



Bank of Ghana Press Release

Update on Banking Sector Reforms

4th January, 2019

INTRODUCTION

Ladies and Gentlemen, when the current Management of the Bank of Ghana took office in early 2017, the banking sector was faced with many challenges. We inherited a financial system which was under a considerable state of distress, with banks that were not meeting the capital adequacy requirement and others whose capital was eroded with high non-performing loans. Some of these banks were insolvent and illiquid, others were solvent but illiquid. This state of affairs was largely a result of poor corporate governance, false financial reporting, and insider dealings. The Bank of Ghana had in the past continued to provide liquidity support to these failing banks, without addressing the underlying problems that led to the illiquidity and insolvency of these institutions. In short, the financial system had reached a tipping point and we could not have assumed business as usual. The Bank of Ghana therefore embarked on a comprehensive reform agenda, with the objective of cleaning up the sector and strengthening the regulatory and supervisory framework for a more resilient banking sector.

As part of this reform exercise, the banking licences of seven (7) insolvent banks were revoked over the last sixteen months. Steps were taken to ensure that they exited the market in an orderly manner.

Furthermore, the Bank of Ghana on 11th September 2017 issued the Minimum Capital Directive (BG/GOV/SEC/2017/19) by which all universal banks were required to increase their minimum paid-up capital to GHC400 million by 31st December 2018. Banks were required to comply with the new minimum paid-up capital requirement through (i) a fresh capital injection; (ii) capitalisation of income surplus; or (iii) a combination of fresh capital injection and capitalisation of income surplus.

The Minimum Capital Directive was part of regulatory measures aimed at strengthening and making the banking sector more resilient to shocks as well as to help reposition the banks to better support the growing needs of the Ghanaian economy. It was also the expectation of the Bank of Ghana that the recapitalisation exercise would help promote consolidation in the banking industry through sustainable mergers and acquisitions along with stronger corporate governance structures and risk management systems and practices.

UPDATE ON RECAPITALISATION EXERCISE

Following the recapitalisation exercise that ended at the close of business on 31st December 2018, there are now **twenty three (23)** universal banks operating in Ghana. These banks have all met the new minimum paid-up capital of GHC400 million. A schedule of banks and how they have met the new requirement is attached as Annexure 1.

In particular:

- **Sixteen (16)** banks have met the new minimum paid-up capital requirement of GHC400 million mainly through capitalisation of income surplus and a fresh capital injection.
- The Bank of Ghana has approved **three (3)** applications for mergers. Consequently, First Atlantic Merchant Bank Limited and Energy Commercial Bank have merged, Omni Bank and Bank Sahel Sahara have merged, and First National Bank and GHL Bank have merged. The **three (3)** resulting banks out of these mergers have all met the new minimum capital requirement.
- Some private pension funds in Ghana have injected fresh equity capital in **five (5)** indigenous banks through a special purpose holding company named **Ghana Amalgamated Trust Limited (GAT)**. In addition to the state-owned banks (ADB, NIB) benefiting from the GAT scheme, the other beneficiary banks (**the merged Omni/Bank Sahel Sahara**, Universal Merchant Bank, and Prudential Bank) were selected by GAT on the basis of their solvent status and good corporate governance. More details about the GAT scheme will be provided by GAT and the Ministry of Finance.

To ensure that the capital provided by banks indeed represents quality capital in the amounts required to meet the Minimum Capital Directive, the Bank of Ghana adopted and implemented

a rigorous capital verification process. In the process, the Bank of Ghana has undertaken comprehensive due diligence on new investors in banks and has verified the sources of funds for the recapitalisation. The verification process is still on-going and will be validated by external auditors of banks as part of the 2018 external audit.

RECAPITALISATION AND RESTRUCTURING OF STATE-OWNED BANKS

Resources from GAT will be used to recapitalize the two state-owned banks (ADB and NIB) to help drive and promote long-term sustainable financing for agricultural and industrial expansion. The Government has notified the Bank of Ghana that it intends to restructure NIB through governance and management reforms as well as streamlining its business model to help refocus it as a bank to support industrialisation. To help ensure that these reforms succeed, the Bank of Ghana has today appointed an advisor for NIB, pursuant to section 101 (1) of the Banks and Specialized Deposit-Taking Institutions Act of 2016 (Act 930), to advise management of the bank with a view to helping improve the affairs of the bank. The Advisor will hold office until otherwise advised by the Bank of Ghana and will furnish the Bank of Ghana with a status report on the bank in three months and as frequently as the Bank of Ghana may require.

GN BANK OBTAINS A SAVINGS AND LOANS LICENCE

GN Bank (GN) was unable to comply with the Minimum Capital Directive by 31st December 2018. Consequently, GN Bank has applied for, and the Bank of Ghana has approved the grant of a savings and loans company licence. The Bank of Ghana has also approved a transition plan submitted by GN for winding down aspects of its business which are not compatible with a savings and loans company licence. The Bank of Ghana will closely monitor implementation of the approved transitional plan which is expected to be completed by the end of June 2019. In this regard, the Bank of Ghana has appointed an advisor for GN pursuant to section 101 (1) of the Banks and Specialized Deposit-Taking Institutions Act of 2016 (Act 930), to advise management of GN with a view to ensuring a smooth transition to a viable savings and loans company. The Advisor will hold office until otherwise advised by the Bank of Ghana and will furnish the Bank of Ghana with a status report on the GN in three months and as frequently as the Bank of Ghana may require.

VOLUNTARY WINDING-UP OF BANK OF BARODA (GHANA) LIMITED

The Bank of Baroda (Ghana) Limited was licensed by the Bank of Ghana as a universal bank on 28th January 2008. It is a wholly-owned subsidiary of Bank of Baroda India which is in turn wholly-owned by the Government of India. By a letter dated 9th April 2018, the Bank of Ghana was notified by the Bank of Baroda, India (the parent company of Bank of Baroda (Ghana) Limited) of its decision to divest/sell its entire 100% equity in the bank due to the Government of India's decision to rationalise the overseas operations of the branches/subsidiaries of Indian public sector banks. The Bank of Ghana has since approved a request for a voluntary winding up of the operations of Bank of Baroda (Ghana) Limited effective December 31, 2018. To ensure an orderly exit, and to safeguard the interest of depositors and customers, the Bank of Ghana has approved an Assumption Agreement between Bank of Baroda (Ghana) Limited and Stanbic Bank Ghana Limited under which the latter will assume all deposits and selected loan assets of the bank. The Bank of Ghana will closely monitor the transition, and is confident that Stanbic Bank Ghana Limited will ensure that depositors of Bank of Baroda (Ghana) Limited continue to have access to their deposits.

RESOLUTION OF PREMIUM BANK LIMITED AND HERITAGE BANK LIMITED

Pursuant to Section 123 of the Banks and Specialised-Deposit-Taking Institutions Act, 2016 (Act 930), the Bank of Ghana has revoked the banking licences of Premium Bank Limited and Heritage Bank Limited with effect from the date of this Notice and has appointed Mr. Vish Ashiagbor of PricewaterhouseCoopers as Receiver for the two banks. Complete details of the bases on which the licences of the two banks have been revoked are attached as Annexures 2 and 3. Among other things:

- Premium Bank was found to be insolvent as of 30th November 2018 with a capital adequacy ratio of negative 125.26%;
- Heritage Bank among other things obtained its banking licence on 4th October 2016 on the basis of capital with questionable sources. Furthermore, the bank was unable to meet the new minimum capital requirement of GHC 400 million as of 31st December 2018.

The Bank of Ghana has also approved a Purchase and Assumption Agreement between the Receiver and Consolidated Bank Ghana Limited (CBG) under which the Receiver has transferred some assets and liabilities of the two banks to CBG. All deposits (current, savings and fixed

deposit accounts) of the two banks have been transferred to CBG with effect from the date of this notice. The Government of Ghana has issued a bond in the face of **GHC 1.403 billion** to CBG to cover the gap between the value of the good assets and liabilities of the two banks transferred to CBG. All deposits of the two banks are safe and customers will continue to have full access to their funds.

CONCLUSION

Ladies and gentlemen, it has been an eventful last twenty months during which the Bank of Ghana has had to take tough but necessary bold steps to clean up the banking sector and to reposition it to support the economic growth and transformation agenda for Ghana. The just-ended recapitalisation exercise has repositioned the banking sector as better capitalised, liquid, stronger, and more resilient. The on-going strengthening of the regulatory and supervisory framework will also ensure that the sector is well-governed, well-managed, and better supervised to restore and maintain much-needed confidence in the sector. In particular, the Bank of Ghana expects that:

- Shareholders of banks will exercise control over these institutions not for the benefit of shareholders and related and connected parties, but primarily in the interest of depositors, creditors, employees, and other stakeholders;
- Bank Boards will be composed of persons that are capable of exercising strong and independent oversight. They are expected to ensure that the interests of all relevant stakeholders are protected;
- Risk management will be integrated in the strategic focus of the governance and management of these institutions;
- Compliance with regulatory requirements and ethical standards are embedded in overall risk management;
- Bank of Ghana's supervisory systems, processes, and teams are better able to identify early warning signs, enforce regulatory requirements and ensure that prompt corrective action is taken by banks to recover quickly from any signs of distress.

Bank of Ghana remains committed to promoting a safe, sound, stable, and resilient financial sector, and counts on the cooperation of all stakeholders.

STATUS OF BANKS AS OF 31st DECEMBER, 2018		
CATEGORY	NO. OF BANKS	NAME OF BANKS
Banks that have met new minimum capital without a merger	16	Zenith Bank, Ecobank, GCB Bank, Stanbic Bank, Standard Chartered Bank, Barclays Bank, Access Bank, Consolidated Bank, Republic Bank, Fidelity Bank, UBA, Societe Generale, GT Bank, FBN Bank, Cal Bank, and Bank of Africa
Banks that have merged	3	First Atlantic Merchant Bank Limited/Energy Commercial Bank, OmniBank Ghana Limited/Bank Sahel Sahara Ghana , First National Bank/GHL Bank Limited.
Indigenous banks benefitting from the GAT initiative	5	ADB, NIB, OmniBank/BSIC , Universal Merchant Bank, and Prudential Bank
Banks Exiting on account of strategic reasons	1	Bank of Baroda

REVOCATION OF THE LICENSE OF PREMIUM BANK LIMITED

Premium Bank Limited (“Premium”) was licensed by the Bank of Ghana as a universal bank on 3rd May 2016. Following recent investigations into the affairs of the bank, the Bank of Ghana has revoked the licence of Premium with effect from the date of this Notice, pursuant to section 123 of the Banks and Specialised-Deposit-Taking Institutions Act, 2016 (Act 930) on the basis that it is technically insolvent. Specifically:

- 1) The bank had continuously breached the Capital Adequacy Ratio (CAR) requirement since December 2017. All efforts to get the bank to correct its capital deficiency position proved futile. The situation further deteriorated resulting in the bank reporting a CAR of **negative 125.26%** with a capital deficit of **GH¢1.15 billion** as at end November 2018. The bank’s reported net-worth as at end-November 2018 was negative **GH¢528.33 million**, implying the bank is insolvent.
- 2) The bank’s liquidity and solvency challenges prompted the Bank of Ghana to undertake investigations into how the bank was capitalised. The investigation has revealed that the bank obtained its banking licence under false pretences through the use of suspicious and non-existent capital, which has resulted in a situation where its reported capital is inaccessible to them for their operations. Details of the capital verification exercise revealed the following:
 - Of the GH¢90 million introduced by the Vanguard Group Limited, GH¢30 million was borrowed from Royal Bank and GH¢45 million borrowed Capital Bank. These were lodged at Premium Bank’s account with Stanbic Bank Ghana Limited on February 19, 2016 and February 27, 2016 respectively.
 - Premium Bank subsequently placed GH¢30 million and GH¢45 million with Royal Bank and Capital Bank respectively as investments, although its original intent was to pay-off the funds borrowed. This implied these investments were fictitious, hence the bank’s inability to access the funds to meet its operational needs.
 - The remaining balance of GH¢15 million was transferred from Premium Bank’s account (then City Investments Company Limited) with Stanbic Bank to purchase a

182 Day Treasury Bills at the Universal Merchant Bank on February 22, 2016 and subsequently introduced as capital.

- The Bank of Ghana on June 8, 2017 requested the shareholders of the bank to inject capital to replace their statutory reserve fund which was wrongly capitalised as part of the requirement for licencing the bank. To meet the requirement, the bank transferred funds totalling GH¢6 million to CDH Savings and Loans on July 19, 2017 and subsequently moved the funds to the bank's account with Bank of Ghana through its Stanbic Bank account on July 20, 2017.
 - On the basis of the above, Vanguard Group Limited did not introduce any capital into the business. The total impaired paid-up capital therefore amounted to GH¢96 million.
- 3) The bank has persistently breached the cash reserve requirement (CRR) of 10% (CRR at December 19, 2018 was 0.01%) since April 11, 2018 and is also unable to honour customer withdrawals.
 - 4) The bank is exposed to its related parties to the tune of GH¢444.38 million as at July 2018 totalling [37.2% of the bank's loan book as of November 2018]. The said amount was more than the bank's net own funds thereby breaching the regulatory limit of 10%. The bank has not been able to recover these funds. Outstanding loans to related parties were wrongly classified by the bank as "investments" for reasons which remain unclear.
 - 5) The prudential returns submitted to the Bank of Ghana were inaccurate as exposures to related parties were misreported as investments with non-bank financial institutions thereby breaching Section 93 of Act 930. In July 2018, the bank's total investments with Non-Bank Financial Institutions (NBFIs) reported amounted to GH¢1.08 billion. The bank's inability to access these funds at a period in which it was faced with serious liquidity challenges indicated that those investments were either impaired or fictitious. An investigation that sought to review the quality of the bank's investments revealed that an "investments" totalling GH¢444.38 million were loans granted to related parties and were fictitiously booked as investments with non-bank financial institutions.

Heritage Bank Limited (Heritage) was incorporated on 31 January 2014 and was licensed by the Bank of Ghana as a universal bank on 4 October 2016. The promoters/shareholders of the bank were specified as Mr. Seidu Agongo, Ms. Fatima Adamu, Sarago Limited, and Mr. Sylvanus Kotey who together purportedly met the minimum paid-up capital of GHC 120 million.

As part of its efforts to clean up the banking sector, the Bank of Ghana has recently examined the affairs of Heritage and discovered a number of anomalies relating to its licensing, the sources of its capital, and related party transactions.

The Bank of Ghana has consequently revoked the licence of Heritage Bank. Under section 16 (1) (a) (7) and (8) of Act 930, the Bank of Ghana may revoke a licence and appoint a receiver under section 123 of the Act where it is satisfied that an applicant provided false, misleading or inaccurate information in connection with the application for a licence or suppressed material information, and may in cases of emergency, or in the public interest revoke the licence of the bank without notice. Further, sections 9 and 12 of Act 930 authorise the Bank of Ghana to revoke a licence if it considers that significant shareholders of a bank are not suitable.

The grounds for revocation of the licence are as follows:

1. The bank's capital appears to have come from sources which are suspicious. In the application for a banking licence, each shareholder of Heritage needed to demonstrate their "ability to subscribe to the shares" of the bank. The Bank of Ghana is not satisfied that the original sources of the bank's capital are acceptable, in terms of section 9 (d) of the Banks and SDI Act, 2016 (Act 930) and section 1 of the Anti-Money Laundering Act of 2008 (Act 749) which requires acceptable capital to be obtained from lawful and transparent sources. Specifically:
 - The promoters of Heritage provided evidence to Bank of Ghana at the time of the application for a banking licence to the effect that an amount totaling GHC 120.6 million was lodged with a local bank. The amount of GHC 120 million was transferred to the bank from Agricult (a company wholly owned by Seidu Agongo, a promoter of Heritage)

which funds appear to have been derived from contracts awarded to Mr. Agongo by COCOBOD and are currently the basis of criminal prosecution in the High Court of Ghana. Meanwhile, it has come to the notice of the Bank of Ghana that the bank has yet to respond to two High Court orders for disclosures relating to these and other contracts affecting the significant shareholder Mr. Agongo.

- While Mr. Agongo claimed that his sources of capital for the bank included proceeds of a USD 19.25m contract with COCOBOD, Bank of Ghana's subsequent investigations have shown that there was no such contract between COCOBOD and Mr. Adongo. One or more contracts executed however existed between COCOBOD and Sarago Limited ("Sarago"). Documents submitted to the Bank of Ghana for licensing of the bank made no mention of the contract between COCOBOD and Sarago nor the fact that Sarago (also a shareholder of the bank) was owned by Mr. Agongo.
 - From its 2017 audited financial statements, an amount of GHc15.8m was transferred to the bank from an unnamed investor which was attributed to unpaid called-up share capital, calling into question whether the minimum capital of the bank had been fully paid up at the time of licensing. From the same financial statements, an operating loss was booked resulting in a shortfall of GHC 20.6 m in the bank's capitalization. This was expected to be repaid by an unnamed shareholder through a transfer of fixed assets (branches) to the bank. Despite attempts by the Bank of Ghana to confirm (i) the identity of the unnamed shareholder, (ii) the basis of valuation of the fixed assets, and (ii) whether the terms of the transactions were at arms' length, and otherwise acceptable, the bank and its shareholders, directors, and management have failed to clarify matters.
2. Certain shares of the bank were held by nominee shareholders whose ultimate beneficial shareholders were not disclosed to the Bank of Ghana. The shareholder on record for Sarago is one Ruth Leena Abazerri, although the Bank of Ghana has reasonable grounds to believe that it is owned by Seidu Agongo. This is in breach of section 23 sub section 9 of the amended Anti-Money Laundering Act,2014 (Act 874) which requires the disclosure of

beneficial ownership of shares, as well as regulation 9 of the Anti-Money Laundering Regulations (L.I. 1987) which requires that beneficial owners are not fictitious.

3. Several related party transactions were entered into between the bank and entities owned or controlled by its significant shareholder Mr. Agongo such as Sash Alliance, Moor Company Limited, and Kedge Company Limited, on terms and conditions that remain unclear and/or not transparent.
4. The Bank of Ghana has determined, pursuant to sections 9 and 12 of Act 930, that the majority shareholder of the bank, Mr. Agongo, does not meet the “fit and proper person” test.
5. The bank failed to meet the GHC 400 million capital required as of 31st December 2018.