Press Release

RESPONSE TO FORMER DEPUTY GOVERNOR DR. JOHNSON P. ASIAMA'S INTERVIEW ON JOY FM

The Bank of Ghana's attention has been drawn to some statements made by former Second Deputy Governor of the Bank of Ghana, Dr. Johnson P. Asiama, in an interview with Joy FM. For the benefit of the discerning public, the Bank of Ghana finds it important to correct several misstatement of facts contained in the said interview.

Under the leadership of Governor Addison, the Bank of Ghana has in its earlier press statements said that the reasons for the mass failures of financial institutions we have witnessed in the last two years include regulatory forbearance on the part of previous management of the Bank of Ghana. As embarrassing as this is for the Bank of Ghana, the current management under Governor Addison will be doing the people of Ghana a great disservice if this admission was not made. Without pointing fingers at any particular individual, the Bank of Ghana has in all sincerity made this assertion in good faith.

Here are the true incontrovertible facts as known to the Bank of Ghana:

1. UT Bank and Capital Bank were among the banks that were found to be insolvent after the May 2015 and June 2016 Asset Quality Review (AQR). The two banks had ample opportunity after the AQR to raise the needed capital to restore capital adequacy to the regulatory minimum but failed to do that.

2. We have no evidence on record to show that the previous management took steps to mitigate the risk of ultimate failure of these institutions, as it was required to do under the Banks and Specialized Deposit-Taking Institutions Act, 2016, Act 930 which came into effect as far back as in September 2016. In the face of the AQR results, a number of measures should have been taken by the previous management to ensure that the implicated banks were not taking on additional risks or dissipating assets at the expense of their depositors and other claimants and creating risks for the entire financial system. While under Ghana's ECF programme with the IMF which started in 2015, the IMF provided recommendations on how the banks determined to be distressed under the AQR were to be handled to avert a financial crisis, the then management of the Bank of Ghana failed to implement these actions that would have halted the eventual collapse of a multitude of financial institutions. To the contrary, the then management of the Bank of Ghana turned the other eye, while loading the insolvent banks with massive amounts of liquidity support including by passing such liquidity support through other banks as conduits,

and taking no steps to ensure that such support was used for the benefit of providing liquidity to depositors.

3. What Dr. Asiama conveniently fails to state is that steps to hold these failed institutions accountable started when Dr. Addison was appointed Governor in April 2017. The final determination to resolve the two banks was made at the end of July 2017 and executed in August 2017.

4. The Bank of Ghana, after a careful consideration of the potential impact of the resolution of the two banks on the financial system and the economy as a whole, decided to use a Purchase and Assumption option to ensure that the branch network and a significant number of employees of these banks would be preserved.

5. When wind of the Bank of Ghana's impending action became rife, three banks, namely, GCB, Republic Bank Ghana Ltd. (and its parent company, Republic Bank Holdings), and a Moroccan bank, submitted bids to the Bank of Ghana to be allowed to acquire the good assets and deposits of the two banks after the revocation of their licences. The Bank of Ghana's decision to accept the bid submitted by GCB Bank was based on a number of important considerations including:

(i) its indigenous ownership, so that two Ghanaian banks were not being given to foreign owners;

(ii) the relatively higher values it placed on the net assets of the two banks;

(iii) its commitment to maintaining a relatively greater number of branches and employees of the two banks;

(iv) its vast physical presence across the country, to ensure that the customers of the two banks had access to its strong branch network and

(v) its relatively stronger capital position which would allow it to better absorb any shocks from the acquisition.

In contrast, the bids submitted by Republic Bank Ghana Ltd (and its parent company), and the Moroccan bank were less competitive, having regard to the fact that their valuation of the net assets of UT Bank and Capital Bank involved a total impairment of the loan assets of the two banks. This led to a valuation which would not have been in the interest of the creditors of the two banks who had to be settled by the Receiver from values realised from the net assets of the two banks. A key consideration in resolution of banks is to choose an approach that ensures that any value left over is maximized for the sake of all of the institution's creditors.

6. The direct cost of the resolution of the two banks in terms of depositor payout was going to be the same irrespective of whether GCB or Republic Bank was selected as the Assuming Bank, given that all three bidders required a Government bond to bridge the gap between the value of net assets and the deposit liabilities. The claim therefore that the approach used by the Bank of

Ghana to resolve the two banks was more costly than other options available is untenable and rather unfortunate.

7. It is also instructive to note that Dr. Asiama was Deputy Governor at the time when the decision was taken to revoke the licences of UT Bank and Capital Bank, and had every opportunity to propose any other strategy for addressing the insolvency of the said banks if he felt there was a better and more effective strategy. His approach before the new management team took over was simply to do nothing in the interest of depositors and the financial system as a whole, and to rather dole out large amounts of public funds to failed institutions whose shareholders dissipated these funds on private ventures at the expense of depositors, employees, tax payers, and other claimants.

8. The claim that the approach to resolving the two banks resulted in the distress of the savings and loans and microfinance sectors is pathetic, to say the least. With full knowledge that these two banks were connected to other sectors of the financial system, Dr. Asiama and his colleagues were under a duty to take measures they were empowered to take under the law to avert the risks that these two institutions created for the rest of the system.

9. What he fails to admit is the fact that the swift and decisive action taken by the Addison-led management team provided relief for other segments of the financial system through the funds provided by Government for depositor payouts. Depositors and financial institutions that had funds with the two banks were made whole through payments channelled through GCB. Dr. Asiama also conveniently failed to state the truth that the majority of the MFIs and Savings and Loans/Finance Houses that failed had started showing signs of insolvency long ago, some as far back as 2012 and as was the order of the day, the “do-nothing” approach was at play.

10. The Bank of Ghana takes this opportunity to assure the public that it will continue to supervise the banking sector in a manner that protects depositors’ funds and promotes a safe, sound, inclusive financial system, positioned to finance the growth of the Ghanaian economy on a sustainable basis.

End

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