 compared to 31% in 2015, although interbank rates remained fairly stable at 25.26% throughout the year.

Other source of funding by banks through borrowings grew by 70% from GHS3.7 billion in 2015 to GHS6.4 billion in 2016. This constitutes 20% of total interest bearing liabilities as compared to 16% in 2015.

The industry only achieved 14% growth on interest bearing deposits in 2016, increasing from GHS21.9 billion in 2015 to GHS25 billion in 2016, slower growth of 20% in 2015.

Net fee and commission income of GHS1.185 billion for 2016 remained fairly the same as in 2015. However it accounted for 14.5% of the industry's total income compared to 15.2% in 2015. Trading activities shrunk because of the economic challenges and slower growth experienced during the year. The run up to the 2016 elections had its downside as businesses had a cautious outlook on the outcome.

"Other income" which largely comprised gains from foreign exchange transactions also declined in 2016. A contributory factor was the erosion of margins from foreign exchange trading. The cedi depreciated against the United States Dollar by 9.6% in 2016 as compared to 15.7% in 2015, resulting in a reduction in net trading income by 10% from GHS944 million in 2015 to GHS846 million in 2016.

The industry's operating expenses increased by 18% from GHS3.6 billion in 2015 to GHS4.25 billion in 2016. This was a significantly lower increase compared to the growth of 27% in 2015. Salaries and wages continued to be the significant component of operating expenses, accounting for 30% of the total cost, albeit reducing from 31% in 2015. As banks continue to streamline operations and improve efficiency through automation of many business processes, this downward trend is likely to continue in the future.

SCB, UBA, ZBL, SG-GH and Stanbic all recorded significant improvements in profitability in 2016.

SCB's profit before tax increased by almost threefold from GHS91 million in 2015 to GHS346 million in 2016. This was achieved by an improvement in asset quality, resulting in the reduction in the impairment charges from GHS212 million in 2015 to GHS81 million. The other contributory factors are 23% increase in net income arising from cheaper sources of funding which led to a GHS27 million increase in expenses while net interest income grew by GHS87 million. Interest income on loans and advances fell by 1.4% t0 GHS220 million in 2016, although the bank's investment in loans and advances recorded a 3.5% growth from 2015. The decrease in interest income is attributable to the suspension

Profitability and efficiency

of interest on non-performing loans. The bank's non-performing loans ratio increased from 43% in 2015 to 45% in 2016. The marginal growth reflected the bank's conservative approach to lending, following the significant impairment charges recognised in 2015.

UBA achieved a growth in profit before tax of 134% from GHS90 million in 2015 to GHS210 million in 2016, in spite of an 85% rise in impairment charges. The growth in profit before tax was driven by earnings from loans and advances which doubled from GHS157 million in 2015 to GHS308 million in 2016. Earnings from investments held in government securities followed similar trend and went up from GHS114 million in 2015 to GHS308 million. However, earnings were eroded by a steep increase in interest expense from GHS92 million in 2015 to GHS 267 million in 2016. Uniquely, UBA's profitability had a boost because 58% of its deposits held at year end were non-interest bearing.

ZBL's profitability increased by 76% from GHS115 million in 2015 to GHS203 million in 2016 largely as a result of growth in net trading income in 2016 and a reduction in impairment losses. ZBL recovered from its foreign exchange trading loss in the prior year of GHS40 million to achieve a gain of GHS31 million. Furthermore, the improved profitability was strengthened by a decline in the impairment charge from GHS54 million 2015 to GHS13 million in 2016.

Stanbic showed an improvement in PBT from GHS199 million in 2015 to GHS223 million in 2016. Increased financial investment and a cheaper deposit mix contributed to the improved performance. Although the bank experienced a 2% decline in total interest income from GHS473 million in the prior year to GHS462 million in 2016, this was compensated by a reduction of 68% in interest expense on customer deposits. Current accounts constituted 60% of total deposits and this translated into lower interest expense while funds mobilised from these deposits were invested in government securities and money market placements.

SG-GH recorded a 43% increase in profitability from GHS64 million in 2015 to GHS92 million in 2016. During the year SG-GH launched a transformation program and initiated projects to redesign its operations with the aim of growing market share and achieving profitable organic growth. Net trading income grew threefold from GHS6 million to GHS20 million in 2016. This may have been the outcome of successful use of swap arrangements with the Bank of Ghana and reduced foreign exchange losses. The gains from operations were partly eroded by the GHS15 million termination benefits.

Bank of Baroda's profitability was largely derived from the placements in investment securities especially bills and bonds issued by the government. The consequences of declining yield in government securities may create challenges sustaining the current level of profitability.

HFCs net income dropped by 13% from GHS137 million to GHS119 million. The drop is attributable to an increase in interest expense by 37.6% which eroded the growth in interest income. The bank remained in a loss position at the year end. The cost outlay for projects undertaken to restructure the bank and streamline business processes had adverse effects on the bank's result. Operating expenses increased by 18%, mainly attributable to the voluntary separation program and branch refurbishment expenses undertaken during the year. Although the Bank experienced a fall in impairment charges during the period, its loan book clean-up efforts resulted in significant provisions for impairment.

ABG, FBN, Fidelity and BSIC all recorded significant declines in profit before tax. Impairment charges for these banks more than doubled from the prior year's charge. This resulted in high levels of impairment provisions and charges particularly within the energy and commerce sector.

CAL bank's performance deteriorated in 2016 due to the significant and exceptional impairment charges on the banks portfolio within the energy and commerce sectors. The bank's impairment charge more than tripled to GHS199 million from GHS35 million in 2015 and reduced profit before tax to GHS12.1 million from GHS213 million in the prior year.

Across the industry, the quality of the loan portfolio continues to be one of the top pressing issues of most players. With the initiation of the restructuring of legacy debts from the energy sector in the second quarter of 2016, it is expected that this will provide renewed market confidence for sustainable growth in the future.

Given the mixed performance of the economy, declining rates on government securities and the challenges in the energy sector, most banks have been obligated to rely on deposits from customers in 2016.

Net interest margin

	2016	R	2015	R	2014	R	2013	R	2012	R
GCB	16.6%	1	16.5%	1	15.7%	2	14.5%	1	12.0%	2
FNB	13.9%	2	-	-	-	-	-	-	-	-
SBL	13.3%	3	-	-	-	-	-	-	-	-
Baroda	12.4%	4	12.1%	4	13.3%	4	13.9%	2	10.8%	4
UBA	12.3%	5	8.2%	14	9.4%	11	13.8%	3	10.1%	7
SCB	11.9%	6	10.9%	5	10.3%	10	10.4%	7	7.8%	12
FBN	10.5%	7	12.7%	2	13.5%	3	10.6%	5	8.0%	11
BBGL	10.4%	8	12.3%	3	11.8%	5	12.5%	4	10.5%	6
GNB	10.4%	9	9.5%	10	18.3%	1	-	-	-	-
BOA	9.8%	10	8.2%	15	7.4%	18	5.4%	19	6.7%	17
EBG	9.6%	11	10.9%	6	10.5%	7	9.6%	10	9.7%	8
GTB	9.2%	12	7.8%	19	8.7%	13	8.6%	14	10.8%	5
SG-GH	8.9%	13	9.5%	11	10.8%	6	9.4%	11	7.7%	13
ZBL	8.8%	14	9.8%	8	10.5%	8	9.2%	13	6.6%	18
Fidelity	8.6%	15	10.4%	7	7.9%	16	7.8%	16	6.8%	16
FABL	7.9%	16	7.2%	20	6.0%	20	7.4%	17	5.5%	20
ABG	7.8%	17	8.5%	13	9.1%	12	10.1%	8	13.6%	1
PBL	7.8%	18	8.1%	16	8.6%	14	8.5%	15	7.0%	14
BSIC	7.7%	19	8.1%	17	7.3%	19	9.3%	12	11.5%	3
Stanbic	7.3%	20	8.7%	12	7.7%	17	7.0%	18	6.9%	15
CAL	7.1%	21	8.0%	18	8.5%	15	10.5%	6	8.7%	9
HFC	7.0%	22	9.5%	9	10.3%	9	9.8%	9	8.4%	10
UMB	6.8%	23	-	-	-	-	-	-	-	-
UGL	6.3%	24	4.6%	22	5.1%	22	4.8%	20	5.6%	19
EBL	5.5%	25	4.9%	21	-	-	-	-	-	-
Industry	**9.5%**		**18.2%**		**10.0%**		**9.8%**		**8.9%**	

Profitability and efficiency

Net interest margin fell significantly over the same period. Interest income in the industry for 2016 grew by 28% from the prior year. In contrast, interest expense increased by 44%. The growth in interest income is mainly attributable to increase in earnings from placements and government securities by 101% and 46.9% respectively. The significant increase in income from short term funds was as a result of relative stability of interest rates on the interbank market as compared to the decline in returns on risk free government securities.

Returns on loans and advances increased by 12% with the industry's net loan book growing by the same percentage. Cash and short term funds grew by 39% from GHS14 billion in 2015 to GHS19.5 billion in 2016 representing 30% of total operating assets. Investment securities increased by 47% from GHS12 billion in 2015 to GHS18 billion in 2016 representing 28% of total operating assets.

Given the mixed performance of the economy, declining rates on government securities and the challenges in the energy sector, most banks have been obligated to rely on deposits from customers in 2016. This, coupled with banks focusing more on being truly customer-centric, the need to offer more incentives to attract deposits has increased. As a result, the industry's interest expense increased by GHS1.1 billion from GHS2.6 billion in 2015 to GHS3.7 million in 2016. Expenses on customer deposits accounted for 75% of total interest expense in 2016.

Aggressive deposit mobilisation strategies and expansion in branch network contributed to the growth in deposits. As the number of banks in the industry increase, we expect to see an intense competition for deposits; and therefore reductions in interest margins.

FBN bank's interest income increased by 12% from GHS67 million in 2015 to GHS75 million in 2016. All revenue streams of the bank recorded upward movement with the exception of returns on loans and advances. Interest income on loans and advances fell by 28% in 2016, mainly as a result of the significant drop in loans and advances of 24% from GHS129 million in 2015 to GHS97 million in 2016. Consistent with many banks in the industry this year, the bank continued with its conservative approach to lending; reducing its NPL ratio from 8.8% in 2015 to 5.3% in 2016. The bank's fixed deposits increased by 102.7% in 2016 compared to 22% in 2015 contributing to the 42% increase in expenses incurred on customer deposits.

GCB showed consistent improvement from 2015 with the bank's net interest income going up 21% in 2016 as compared to 6% in 2015. Returns on cash and short term funds increased by 93% from GHS38 million in 2015 to GHS73 million in 2016. The bank focused on investing in placements with other banks as the rates offered on the interbank market were more attractive than those risk free government securities. Placements with other banks increased sixfold from GHS190 million to GHS1.2 billion in 2016.

GTB's net interest income went up from GHS99 million in 2015 to GHS135 million in 2016. Over 75% of its income is derived from government securities. Interest expense on borrowings and deposits from banks fell by 7% in 2016 to improve the interest margins during the year.

Net interest margin for HFC and Fidelity bank deteriorated in 2016. HFC recorded marginal increase in interest income of 10% from GHS251 million in 2015 to GHS276 million in 2016; however the margin was depleted by an increase of 38% in interest expense on customer deposits. The bank cited the suspension of interest on non-performing loans as the reason for the less than favourable performance in interest income for 2016.

Fidelity' bank's interest income increased by 1% from GHS615 million in 2015 to GHS622 million in 2016, while interest expense increased by 8.1% in 2016. This was partly as a result of the suspension of interest on some legacy debt during the year and significant growth in interest expense incurred on current accounts. The marginal increase in interest income was reduced further by cost of short term deposits from other banks.

The focus of many banks has been on streamlining processes and upgrading operating platforms for efficient service delivery.

Cost income ratio

	2016	R	2015	R	2014	R	2013	R	2012	R
Baroda	0.13	1	0.14	4	0.14	4	0.12	4	0.14	4
UBA	0.31	2	0.41	6	0.31	5	0.27	5	0.35	5
SCB	0.31	3	0.44	8	0.41	7	0.32	6	0.37	7
BBGL	0.40	4	0.43	7	0.45	11	0.42	10	0.44	9
ZBL	0.40	5	0.44	10	0.41	8	0.41	8	0.52	12
CAL	0.41	6	0.39	5	0.35	6	0.34	7	0.37	6
GTB	0.47	7	0.50	14	0.44	10	0.41	9	0.43	8
EBG	0.47	8	0.44	9	0.47	13	0.46	13	0.49	11
Stanbic	0.51	9	0.53	16	0.46	12	0.44	12	0.53	14
ABG	0.54	10	0.51	15	0.42	9	0.44	11	0.46	10
GCB	0.55	11	0.49	13	0.51	14	0.47	15	0.53	13
Fidelity	0.59	12	0.53	17	0.58	19	0.60	17	0.62	15
SG-GH	0.60	13	0.62	19	0.55	16	0.60	18	0.64	16
FABL	0.62	14	0.60	18	0.60	20	0.66	20	0.70	20
FBN	0.64	15	0.47	11	0.53	15	0.46	14	0.76	23
UGL	0.64	16	0.73	23	0.72	22	0.71	21	0.70	21
BOA	0.68	17	0.49	12	0.57	18	0.72	22	0.67	19
BSIC	0.71	18	0.63	20	0.74	23	0.80	23	0.67	18
EBL	0.75	19	0.66	21	-	-	-	-	-	-
UMB	0.80	20	-	-	-	-	-	-	-	-
PBL	0.81	21	0.71	22	0.67	21	0.64	19	0.74	22
HFC	0.93	22	0.74	24	0.55	17	0.49	16	0.66	17
GNB	1.08	23	1.06	25	0.93	24	0.00	1	0.00	1
FNB	1.26	24	-	-	-	-	-	-	-	-
SBL	1.31	25	-	-	-	-	-	-	-	-
Industry	**0.52**		**0.51**		**0.48**		**0.46**		**0.52**	

Profitability and efficiency

Rising cost from inflationary trends and cedi depreciation together with the significant impairment charges over the last two years have forced banks to intensify efforts at cost control and cost reduction. The focus has been on streamlining processes and upgrading operating platforms for efficient service delivery.

The industry's operating expenses increased by 18% from GHS3.60 billion in 2015 to GHS4.25 billion in 2016, whereas operating income increased by 15% from GHS7.1 billion in 2015 to GHS8.2 billion in 2016. Staff costs constituting 47% of the industry's total operating expenses remains the most significant component of the industry's operating costs.

On one hand, banks like SCB and UBA achieved significant improvements in their cost-to-income ratios in 2016. SCB managed to drive up its operating income by 17% from GHS531 million in 2015 to GHS621 million in 2016 while reducing operating costs by 15% from GHS227 million in 2015 to GHS194 million in 2016. The reduction is largely due to declining redundancy costs associated with the voluntary retirement program approved in December 2014.

UBA also improved its cost efficiency rankings in spite of the challenging operating environment experienced in 2016. The bank's operating income margins increased by 86%, however this was controlled by only 40% increase in operating expenses. This can be attributed to the benefits from previous investments in technology driven solutions to control service delivery costs. The growth in the bank's deposit base of GHS1.2 billion provided the needed funds for increased holdings in government securities and placements with other banks. With current accounts and call deposits accounting for 60% of the total deposits, the bank incurred lower cost for these funds.

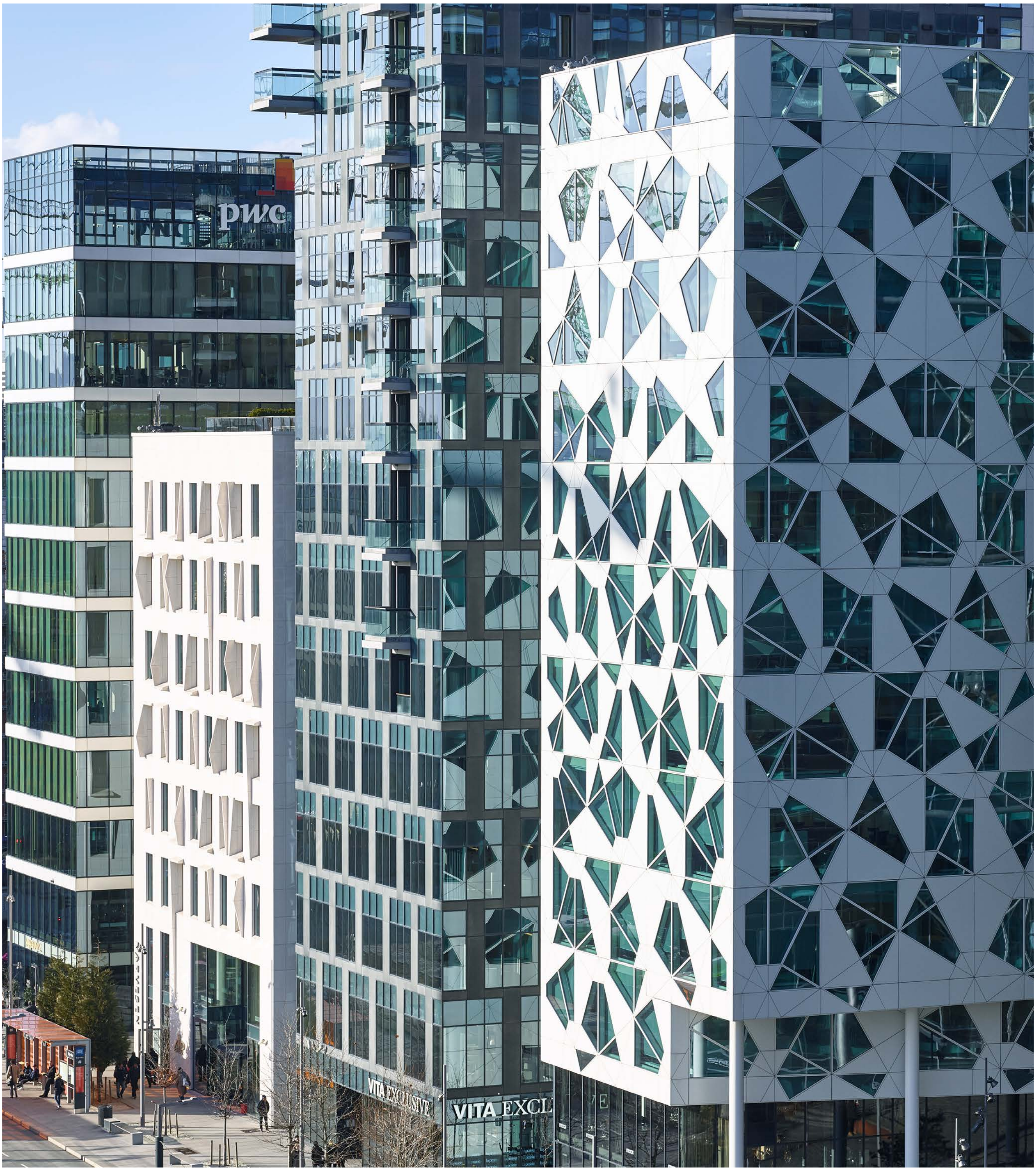
On the other hand, HFC, BOA and FBN recorded deteriorations in their cost to income ratio in 2016.

The 6% marginal growth in HFC's net income was adversely affected by a disproportionate 18% increase in operating expenses. The rise in operating expenses is a result of restructuring costs undertaken by the bank, including the voluntary separation package, branch refurbishment, active brand visibility and deposit mobilisation related expenditure. It appears these costs are not recurring as the bank aligns to its new strategies. It is expected that the initiative will translate to higher income margins in subsequent years.

BOA's cost income ratio worsened in 2016. Despite the decline in operating income by 14%, operating expenses went up by 22%. This is attributable to a loss of GHS45 million incurred by the bank on its SWAP transactions settled in 2016.

The deterioration in FBN's cost to income ratio is an outcome of the specific impairment charge and rental charge. These costs appear to be in furtherance of cleaning up of its loan book and enhancing the brand visibility.

The key challenges in the sector continues to be cost management, increased credit risk and rising impairment charges. Forecasts for growth in loan book is estimated to be lower than in past years as banks recover from defaults. Nonetheless, innovation and new technological developments remain essential in driving growth and sustaining profits. Banks need to rethink their business model and focus on efficient service delivery to improve the cost income ratio.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8 Return to shareholders

Return on assets

The industry witnessed 16% growth in total assets in 2016. Industry profitability also appreciated by 9% in the same period after declining by 18% in 2015. This attests to the relatively stable economic environment in 2016 compared to the volatility in 2015.

Return on assets

	2016	R	2015	R	2014	R	2013	R	2012	R
Baroda	7.9%	1	6.8%	1	7.6%	1	8.5%	1	6.8%	1
BBGL	5.8%	2	4.9%	4	6.0%	3	6.2%	4	5.3%	5
SCB	5.1%	3	2.0%	16	5.9%	4	7.0%	2	5.7%	4
GCB	4.9%	4	5.3%	2	6.4%	2	6.6%	3	4.7%	6
GTB	4.8%	5	4.5%	6	5.4%	6	5.6%	7	5.7%	3
ZBL	4.1%	6	3.3%	10	4.5%	10	3.8%	10	3.2%	11
EBG	4.1%	7	5.0%	3	5.5%	5	4.0%	9	4.2%	9
UBA	3.8%	8	2.6%	13	5.4%	7	5.8%	6	6.7%	2
Stanbic	2.8%	9	3.1%	11	4.1%	12	3.7%	12	3.3%	10
SG-GH	2.6%	10	2.2%	15	3.0%	15	3.0%	13	2.8%	12
BOA	2.1%	11	2.4%	14	3.1%	13	-0.5%	23	0.4%	19
BSIC	1.8%	12	3.0%	12	1.2%	19	-2.0%	24	1.9%	15
ABG	1.6%	13	3.3%	9	5.0%	9	4.6%	8	4.3%	7
FABL	1.1%	14	1.3%	17	1.2%	20	1.3%	18	1.5%	17
UMB	0.7%	15	-	-	-	22	-	-	-	-
UGL	0.7%	16	1.0%	18	1.5%	18	2.0%	16	1.8%	16
FBN	0.6%	17	4.1%	7	3.0%	14	2.5%	15	0.0%	20
PBL	0.5%	18	0.7%	19	1.7%	17	1.7%	17	1.4%	18
Fidelity	0.4%	19	3.6%	8	2.7%	16	2.6%	14	2.1%	14
CAL	0.2%	20	4.8%	5	5.2%	8	5.9%	5	4.3%	8
EBL	0.2%	21	0.4%	20	-	-	-	-	-	-
GNB	-1.0%	22	-1.0%	24	0.9%	21	-	-	-	-
HFC	-2.1%	23	-2.5%	25	4.1%	11	3.7%	11	2.2%	13
SBL	-2.2%	24	-	-	-	22	-	-	-	-
FNB	-2.9%	25	-	-	-	-	-	-	-	-
Industry	**2.7%**		**3.1%**		**4.5%**		**4.5%**		**3.7%**	

Following the decision to recognise high impairment charges in respect of non-performing loans in 2015, coupled with a relatively stable economic environment in 2016, the industry witnessed a 16% growth in total assets.

Bank of Baroda has consistently posted strong ROA. The bank has sustained profitability because its operating model is the most risk averse in the industry.

BBGL's remarkable results had a significant impact on the improvement in ROA. Although total assets grew by 47% from GHS3.6 billion in 2015 to GHS5.3 billion in 2016, the 72% increase in profits resulted in the improved yield on its assets.

Over the past five years, SCB has experienced fluctuations but ROA for 2016 showed a remarkable improvement. This is due to the stronger returns it generated for the 30% growth in its operating assets. Profit before tax increased from GHS91 million in 2015 to GHS346 million in 2016 after a period of decline in its ROA as a result of falling profit.

ZBG showed an improved ROA as total assets grew from GHS2.5 billion in 2015 to GHS3.4 billion in 2016 whilst profits increased from GHS83 million in 2015 to GHS140 million in 2016. A contributory factor is improved credit underwriting practices which led to reduced impairment charges.

ABG recorded a decrease in ROA in 2016. The worsening impairment charges contributed to a drop in profit from GHS80 million in 2015 to GHS42 million in 2016 which depressed the ROA. The bank was unable to generate returns from the additional funding from its initial purchase offer on the Ghana Stock Exchange because the offer was concluded in December 2016.

FBN recorded a significant decline in ROA in 2016. Though the Bank recorded a 27% increase in total assets, profits for the year could not match the growth and dipped from GHS18 million in 2015 to GHS3 million in 2016. The dip is due to increased impairment charges from GHS5 million in 2015 to GHS19 million in 2016.

Fidelity suffered a significant drop in ROA. The bank's total assets increased marginally but the profit declined by 90% in 2016. The significant decline in profit was the result of increase in impairment charges from GHS54 million in 2015 to GHS171 million in 2016.

UMB recovered from the loss in the prior year and posted favourable ROA. Overall, total assets doubled from GHS1.4 billion in 2015 to GHS2.8 billion in 2016. The bank emerged with a profit of GHS20 million in 2016 because of an improvement in its asset quality.

The negotiation by banks to recover debts owed by BDCs begun in 2015 and some banks recognised impairment charges. After the Bank of Ghana's asset quality review and the outcome of negotiations for settlement between the Ministry of Finance, Bank of Ghana, National Petroleum Authority and Ghana Chamber of Bulk Oil Distributors (CBOD) it became necessary to recognise further impairment charges. Hopefully, 2016 may be the last year the industry would have to deal with this bad fate.

Return to shareholders

Return on equity

Return on equity remained fairly stable in 2016 with an insignificant reduction of 0.5% compared to 28.5% decrease in 2015. This attests to the relatively stable economic environment enjoyed by the industry.

Return on equity

	2016	R	2015	R	2014	R	2013	R	2012	R
UBA	43.7%	1	23.6%	8	47.0%	1	51.1%	1	38.0%	3
BBGL	38.4%	2	30.3%	3	37.0%	6	32.1%	6	28.2%	5
EBG	34.2%	3	37.2%	1	39.5%	3	33.4%	4	31.4%	4
GCB	29.5%	4	30.0%	4	40.9%	2	50.0%	2	49.1%	1
SCB	29.3%	5	11.9%	17	39.4%	4	42.7%	3	43.8%	2
GTB	26.0%	6	26.2%	6	30.9%	9	28.3%	10	27.1%	6
ZBL	24.4%	7	19.1%	11	39.1%	5	30.2%	8	21.6%	10
Stanbic	21.7%	8	25.0%	7	32.9%	8	30.7%	7	24.2%	8
SG-GH	19.2%	9	16.9%	12	22.4%	13	18.8%	12	17.8%	12
Baroda	16.3%	10	15.3%	15	14.7%	17	14.9%	14	10.8%	15
BOA	14.7%	11	19.9%	10	25.8%	11	-3.5%	18	3.4%	19
UMB	12.4%	12	-	-	-	-	-	-	-	-
ABG	9.8%	13	22.4%	9	29.4%	10	21.1%	11	20.4%	11
BSIC	8.8%	14	16.5%	14	5.7%	20	-5.8%	19	5.0%	18
UGL	8.8%	15	13.0%	16	14.9%	16	17.3%	13	17.5%	13
FABL	7.7%	16	10.0%	18	11.5%	18	6.7%	17	5.2%	17
PBL	5.7%	17	6.8%	19	17.1%	15	14.7%	15	11.3%	14
Fidelity	3.0%	18	29.3%	5	21.3%	14	28.5%	9	22.9%	9
FBN	2.8%	19	16.5%	13	11.1%	19	8.7%	16	0.2%	20
CAL	1.4%	20	31.6%	2	35.8%	7	32.6%	5	24.3%	7
EBL	0.9%	21	2.0%	20	-	-	-	-	-	-
FNB	-6.0%	22	-	-	-	-	-	-	-	-
GNB	-6.2%	23	-4.2%	24	3.3%	21	-	-	-	-
SBL	-6.7%	24	-	-	-	-	-	-	-	-
HFC	-27.4%	25	-21.8%	25	23.0%	12	22.2%	-	10.2%	16
Industry	**20.2%**		**21.7%**		**31.1%**		**30.2%**		**25.0%**	

With the exception of SBL which entered the industry in 2016 with capital of GHS130 million, five banks including SG-Ghana, UMB, ABG, UGL and FNB injected capital into the industry to the tune of GHS221 million. Most of the changes in equity can be attributed to the earnings retained by the banks. With the mixed results on operating performance, the overall dilution of the industry's return on equity (ROE) is expected.

UBA recorded the highest ROE because it achieved good operating results without additional capital injection other than the earnings retained during the year.

SCB more than doubled its ROE in 2016. The bank was strapped from weak operating results in 2015 as it sought to clean up its loan book. Profit improved in 2016 and earnings retained contributed to the 38% growth in shareholders' fund.

UMB's shareholders injected additional capital of GHS13.6 million in 2016 to improve its stated capital from GHS195 million to GHS209 million. However the ROE was not diluted because the bank posted a profit of GHS20 million in 2016.

ABG's ROE was diluted. Despite the increase in equity from a combination of proceeds of GHS26 million from issued shares and retained earnings, the bank was unable to generate sufficient profit to boost its return on equity deployed as capital resources only became available in December 2016.

Fidelity experienced the most significant dip in 2016. ROEs of 2015 witnessed a 90% decrease as compared to ROE in 2016. Without any change in capital during the year, the dip is attributable to the 90% drop in profit from GHS148 million in 2015 to GHS15 million in 2016.

CAL posted a steep drop in profit which had an adverse impact on the ROE. The bank's equity did not change other than the earnings retained during the year.

UGL experienced the most significant growth in equity arising from fresh capital of GHS135 million raised in 2016 and retained earnings of GHS42 million. The dilution in ROE is a combined effect of these equity changes and the fact that the profit is fairly the same as that of the prior year.

All other variances in ROEs were as a result of changes in profit levels.

Dividend payout ratio

In line with accounting rules and Companies Act requirement, final dividend recommended by the directors can only be recognised after the necessary resolutions are passed by the shareholders. Dividend may be set aside but only recognised as a distribution in the subsequent year. In cases of interim dividends this can be immediately recognised as a distribution in the same year. The dividend payout ratio has been determined on the basis of the amount declared in the members' resolution.

Profitability in the industry improved marginally until 2015 when the industry recorded a drop in profitability by 14% following the recognition of significant impairment losses. However, in spite of the relatively poor performance in 2015, some banks continued to appreciate shareholders with dividends.

As pertains the world over, the ownership structure of companies determines dividend payout. Companies with non-resident shareholders usually seek high dividend payouts. Governments also seek to extract as much value from state owned enterprises and such entities witness high dividend payouts.

EBG continued to record 74% dividend payout ratio. Although this appears to be very high, it is fairly consistent with 2015.

SCB recorded a dividend payout ratio of 58% in 2016 which represents 7% decrease over the 2015 ratio of 65%.

BBGL has consistently paid out dividends annually for the past five years. Though the amount to be paid as dividends in 2016 is yet to be determined, a ratio of 60% was recorded in 2015 which represented an improvement over 2015 ratio of 40%. With a 72% increase in profitability in 2016 and recent changes in the bank's ownership structure, it is likely that the previous majority shareholders will expect significant increases in the dividend for 2016.

UBA has consistently paid dividends in the last five years, but recorded 11% decline in the dividend payout ratio from 62% in 2015 to 55% in 2016. Strategically, UBA may be retaining its profits to boost its shareholder funds.

In spite of the significant decline in profitability in 2016, Fidelity bank recorded a 60% payout ratio representing more than double the prior year. However on a closer look the dividend declared per share is only 28% of the prior year's.

GTB and GCB recorded dividend payout ratios between 29% and 49% which is consistent with payout ratios in 2015.

EBL on the other hand, recorded payout ratio of 50% which represents 83% increase in the dividend payout ratio of 8% in 2015.

An emerging pattern is that the ownership structure of banks determine dividend payout. All the banks that declared dividends are either owned by non-resident shareholders or listed on the Ghana Stock Exchange and this may suggest that these banks have the capacity to raise capital, thereby retaining earnings may not be a priority. Only 9 banks declared dividend in 2016 compared to 10 banks in 2015. This indicates from an industry perspective that there is some uncertainty of future capital requirements and banks have been more cautious to retain earnings to meet new regulatory requirements if any. Besides, there appears to be a greater desire to increase the shareholder's funds to enable them underwrite bigger tickets.

9 Liquidity

The primary reserve remains unchanged at 10% throughout the 2016 period. The prevalence of investment in government securities may have contributed to the stronger liquidity position of the industry.

Liquid funds/ total deposits

	2016	R	2015	R	2014	R	2013	R	2012	R
FNB	1.86	1	-	-	-	-	-	-	-	-
Baroda	1.45	2	1.48	1	1.19	1	1.58	1	2.26	1
SBL	1.39	3	-	-	-	-	-	-	-	-
UMB	1.09	4	-	-	-	-	-	-	-	-
FBN	1.01	5	0.91	4	1.13	2	1.03	5	0.88	2
GCB	0.99	6	0.77	9	0.89	7	0.78	7	0.82	5
UGL	0.94	7	0.33	22	0.35	20	0.32	20	0.37	20
FABL	0.89	8	0.80	7	1.00	4	1.23	2	0.66	12
SCB	0.87	9	0.75	11	0.76	11	0.76	8	0.75	9
EBL	0.83	10	1.10	2	-	-	-	-	-	-
BOA	0.82	11	1.00	3	0.90	5	0.63	13	0.48	17
ZBL	0.82	12	0.69	16	1.03	3	1.10	3	0.76	7
Fidelity	0.81	13	0.79	8	0.60	16	0.55	17	0.57	15
Stanbic	0.81	14	0.73	12	0.52	18	0.74	11	0.59	14
GTB	0.78	15	0.71	13	0.81	9	0.90	6	0.85	4
SG-GH	0.77	16	0.70	15	0.50	19	0.38	18	0.55	16
GNB	0.72	17	0.85	5	0.79	10	-	-	-	-
EBG	0.63	19	0.57	18	0.62	15	0.62	15	0.67	11
UBA	0.62	20	0.76	10	0.69	14	1.03	4	0.73	10
BSIC	0.60	21	0.70	14	0.82	8	0.74	12	0.75	8
ABG	0.57	22	0.55	19	0.56	17	0.63	14	0.86	3
CAL	0.52	23	0.84	6	0.90	6	0.62	16	0.45	18
HFC	0.49	24	0.55	20	0.76	12	0.74	9	0.60	13
BBGL	0.70	18	0.60	17	0.71	13	0.74	10	0.78	6
PBL	0.45	25	0.39	21	0.33	21	0.37	19	0.38	19
Industry	**0.77**		**0.67**		**0.69**		**0.71**		**0.68**	

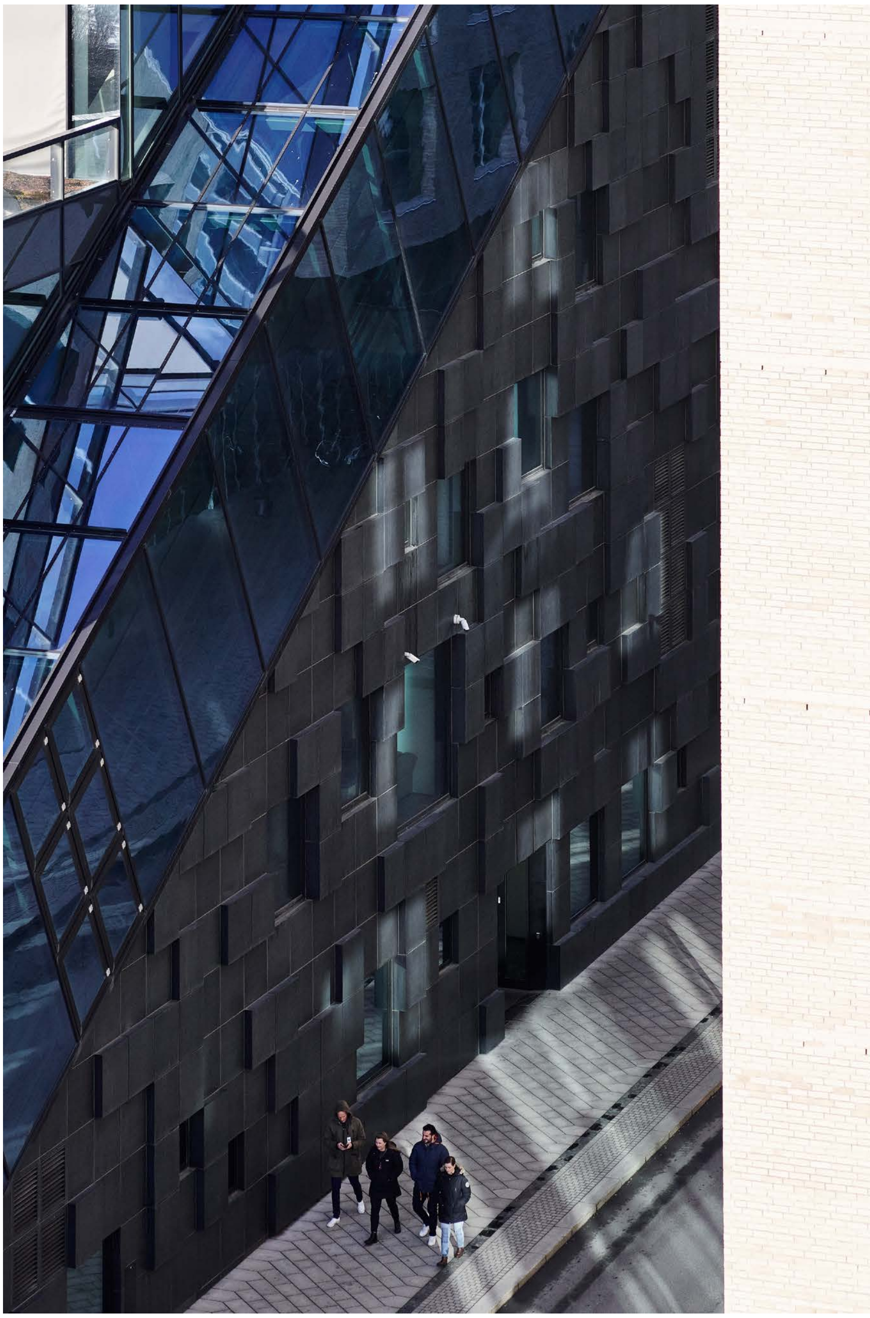
FNB and SBL both commenced operations in the last quarter of 2015 and are yet to actively pursue deposits and underwrite significant credit facilities. Initial start up funds were largely held in government securities. This positon of the banks is unlikely to remain as the banks identify viable opportunities to provide credit.

Baroda's deposits from customers grew by 17% during the year. However, the funds have not been deployed in granting facilities to customers and are largely held in placements.

After an extensive period of rebranding, UMB's liquidity shows significant improvement. The improvement in liquidity is a result of a 56% growth in deposits. Other contributory factors include funding from, Bank of Ghana, the ARP Apex bank and a 15 year subordinate debt from a private equity fund.

Unibank's improved liquidity is an outcome of GHS2 billion funding secured from interbank borrowings and other foreign loans of GHS361 million as at 31 December 2016. The growth in cash holdings can be attributed to these funds held, pending identifying suitable lending opportunities.

CAL Bank showed a significant dip in its liquid funds held to deposits ratio. The bank's liquid funds held remained fairly the same as prior year despite the 48% growth in deposits. The bank did not aggressively grow its lending book and it appears that the borrowings of GHS458 million settled during the year contributed to the dip in liquidity.



Liquidity

The industry's total assets grew by 28% from 2015; 38% of the increase in total assets was in liquid assets. This demonstrates the industry's continued strategy of holding investments in placements and government securities.

Liquid funds/ total assets

	2016	R	2015	R	2014	R	2013	R	2012	R
SBL	0.91	1	-	-	-	-	-	-	-	-
FNB	0.89	2	-	-	-	-	-	-	-	-
FBN	0.78	3	0.66	2	0.52	12	0.56	8	0.56	8
FABL	0.73	4	0.62	6	0.57	5	0.57	7	0.40	16
GCB	0.70	5	0.56	10	0.64	1	0.61	6	0.64	2
Baroda	0.65	6	0.62	5	0.56	7	0.65	2	0.71	1
EBL	0.65	7	0.85	1	-	-	-	-	-	-
ZBL	0.64	8	0.55	11	0.62	2	0.61	5	0.63	3
SCB	0.64	9	0.57	9	0.56	6	0.55	9	0.53	9
Fidelity	0.63	10	0.59	8	0.43	15	0.46	14	0.48	12
Stanbic	0.61	11	0.54	13	0.43	16	0.62	4	0.48	11
GNB	0.59	12	0.63	4	0.55	10	-	-	-	-
SG-GH	0.57	14	0.49	15	0.41	19	0.30	19	0.44	14
GTB	0.56	15	0.49	14	0.55	9	0.64	3	0.60	5
UMB	0.55	16	-	-	-	-	-	-	-	-
UBA	0.49	17	0.65	3	0.60	4	0.88	1	0.59	6
BOA	0.49	18	0.60	7	0.55	11	0.41	15	0.41	15
BSIC	0.47	19	0.55	12	0.61	3	0.47	12	0.45	13
EBG	0.47	20	0.43	18	0.48	13	0.49	11	0.53	10
ABG	0.43	21	0.43	17	0.42	17	0.47	13	0.58	7
UGL	0.43	22	0.27	22	0.29	20	0.27	20	0.31	18
HFC	0.41	23	0.33	20	0.41	18	0.41	16	0.37	17
BBGL	0.57	13	0.48	16	0.56	8	0.55	10	0.60	4
PBL	0.36	24	0.31	21	0.26	21	0.31	18	0.31	20
CAL	0.34	25	0.40	19	0.46	14	0.33	17	0.31	19
Industry	**0.55**		**0.49**		**0.50**		**0.53**		**0.52**	

The new entrants SBL and FNB are in the very early stages of carrying out banking activities. The initial capital outlay is largely geared towards developing infrastructure and systems for operations. With just under 18 months operations for both banks, they are yet to fully settle into the business of banking. We expect that in the coming years the liquidity will be diluted as the funds are deployed to operating assets.

UGL holdings in liquid funds is largely held in money market instruments. Cash and cash equivalents more than doubled from GHS661 million in 2015 to GHS1.5 billion in 2016. This increase in funds stems from borrowings of GHS2.394 million. The bank is showing a favourable liquidity position but needs to assess the cost of these borrowings especially as GHS539 million held with Bank of Ghana may be non-interest bearing.

GCB experienced a 30% growth in its operating asset base, of this it held 71% in liquids funds in response to growing concerns of default. GCB maintained a conservative approach to lending in 2016 with a gross loans and advances to customers declining by 3%. Based on the position that 45% of customer deposits are current accounts which typically attract lesser or no interest as compared to savings and time deposits, it is likely that the funds mobilised from customer deposits will be invested in government securities and placements held with other banks which have relatively higher returns.

BBGL achieved a significant growth in its asset base with the source of the funding attributable to short and long term deposits from banks. The loan book only grew by 22.1% while funds held in foreign placements, trading, bills and bonds increased by 74.7%.

UBA's liquid funds to asset dropped because of a dilution in funds held. The growth in UBA's asset by 55% from GHS2,414 million in 2015 to GHS3,742 million in 2016 is attributable to an aggressive growth in loans and advances especially in the transport and communications sector.

EBL's liquid funds declined by GHS62 million from GHS286 million in 2015 to GHS224 million in the current year. Funding from the placements and investment securities liquidated on maturity have been channeled to loans and advances which increased by 175% from GHS32.9 million to GHS88.9 million in 2016.

The industry as a whole is risk averse holding short term investments in placements and governments securities. The steep decline in the average yield of government securities from 23.12% and 24.40% at the beginning of 2016 and trading at 16.43% and 17.64% in 2016 for 91 and 182 day securities can be a trigger for the drive towards lending and rigorous credit risk assessment if banks are to sustain their profitability.

Liquidity

The industry's risk appetite continues to grow as industry average increases from 1.11 in 2015 to 1.19 in 2016.

Liquid funds/ total interest bearing liabilities

	2016	R	2015	R	2014	R	2013	R	2012	R
FNB	1.86	1	-	-	-	-	-	-	-	-
SBL	1.39	2	-	-	-	-	-	-	-	-
Baroda	1.29	3	1.16	1	1.19	1	1.58	1	2.00	1
FBN	1.01	4	0.91	3	0.75	5	0.80	4	0.77	5
FABL	0.88	5	0.73	7	0.64	12	0.72	10	0.59	12
GCB	0.88	6	0.73	8	0.84	2	0.75	5	0.76	6
SCB	0.85	7	0.75	6	0.73	6	0.73	8	0.67	10
EBL	0.83	8	1.10	2	-	-	-	-	-	-
ZBL	0.78	9	0.68	13	0.71	8	0.72	11	0.75	7
Stanbic	0.78	10	0.72	10	0.52	18	0.73	9	0.58	13
Fidelity	0.73	11	0.71	11	0.52	17	0.52	15	0.55	15
GNB	0.72	12	0.85	4	0.79	4	-	-	-	-
UMB	0.71	13	-	-	-	-	-	-	-	-
GTB	0.71	14	0.61	14	0.69	10	0.81	3	0.77	4
SG-GH	0.70	16	0.60	16	0.50	19	0.38	18	0.55	14
EBG	0.61	17	0.53	17	0.59	13	0.59	13	0.64	11
BSIC	0.60	18	0.68	12	0.79	3	0.74	7	0.75	8
BOA	0.60	19	0.73	9	0.66	11	0.50	16	0.47	17
UBA	0.56	20	0.76	5	0.69	9	1.03	2	0.73	9
ABG	0.52	21	0.52	18	0.53	16	0.62	12	0.80	2
UGL	0.49	22	0.31	22	0.34	20	0.31	20	0.36	20
BBGL	0.70	15	0.60	15	0.71	7	0.74	6	0.78	3
HFC	0.46	23	0.40	20	0.53	15	0.52	14	0.49	16
CAL	0.42	24	0.49	19	0.56	14	0.42	17	0.39	18
PBL	0.41	25	0.35	21	0.30	21	0.36	19	0.37	19
Industry	**1.19**		**1.11**		**1.09**		**0.65**		**1.29**	

The industry average of liquid funds to total interest bearing liabilities for 2016 improved marginally by 8%. However, 0nly 12 % of participating banks are above the industry average. This suggests banks are willing to take some measure of risk through exposures in non-liquid assets.

The improvement in Baroda's liquidity position is driven by the settlement of its borrowings during the year. The bank's borrowings, which was undertaken to fund its operational obligations, reduced by GHS13 million at year end.

SBL holds significant liquid funds from both deposits and proceeds from issued shares. The new bank factor has impacted the funds mobilised for assets of the bank as operations continue to expand and be streamlined.

FNB increased its liquid funds by 93% with 50% of this increase in investment securities. FNB begun taking deposits mainly from the corporate/business customers in 2016. Despite the capital injection, the liquid funds held in relation to deposits became diluted.

GCB experienced a stronger coverage of its interest bearing liabilities. This indicates that the borrowings from Bank of Ghana and Exim Bank are yet to be channelled into building the loan book. The adverse market conditions may have been a constraint to lending.

UGL's interest bearing liabilities increased by 48% mainly coming from borrowings from interbank market and other financial institutions. As a characteristic of the industry, funds available were held in money market placements and government securities.

UBA diluted its liquid funds coverage of interest bearing liabilities despite its borrowings. The bank more than doubled its funding of the transport and communications sector. These risk assets need to be monitored to ensure that they perform properly and will be able to return the interest to meet the liabilities which funded them.

EBL is no longer in the position where liquid funds fully covers interest bearing liabilities. The bank's liquid funds are subject to maturity periods within 6 months of the year ended 31 December 2016. At the same time, 30% of its deposits are maturing beyond 6 months. This mismatch may have its benefits but the longer term pricing for deposits has its challenges as the yield on government securities tends to take a dip.

10 Asset quality

The banking industry reflected the economy's slowdown with a modest increase in the total gross loan exposure from GHS25.20 billion in 2015 to GHS28.33 billion in 2016. In comparison, the industry's total gross loan exposure grew by GHS4.58 billion in 2015.

Impairment charge/ gross loans and advances

	2016	R	2015	R	2014	R	2013	R	2012	R
Baroda	0.0%	1	0.0%	4	0.2%	5	0.0%	4	0.0%	1
SBL	0.3%	2	-	-	-	-	-	-	-	-
BBGL	0.4%	3	5.0%	18	0.5%	6	2.7%	17	1.8%	13
FNB	0.8%	4	-	-	-	-	-	-	-	-
GNB	1.0%	5	2.8%	10	-1.7%	1	-	-	-	-
UMB	1.0%	6	-	-	-	-	-	-	-	-
ZBL	1.2%	7	5.0%	19	1.0%	10	1.9%	12	3.0%	17
GTB	1.4%	8	0.2%	5	1.0%	9	0.4%	5	4.0%	20
GCB	1.6%	9	4.9%	17	1.8%	14	-0.8%	1	1.1%	7
PBL	1.7%	10	3.3%	11	1.9%	16	3.0%	18	1.2%	8
BOA	2.5%	11	7.4%	22	3.7%	22	5.0%	20	3.9%	19
BSIC	2.5%	12	2.3%	9	3.2%	19	7.6%	21	6.0%	21
UGL	2.7%	13	0.8%	6	0.9%	8	0.5%	6	0.6%	4
SG-GH	3.4%	14	3.6%	15	4.0%	23	2.1%	14	1.0%	6
Stanbic	3.8%	15	3.5%	13	1.2%	12	1.4%	7	1.5%	10
ABG	4.2%	16	1.2%	7	1.8%	15	2.3%	15	6.6%	22
UBA	4.4%	17	5.7%	20	0.7%	7	1.5%	9	1.4%	9
EBG	5.0%	18	3.5%	14	1.2%	11	2.5%	16	1.7%	12
SCB	5.0%	19	14.0%	24	3.6%	21	1.5%	8	0.7%	5
HFC	6.6%	20	8.1%	23	2.0%	18	1.9%	11	1.6%	11
EBL	7.2%	21	21.3%	25	-	-	-	-	-	-
CAL	9.6%	22	1.9%	8	1.5%	13	1.7%	10	2.2%	15
Fidelity	11.8%	23	3.5%	12	1.9%	17	2.0%	13	2.5%	16
FABL	13.3%	24	7.2%	21	3.4%	20	4.2%	19	2.1%	14
FBN	19.5%	25	3.9%	16	5.5%	24	7.6%	22	3.8%	18
Industry	**4.2%**		**4.6%**		**1.7%**		**1.9%**		**2.1%**	

Most banks achieved marginal increases in their total loan exposure. However, UBA had the most significant increase with growth of 142% in its total loan book. UBA's loan book increased from GHS821 million in 2015 to GHS1.99 billion in 2016 and this was mainly driven by increased loans to the transportation, storage and communications industry as a result of the Bank's focus on generating business in non-oil sectors of the economy.

Barclays bank achieved remarkable improvement in its loan loss charge which declined from GHS93 million in 2015 to GHS68 million in 2016. Tightening controls and action taken on risk tolerance to reduce the concentration in high risk exposures have resulted in very favourable results. At the end of 2016, 88% of the bank's loan portfolio was neither past due nor impaired. The bank held only 2% of its loan portfolio in the energy sector which characterised default in the industry.

FBN's worsening impairment charge is an outcome of a GHS23.3 million write-off. Although this appears to be a one-off transaction with no further adverse impact on subsequent year's impairment, the bank will need to monitor its portfolio to avoid default from other past due loans.

CAL had significant industry concentrations in commerce, energy and construction sectors. At the end of 2016, the bank's exposure in the commerce and energy sector suffered some losses from impairment. CAL's impairment charge increased from GHS35.6 million to GHS199.2 million at the end of 2016. The bank also wrote off GHS161.3 million of non-performing loans in 2016 and the focus is on improving its risk management framework and loan recovery efforts to enhance the quality of its loan portfolio.

The results of an aggressive clean-up of SCB's loan book undertaken in 2015 is reflected in its current year asset quality. The bank recovered GHS16.5 million (2015: GHS6.0 million) of its non-performing loans and grew its gross loan book by GHS95 million. SCB continues to drive a strategy focused on effective recovery and restructuring.

Fidelity's high level of provisions is attributable to the unsettled legacy debts that resulted in an increase in impairment charge from GHS54 million in 2015 to GHS171 million in 2016. Despite the significant provision, the Bank expects to tailor its effort into the recovery of these loans. During the year, the Bank also stepped up its recovery efforts for customer loans and recovered GHS8.3 million of facilities previously written off.

The improvement in loan impairment charge of GCB from GHS93.5 million in the prior year to GHS26.5 million can be attributed to the renegotiation of the terms of some significant facilities due to deterioration in some customers' financial conditions. Also the Bank gained some positive strides in improving its collectability of previously impaired facilities, which resulted in recoveries of GHS31 million in comparison with only GHS2.9 million in 2015.

EBG had a 12% marginal increase in its loan book in line with its strategy to slow down the growth in the loan book. The Bank derecognised some financial assets relating to the oil sector, which resulted in a release to impairment allowance of GHS90 million. The Bank also saw a massive increase in its loans written off as uncollectible from GHS21 million in the prior year to GHS161 million.

UGL intends to be selective in its lending with more preference for liquid, short term facilities targeted at SMEs in the commerce, export businesses and donor-funded projects. With this strategy, gross loans and advances grew by 19% to GHS3 billion in 2016; but suffered a fourfold increase in impairment allowance from GHS20 million in 2015 to GHS80 million in 2016 due to non-performing loans in the real estate and energy sectors.

2016 proved to be a challenging year, as most banks were compelled to adopt more risk averse lending practices in response to growing non-performing loans. A rebound of improved quality in loans to the energy sector which currently accounts for 13% of loans is expected in 2017. The critical factor is Government's ability to settle legacy debts in 2017 which will go a long way to impact the health of the industry's loans.

2016 proved to be a challenging year, as most banks were compelled to adopt more risk averse lending practices in response to growing non-performing loans.

Asset quality

The industry's NPLs increased in 2016 thereby continuing the upward trend in impairment allowance. The NPL position is expected to improve in 2017 with growing optimism on economic progress and more favourable macroeconomic conditions.

Impairment allowance/ gross loans and advances

	2016	R	2015	R	2014	R	2013	R	2012	R
SBL	0.3%	1	-	-	-	-	-	-	-	-
Baroda	1.0%	2	2.9%	7	1.2%	5	0.0%	1	0.0%	1
BOA	1.6%	3	2.6%	6	3.7%	14	10.0%	18	17.2%	22
FNB	1.8%	4	-	-	-	-	-	-	-	-
EBG	2.4%	5	4.9%	12	2.4%	9	4.2%	10	4.1%	8
GNB	2.9%	6	4.6%	11	1.0%	4	-	-	-	-
ABG	3.9%	7	1.7%	4	2.6%	12	2.6%	5	15.2%	20
GTB	4.0%	8	3.0%	8	5.6%	16	7.3%	16	8.3%	14
UGL	4.1%	9	1.7%	5	1.7%	7	1.3%	4	1.2%	4
FBN	4.4%	10	6.3%	14	2.4%	10	18.9%	21	13.2%	18
UMB	4.6%	11	-	-	-	-	-	-	-	-
CAL	4.9%	12	3.3%	9	1.6%	6	3.8%	7	4.3%	10
BBGL	6.8%	13	8.7%	17	6.3%	19	8.3%	17	8.8%	16
Stanbic	6.8%	14	5.5%	13	3.0%	13	3.3%	6	4.3%	9
UBA	7.2%	15	6.9%	16	2.3%	8	3.9%	8	1.5%	5
PBL	8.1%	16	6.9%	15	6.2%	18	7.3%	15	7.1%	13
Fidelity	9.1%	17	4.2%	10	2.5%	11	4.9%	11	3.8%	6
BSIC	9.6%	18	16.4%	23	25.5%	24	24.8%	22	8.4%	15
ZBL	9.7%	19	9.6%	18	4.4%	15	5.4%	13	8.9%	17
HFC	13.3%	20	12.1%	21	5.8%	17	5.0%	12	4.9%	11
GCB	14.5%	21	11.0%	19	8.7%	21	10.7%	19	14.7%	19
EBL	15.0%	22	21.3%	25	-	-	-	-	-	-
SG-GH	17.8%	23	14.0%	22	9.4%	22	5.5%	14	5.0%	12
FABL	18.2%	24	11.4%	20	11.8%	23	17.7%	20	15.4%	21
SCB	21.9%	25	19.9%	24	6.6%	20	4.0%	9	3.8%	7
Industry	**7.9%**		**7.2%**		**4.5%**		**5.8%**		**6.6%**	

The upward trend in the impairment allowance of the industry in the last three years is an outcome of the challenges the industry is facing on the quality of its assets. A combination of weak credit underwriting practices and the unfavourable economic condition for business had a toll on the industry.

FABL impairment allowance of GHS47 million in 2016 did not change significantly from an allowance of GHS 51 million recognised in 2015. However the worsening allowance is attributable to the loan book which shrunk from GHS417 million in 2015 to GHS284 million in 2016. This is an indication that although the bank is holding back on loans it may have to consider an aggressive recovery from defaulting customers.

Although GCB's provision for non-performing loans declined by 41%, the provision of GHS53 million for the year led to an increase in the impairment allowance despite the successful efforts at recovering GHS31.1 million. The decline in the gross loan book from GHS1.7 billion to GHS1.6 billion without a drop in impairment allowance indicates that despite the cautious lending the bank has not recovered from the prior years' defaults.

UGL loan book grew by 19% but this was unable to sustain the quality of the portfolio. Unlike 2015, where it had to recognise a collective provision of GHS8.3 million it released an excess provision of GHS 1.3 million. This indicates that the bank made some progress to improve quality of its loan portfolio but suffered from emerging specific impairments of GHS81.5 million. This led to the deterioration in its impairment allowance.

SG-GH recognised an impairment provision of GHS48.6 million. This worsened the bank's impairment allowance because it only recovered GHS8.6 million from prior periods' default. Further, the 8% increase in the gross loan book did not dilute the additional provision on its loan book.

The quality of BSIC loan book improved during the year. Despite the 25% growth of its loan portfolio, the credit loss provision for the year dropped from GHS5.2 million in 2015 to GHS4 million in 2016. Also, the bank successful in recovering GHS4.4 million from defaulters. BSIC appears to have strengthened its credit administration and has grown its loan book profitability.

Contrary to the industry trend, EBL more than doubled its loan book. However, the bank experienced an increase in defaults and recognised an additional provision of GHS7.5 million during the year. Only GHS0.8 million was recovered. The cumulative impairment allowance of GHS15.6 million in comparison with the total gross loans shows an improvement. There may be concerns of it worsening because of the rapid deterioration of the loan portfolio and the slow pace of recovery from defaulters.

There is growing optimism on economic progress and more favourable macro-economic condition. Economic activity is predicted to pick up in 2017. However, banks are expected to maintain their risk averse practice of underwriting loans, as they continue to monitor loan defaults and make objective assessment of the economic performance.

A | List of participants

The list of banks operating or issued with Class 1 banking licence as at June 2017 is presented in the table below. 25 of these banks participated in this year's survey of financial performance and financial position.

Name of Bank	Year of incorpora-tion	Majority Ownership	MD/CEO as at June 2017
Access Bank (Ghana) Limited	2008	Foreign	Mr. Dolapo Ogundimu
Agricultural Development Bank Limited	1965	Local	Mr. Daniel Asiedu*
Bank of Africa Ghana Limited	1997	Foreign	Mr. Kobby Andah
Bank of Baroda (Ghana) Limited	2007	Foreign	Mr. R. Mohan
Barclays Bank Ghana Limited	1917	Foreign	Mrs. Patience Akyianu
BSIC Ghana Limited	2008	Foreign	Mr. Mensan Affambi
CAL Bank Limited	1990	Local	Mr. Frank Brako Adu Jnr
Capital Bank Limited	2009	Local	Rev. Fitzgerald Odonkor
Construction Bank Lmited	2017	Local	Mr. Stephen Kpordzih
Ecobank Ghana Limited	1990	Foreign	Mr. Daniel Sackey
Energy Bank (Ghana) Limited	2010	Foreign	Mrs. Christiana Olaoye
FBN Bank Ghana Limited	2006	Foreign	Mr. Gbenga Odeyemi
Fidelity Bank Limited	1996	Local	Mr. Jim Reynolds Baiden
First Atlantic Bank Limited	1994	Foreign	Mr. Odun Odunfa
First National Bank	2014	Foreign	Mr. Richard Hudson
GCB Bank Limited	1953	Local	Mr. Anselm Ransford Sowah
GN Bank Limited	2014	Local	Mr. Issah Adam

Note: MD of Agricultural Development Bank is now Dr. John Kofi Mensah*

A List of participants

Guaranty Trust Bank (Ghana) Limited	2004	Foreign	Mr. Olalekan Sanusi
Heritage Bank Limited	2017	Local	Mr. Patrick E. Fiscian
HFC Bank Ghana Limited	1990	Foreign	Mr. Robert Le Hunte
National Investment Bank Limited	1963	Local	Mr. John Kweku Asamoah
OmniBank Ghana Limited	2016	Local	Mr. Philip Oti Mensah
Premium Bank Ltd	2016	Local	Mr. Kwasi Tumi
Prudential Bank Limited	1993	Local	Mr. Stephen Sekyere-Abankwa
Societe Generale Ghana Limited	1975	Foreign	Mr. Sionle Yeo
Sovereign Bank Limited	2015	Local	Mr. Johan Rheeder
Stanbic Bank Ghana Limited	1999	Foreign	Mr. Alhassan Andani
Standard Chartered Bank Ghana Limited	1896	Foreign	Mrs. Mansa Nettey
The Royal Bank	2011	Local	Mr. Osei Asafo-Adjei
UniBank (Ghana) Limited	1997	Local	Dr. Kwabena Duffuor II
United Bank for Africa (Ghana) Limited	2004	Foreign	Mrs. Marufatu Abiola Bawuah
Universal Merchant Bank Ghana Limited	1971	Local	Mr. John Awuah
UT Bank Limited	1995	Local	Mr. Stephen Antwi-Asimeng
Zenith Bank Ghana Limited	2005	Foreign	Mr. Henry Oroh

B | 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

C List of abbreviations

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

D | Our profile

About Us - Global Overview

We're a network of firms in

157 countries

with more than

223,000 people

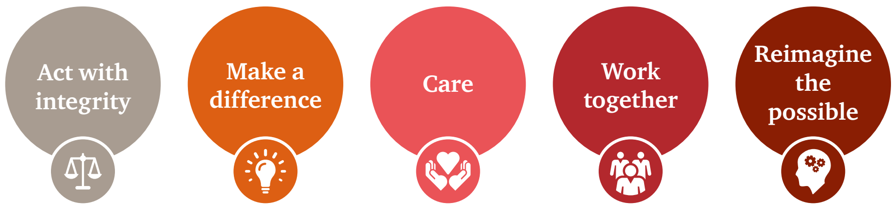
who are committed to delivering quality in assurance, advisory and tax services.

Tell us what matters to you and find out more by visiting us at www.pwc.com/gh

Our Global Values

As professional advisors, we help our clients solve complex business problems and aim to enhance their ability to build value, manage risk and improve performance. We take pride in the fact that our services add value by helping to improve transparency, trust and consistency of business processes. In order to succeed, we must grow and develop, both as individuals and as a business.

Our global values of



help us to achieve these growth. We strive to deliver what we promise, work together as a team, become a more purpose-led and also values-driven firm.

Our profile

PwC is the largest provider of professional services with close to

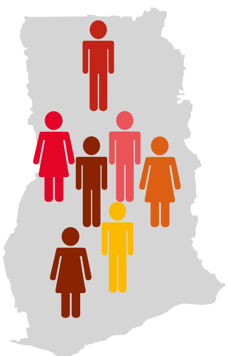
400 partners

and over **9,000** people

located in 34 countries. This enables PwC to provide clients with seamless and consistent service, wherever they are located on the continent.

PwC Ghana

PricewaterhouseCoopers (Ghana) Limited is a member firm of PricewaterhouseCoopers International Limited, each member firm is a separate legal entity. PwC's global network provides us with a broad resource base of in-depth knowledge, methodologies and experience that we use to provide value for our clients. Ghana as an established market, has high levels of economic activity and very good growth prospects and is one in which they feel the professional services that are offered can add significant value to clients businesses.



PwC Ghana is located in Accra, Takoradi with a branch office in Sierra Leone, with over

300
employees

and

10
resident Partners/Directors.

We offer professional services to both the private and public sectors in Ghana in the following industries:

- **Consumer and Industrial Products and Services (CIPS)**: Fast Moving Consumer Goods, Telecoms, Manufacturing, Construction, Transport, Media and Service oriented companies.
- **Energy, Utilities and Mining**: Mining, Exploration and Renewable energy companies, and Oil and Gas utilities.
- **Financial Services**: Banking, Insurance, Pensions and Non-Bank Financial institutions
- **Government & Public Sector**: Government, Multi and Bi-lateral Agencies (Donor Agencies, NGOs).

Audit & Assurance

Our audit approach, at the leading edge of best practice, is tailored to suit the size and nature of your organisation and draws upon our extensive industry knowledge. Additionally, we are leaders in the development of non-financial performance reporting, helping our clients respond to the need for greater transparency, improved corporate governance and business models based on the principles of sustainability.

Every engagement is considered unique and executed to ensure value creation:

For Shareholders and other Stakeholders

- Provide independent opinion and reports that add credibility to financial information

For Audit Committees

- Assistance in discharging their corporate governance and compliance responsibility

For Group Reporting

- Clearance to group auditors in order to meet group reporting requirements

For Management

- Observation and advice on financial reporting and business issues from professionals who have in-depth knowledge and understanding of your business and industry.

We serve our clients around the following priority areas:

- Statutory audit for private sector entities including SMEs;
- Internal audit;
- Audit of public sector entities including Government

Ministries, Departments and Agencies as well as Non-Governmental Organisations;

- Fund/grant management in respect of donor-funded projects;
- Systems Process Assurance including risk management, IT systems and IT operations management;
- Advisory and attest services with respect to Sarbanes-Oxley Act 2002 section 404 (SOX 404) and Public Committee Accounting Oversight Board Auditing Standards No.5 (AS5); and
- Transition and training on International Financial Reporting Standards (IFRS).

Accounting/book keeping

- Preparation of monthly cash book;
- Recording of monthly bank transactions, including update of accounts receivable and payable ledger;
- Keeping other subsidiary ledgers including fixed assets and inventory;
- Submission of trial balance, income statement and balance sheet in an agreed format on a monthly basis;
- Preparation of VAT and withholding tax (WHT) returns to enable client's tax consultants to file VAT and WHT returns on a monthly basis and;
- Preparation of statutory financial statements at the end of each accounting period to be audited by an independent auditor.

Risk Assurance Services (RAS)

A portfolio of inter-related solutions developed around the theme of risk, controls and assurance using skills and competencies that are also fundamental to the delivery of a high-quality financial audit.

The RAS solution sets and propositions are designed to provide services that assist companies manage four areas of risks:

- Financial;
- Commercial;
- Operational/Organisational; and
- Compliance/Regulatory.

These services have been organised into six solution sets as:

- Performance Assurance
- Internal audit
- Business Resilience
- IT Risk Assurance
- Business Controls Advisory
- Treasury

Tax/Tax Advisory & Company Secretarial Services

PwC is the leading provider of tax services worldwide. We understand your business and economic environment and we combine this with specialist tax knowledge to help you navigate complexity.

Our tax compliance services include:

- Assisting clients with the preparation and filing of tax returns for companies and employees (individuals) including expatriates;
- Payroll management;
- Withholding tax management;
- Indirect tax services;
- Assisting clients to comply with the relevant tax laws in order to meet tax obligations;
- Representing and negotiating on behalf of clients with the Commissioner-General of the Ghana Revenue Authority;
- Assisting clients to object to excessive assessments raised; and
- Representing our clients at meetings with the tax authorities upon request.

Our tax advisory services include:

- Tax planning opportunities to minimise taxes/risks to both local and international entities;
- Tax reliefs and incentives available under the various tax laws;
- Tax health checks/audits, due diligence;
- Tax effects of business acquisitions, disposals and restructuring; and
- Other tailor made products as required by our clients.

Company Secretarial Services

Through our affiliate entity, Aba-cus Services Ghana Limited, we provide a wide range of company secretarial services, including:

- Convening and attending board meetings and general meetings;
- Drafting of resolution of directors and shareholdings;

- Corporate statutory filings;
- Maintenance of statutory books;
- Corporate compliance reviews;
- Corporate governance advisory;
- Inward investor/pathfinder services; and
- Formation of corporate entities.

Immigration Services

- Work and residence permits;
- Extension of visitor's permits;
- Emergency entry visas;
- Re-entry visas; and
- Filing of returns.

Advisory Services

We help organisations to work smarter and grow faster. We consult with our clients to build effective organisations, innovate & grow, reduce costs, manage risk & regulation and leverage talent. Our aim is to support you in designing, managing and executing lasting beneficial change.

Transactions

Our transactions division provides comprehensive commercial, financial, economic and strategic advice to companies facing significant business growth opportunities. We build relationships with our clients and provide excellent advice and independence. Our services include:

- Due diligence Valuations;
- Transaction Advisory;
- Privatisation;
- Public Private Partnership and project finance;
- Debt Advisory;
- Bid support and defence; and
- Business modelling.

Business Recovery

Troubled or underperforming companies, their shareholders, lenders, creditors and other stakeholders need support to help make informed decisions. We work with colleagues across the entire breadth and depth of the firm, from tax and assurance to advisory to provide the specialist situational knowledge that you need to make the right decisions. Our services include:

- Restructuring, turnaround and reorganisation planning;
- Operating and financial efficiency during a crisis;
- Bankruptcy and insolvency advisory;
- Distressed sell/buy-side advisory;
- Independent business reviews; and
- Distressed M&A and financing.

People and Change

Getting the best from people at every level when there is constant change is the key to sustainable competitive advantage. Solid strategies, processes and technology alone do not deliver results. It takes people to accept, adopt, drive and sustain the change to realise tangible impact. Success in business hinges on strategic agility and the ability to execute:

- Talent management;
- Organisational design;
- Leadership development;
- Succession management;
- Learning;
- Employee engagement;
- Change management; and
- Human resource effectiveness and metrics.

Forensic and Investigative

Our team of accountants, lawyers, former regulators, computer forensic specialists, engineers and other experts can help to investigate, analyse and resolve potential crises. Better still, we can provide forensic advisory services up front to prevent issues from arising in the first place. Our services include:

- Investigations and forensic accounting;
- Forensic technology, data discovery and e-Discovery;
- Economic damage analysis;
- Complex commercial litigation support services;
- Information risk and records management;
- Anti-fraud/anti-corruption services; and
- Licensing and contract disputes.

Finance & Accounting

Today's CFOs are faced with a complex, constantly changing business environment. Their companies' strategies for managing challenges need to be supported by a flexible finance organisation that delivers transparent, efficient and forward-looking insight, whiles at the same time manages risk and compliance, effectively leverages capital and maximises liquidity. Our team is equipped to help upgrade your finance function to its maximum potential through:

- Business Process reviews and enforcement;
- Finance transformation and organization design;
- Corporate performance management;
- Control optimisation;
- Cost reduction and revenue maximization; and
- Finance capabilities assessment.

Strategy and Operations Services

We help companies achieve strategic and operational excellence through sustainable improvements and more efficient processes that lower costs, increase cash flows and enhance customer satisfaction.

We can develop or appraise strategic business plans through a rigorous analysis of our clients' market environment, competitive landscape and internal capabilities. We can help you to determine the right strategic priorities for profitable growth and we offer support and practical solutions for achieving these growth objectives.

Our strategy services include:

- Strategic planning;
- Organisational strategy;
- Growth strategy;
- Financial and acquisition strategy;
- Customer strategy;
- Business and technology design;
- Supply chain management strategy;
- Sales, business development and pricing strategy

Operations

The demand for a customer-centric focus, end-to-end integrated operations and optimal cost management has never been greater. We bring capabilities in management and process improvement to help companies optimise their operating processes and supply chains. Our operations services include:

- Operations and process excellence consulting;
- Shared Services Centre (SSC) design and operations;
- Customer experience optimisation consulting;
- Supply chain management consulting.

Sustainability & Climate Change Services

Organisations today operate within a complex environment with growing pressures from many angles. These include the need for transparency from stakeholders; consumer pressure (licence to operate); growing and changing risks to business models and supply chains; and increased competition for efficiency and growth opportunities attained through access to new products and markets.

Our sustainability experts help our clients in defining their sustainability strategy; advising on policy; operational change; risk management; reporting; monitoring and assuring their progress – all through a sustainability lens. We help our clients integrate environmental, social and governance issues into their operations and embrace the challenges of today's business environment as opportunities for long term and sustainable growth.

Our Sustainability & Climate Change Services include:

- Sustainability Strategy & Sustainability Awareness Training;
- Payment for Ecosystem Services (PES);
- Sustainability Reporting and Assurance;
- Environmental & Regulatory Compliance (EIA, SEA, ESIA, SESA);
- Sustainable Finance & Training;
- Green Growth Strategy;
- Climate Change Strategy & Adaptation;
- Sustainable Forest Management including REDD+ Strategy;
- Natural Resource Management including Eco-efficiency;
- Green House Gas emissions inventory and assurance (including carbon foot printing);
- Environmental Due Diligence;
- Stakeholder Management & Engagement; and
- Corporate Social Responsibility Strategy

In Ghana we create value by deploying a set of environmental, social and governance tools to address sustainability & climate change needs of the public and private sector. We use a 'hybrid model', focusing on cross-selling within our Industry Groups, Lines of Service and Business Units, drawing on our global network experiences.

Our Business School

PwC Ghana Business School

For PwC, developing people and sharing knowledge are central to how we do business. We believe it is pivotal to the achievement of growth in our firm, our clients' businesses, industries and the broader economy.

The focus of PwC's Business School is to:

- Enhance the skills of our people;
- Provide relevant development offerings to our clients;
- Contribute to our profession; and
- Help uplift the communities we are embedded in.

PwC's Business School is not a traditional learning institution. Due to our deep experience within our industry and our knowledge of our clients and the industries in which they operate, we are subject matter experts

in a variety of areas. PwC's Ghana Business School is therefore focused on delivering relevant learning and development solutions based on this knowledge, as well as offering public courses on selected topics and a wide range of bespoke training solutions tailored to the needs and capacity of organisations.

For more information on the Business School please visit our website http://www.pwc.com/gh/en/business-school.html

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