GHANA ASSOCIATION OF BANKS (GAB)
40^{TH} ANNUAL GENERAL MEETING AND LAUNCH OF 3^{RD} EDITION OF THE GH BANKERS' VOICE MAGAZINE

KEYNOTE ADDRESS

BY

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Managing Directors of Banks

Management and Staff of Banks

Distinguished Invited Guests

Members of the Press

Ladies and Gentlemen

1. Good morning to you all, as always it is a great pleasure to be part of today's event, which marks the 40^{th} Annual General Meeting (AGM) of the Ghana Association of Banks (GAB) and launch of 3^{rd} Edition of the GH Bankers' Voice Magazine. Over the years, the Ghana Association of Banks has been an instrumental stakeholder, working closely with the Bank of Ghana (BOG) on emerging issues in the banking sector. A special thanks therefore goes to the President, the Governing Council, the Chief Executive Officer and members of the Association for the invaluable service and collaboration with the regulator and other stakeholders in the banking sector.

2. Ladies and Gentlemen, as we are all aware, the past few years have been challenging for the global and domestic economy. Indeed, the global shocks that hit the economy, from the COVID-19 crisis and the fallouts of geopolitical tensions and war to a domestic economic crisis, which was accompanied by unpleasant, but needful

Domestic Debt Exchange Programme (DDEP), had dire consequences for the banking sector.

3. Despite these challenges, the banking sector has remained resolute as financial intermediaries in the economy. Let me use this opportunity to applaud GAB once again for being a reliable partner with the Bank, especially during the DDEP process. This Annual General Meeting (AGM) provides a unique opportunity for us to reflect on the state of the economy and banking sector developments and strategize for the years ahead. Going forward, the focus should be on consolidating the gains and sustaining confidence in the industry for economic growth.

Overview of Economic Developments

4. To recap, the Ghanaian economy continued to show signs of economic recovery and stability from the pandemic into the early part of 2022 only to be truncated by the spillovers of the Russia-Ukraine war. The supply-chain disruptions associated with the Russia-Ukraine war and the tightening of financing conditions acted in concert to worsen Ghana's debt levels, which were already at unsustainable levels, with attendant high debt-service costs and rollover risks. The tight financing conditions in the face of widening financing gap was exacerbated by the Ghana's sovereign credit rating downgrades and subsequent exclusion from the global capital market. The combination of these adverse external shocks exposed Ghana to a surge in inflation,

large exchange rate depreciation, and exerted significant financing pressures of the budget alongside rising public debt levels.

5. To address the ongoing economic crisis, the Government requested financial support from the International Monetary Fund (IMF). During the initial engagements to secure a programme, a Debt Sustainability Analysis (DSA) was undertaken to assess the nature and extent of Ghana's overall debt burden. The DSA findings confirmed a public debt burden above 100 per cent of GDP, which required a debt treatment plan to bring it down to about 55 per cent of GDP in present value terms by 2028. A follow-up comprehensive plan to restore debt and fiscal sustainability was implemented, which included a domestic debt exchange and external debt restructuring. The successful completion of the DDEP was viewed as a critical pre-condition for the IMF's Executive Board approval of the Extended Credit Facility (ECF) of about US$3.0 billion for which a Staff Level Agreement (SLA) was reached with the IMF in December 2022.

6. Ladies and Gentlemen, the Government of Ghana, launched the DDEP in December 2022 for a voluntary exchange of holdings of government domestic notes and bonds (including E.S.L.A. and Daakye bonds, but excluding Treasury bills) for a package of New Bonds. The objective of the debt exchange programme was to restore the economy to sustainable debt levels and kickstart inclusive economic growth. The first phase of the DDEP was concluded on 10th February 2023 and the second phase of the

DDEP, which included the Cocoa Bills and US dollar denominated domestic bonds concluded in August 2023.

Regulatory and Policy Reliefs to Cushion Banks against the Impact of the DDEP

7. Distinguished Ladies and Gentlemen, to contain the impact of DDEP and preserve financial stability, the BOG announced some policy and regulatory reliefs for banks that fully participated in the debt exchange. These reliefs were informed by stress tests on banks that revealed the potential impacts of the Exchange on banks' solvency, liquidity, and profitability. Key among the reliefs were:

    i. Reduction of the capital conservation buffer from 3 percent to zero percent, effectively reducing the minimum capital adequacy ratio from 13 percent to 10 percent;

    ii. Spreading of losses emanating from the DDEP equally over a four (4) year period beginning end-December 2022 and ending in December 2025, for purposes of CAR and net own funds (NOF) computation;

    iii. Granting banks a maximum period of four (4) years to restore the minimum paid-up capital as a result of any capital shortfall arising solely from the DDEP losses;

    iv. Increasing in Tier 2 component of regulatory capital from 2 percent to 3 percent of total Risk Weighted Assets (RWAs); and

v. Reduction of minimum Common Equity Tier 1 capital from 6.5 percent to 5.5 percent of total RWAs.

Also, banks are expected to:

i. Activate liquidity management plans promptly;

ii. Access BOG's repurchase (reverse repo) window exclusively with the new bonds if no interbank or other market-related funding is accessible;

iii. Access BOG's Emergency Liquidity Assistance (ELA) using new bonds and other eligible collateral excluding old bonds; and

iv. Access the Ghana Financial Stability Fund, when operationalised.

Highlights of the Banking Sector's Performance

8. Following the closure of the first phase of the DDEP on 10th February, 2023, and the settlement of the New Bonds, the submission of returns by the banks were reviewed to assess the impact of the DDEP. The findings showed that the 2022 audited financial statements of banks reflected the full impact of the DDEP and the challenging operating environment that prevailed in the year. Most banks reported significant losses on the back of the mark-to-market valuation losses on their respective holdings in Government bonds following the implementation of the DDEP.

9. Other losses were due to higher impairments on loans and rising operating costs. The industry posted losses of GH¢8.0 billion in 2022, compared with a profit of GH¢7.4 billion recorded in 2021. The main profitability indicators, namely return-on assets and return-on-equity turned negative in 2022 because of the industry's loss position.

10. Distinguished Ladies and Gentlemen, the 2022 audited financial statements of banks also pointed to some impairments in capital levels, although most banks posted Capital Adequacy Ratios (CAR) above the 10 percent regulatory minimum at end-December 2022. The positive CARs were however attributed to the regulatory reliefs granted banks to cushion them against the adverse effects of the DDEP, as was done during the height of the COVID-19 pandemic. Following the publication of the 2022 Audited Financial Statements by banks, the Bank directed banks to submit capital restoration plans to recapitalize progressively over a three (3) year period ending in 2025.

11. The 2022 losses notwithstanding, prudential banking sector data for the first quarter of 2023 showed some turnaround in performance following the conclusion of the DDEP, and consensus reached among industry stakeholders on the treatment of the losses arising from same. Banks have continued to rebalance portfolios in response to the impact of the DDEP on their balance sheets by shifting from medium and long-term investments to short-term investments, while moderating new loans. Loan loss

provisions has increased relative to a year ago, due to the pick-up in credit growth and elevated credit risks.

12. Profitability of banks has remained relatively strong, on the back of the portfolio shifts and exchange rate revaluation effects. These developments culminated in a 41.4 percent increase in profit-before-tax in August 2023, compared with 26.5 percent growth recorded during the same period a year ago. Similarly, the industry's net income or profit-after-tax increased to GH¢13.5 billion in August 2023, representing a 37.9 percent increase. The industry's return-on-assets increased to 5.4 percent from 4.7 percent, while return-on-equity rose to 36.9 percent from 23 percent.

Policy Direction of BOG

13. In strategizing for the years ahead to ensure financial stability, the Bank of Ghana has commenced development of a Business Model and Viability Analysis (BMVA) Framework to enhance its supervisory practices for assessing the sustainability of banks' business models. BMA allows supervisors to identify banks' vulnerabilities at an early stage and ensure safety and soundness. Following the adverse impact of the DDEP, the Bank of Ghana is focused on assessing the implications of banks' strategic decisions and its alignment with their risk appetites.

14. Also, the Bank of Ghana has incorporated a limited Asset Quality Review in its supervisory programme for 2023. This special exercise is being conducted to assess the health of banks' loan and investment portfolios to determine if their asset classification is in line with Bank of Ghana's classification norms as well as International Financial Reporting Standards.

15. Ladies and gentlemen, as a sequel to the implementation of Pillar 1 of the Basel II/III implementation in 2018, the Bank of Ghana intends to scale up the regulatory reform agenda through a series of engagements with the GAB on the roll-out of Pillar 2 of the Basel II/III capital framework. The framework will ensure that banks hold adequate capital for all material risks inherent in their operations. In this regard, regulatory guidance will be provided in the following aspects of Pillar 2, among others:

   i. Liquidity Risk Management;
   ii. Internal Capital Adequacy Assessment Process (ICAAP);
   iii. Guide to Supervisory Intervention;
   iv. Concentration Risk; and
   v. Interest Rate Risk in the Banking Book.

16. To pave way for a seamless rollout of Pillar 2 of the Basel II/III capital framework, the Bank of Ghana issued the Risk Management Directive in November 2021 to ensure that banks put in place appropriate systems for identifying, measuring, evaluating,

controlling, mitigating, and reporting material risks that may affect their ability to meet their obligations to depositors and other stakeholders.

17. Ladies and Gentlemen, I am happy to announce that the BOG has successfully completed industry training on all seven (7) Ghana Sustainable Banking Principles. The Ghana Sustainable Banking Principles and the Sector Guidance Notes reflect a process-led initiative to take account of the environmental considerations, social inclusion and good governance in the lending decision-making by banks in Ghana. It is also a guide to the banks in mainstreaming the fundamental tenets of sustainability in their business and operations, leading to enhanced growth, attractiveness and increased returns.

18. The BOG trained personnel in the banking industry on Principle 1 in 2020 and Principle 2 in 2022. In July 2023, the BOG completed industry training on the remaining principles (Principles 3-7) among Chief Risk Officers, Chief Compliance Officers and Sustainability Officers from the various banks. It is expected that these will lead to an improvement in industry performance and reporting on the principles. The issue of climate risk is increasingly becoming a material risk, especially for institutions exposed to vulnerable sectors of the economy. In this regard, the BOG is working on issuing a climate-related financial risk directive to provide guidance to the banking industry on

addressing climate risk and related issues. These initiatives are aimed at building a robust financial system to support economic growth.

2023 and Beyond: Building a Resilient Banking Sector to Support Vibrant Growth

19. Ladies and Gentlemen, the Bank of Ghana remains committed to promoting a strong, stable and viable banking industry to support the country's growth agenda. While several policy measures have been implemented over the recent past, a lot remains to be done to promote a more resilient banking industry. Going forward, the Bank will continue to strengthen its regulatory and supervisory framework to promote confidence in the financial system.

20. In addition to sustaining the profitability levels recorded by banks in the first eight months of 2023, the Bank of Ghana will:
    1. Address specific risks from high NPLs, poor corporate governance and poor risk management systems;
    2. Promote stronger risk management in banks (including cyber and information security-related risks);
    3. Continue to roll-out the Basel II/III capital standards aimed at enhancing the resilience of the banking sector; and

iv. Improve collaboration with other regulatory bodies to help strengthen the regulatory framework for banking groups.

Conclusion

21. Distinguished Ladies and Gentlemen, banks' first eight months performance in 2023 showed strong growth in profits following the significant losses posted in 2022 on account of the DDEP. If this trend persists, we expect banks to rebuild capital buffers quickly (especially with equity capital injections by shareholders) to build resilience and give a further boost to the economy. Early operationalisation of the Ghana Financial Stability Fund should also help provide additional recapitalisation support for eligible banks in line with the criteria and governance framework agreed with the IMF and the World Bank.

22. Ladies and Gentlemen, let me use this platform to once again assure the public that, on the back of the DDEP and other emerging risks in the banking sector, the Bank will continue to monitor developments in the banking sector and, where need be, take appropriate and decisive actions to address emerging issues. Also, the BOG will ensure that depositors' funds remain safe, and that the financial system remains stable and resilient.

23. In conclusion, Ladies and Gentlemen, the Bank appreciates the collaborative approach adopted by GAB and we encourage the Association to continue to engage on issues with the aim of building a resilient banking system, within the confines of the law. On this note, on behalf of the Management and staff of the Bank and on my own behalf, let me congratulate the GAB on the 40th AGM and launch of the 3rd Edition of the Bankers Voice Magazine. Thank you and May God bless us all.