BANK OF GHANA

Monetary Policy Report

VOLUME 5 NO. 2 January 2016

Financial Stability Report

5.0 Introduction

5.0.1 The January 2016 update of the IMF's World Economic Outlook (WEO) put global growth for 2015 at 3.1 percent. Growth is however projected to pick up to 3.4 percent and further up to 3.6 percent in 2016 and 2017 respectively.

5.0.2 The downside risks to the projected global growth include the slowdown and rebalancing of China's economy from largely investment and manufacturing towards consumption and services; lower commodity prices, and; the tight financial conditions. Failure to adopt measures to mitigate the adverse effects of these risks could potentially derail the growth prospects of the global economy.

5.0.3 The performance of the domestic economy picked up in the last quarter of 2015, reflected in the ongoing fiscal consolidation and the relative stability in the exchange rate; though inflationary pressures remained elevated.

5.0.4 The domestic banking sector remained sound and solvent in the fourth quarter of 2015, though marginal declines in the key financial soundness indicators were recorded during the period.

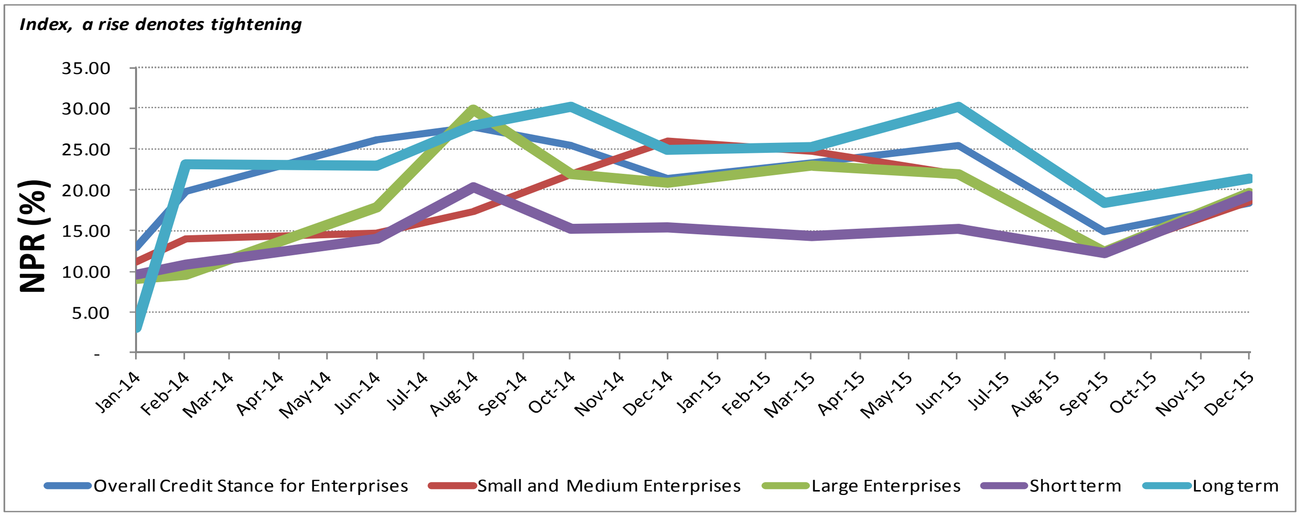
5.1 Credit Conditions Survey

5.1.1 Loans or credit lines to Enterprises

The update on banks' lending conditions showed a tightening in banks' overall credit stance to enterprises in December 2015 relative to the September 2015 stance. This tightened credit stance applied to both SMEs and large enterprises and also on both long term and short term loans (see Chart 1). This stance was largely driven by difficulty in access to market finance; moderation in expectations regarding economic conditions and balance sheet constraints. The 200 basis points and

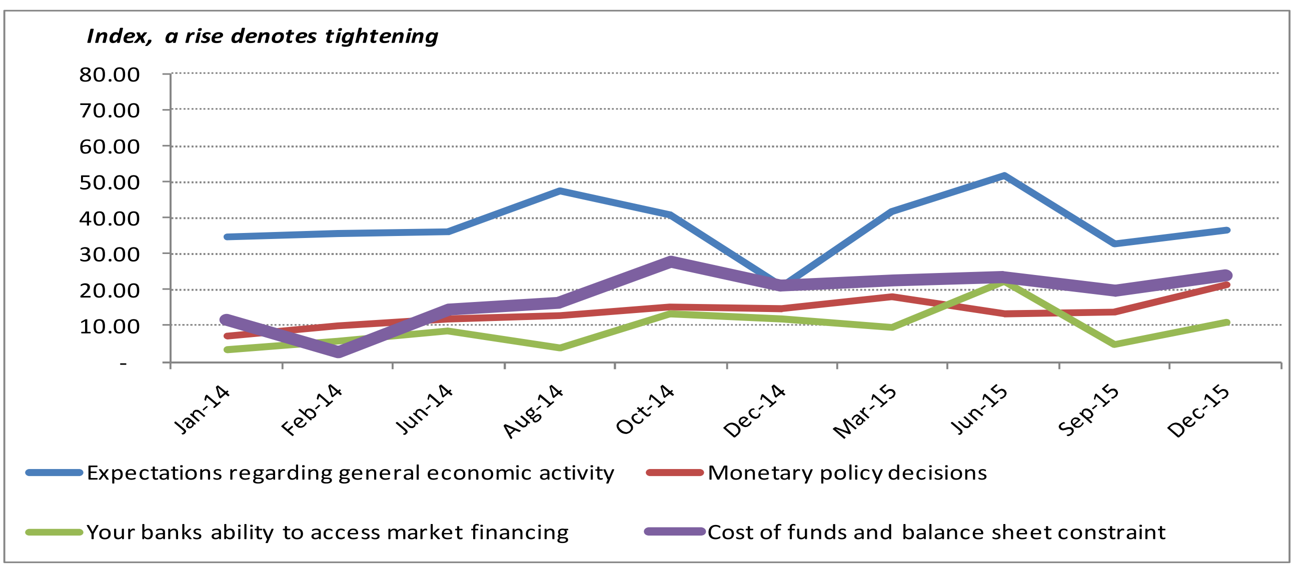
100 basis points increases in the monetary policy rate by the Monetary Policy Committee (MPC) in September 2015 and November 2015 respectively culminated in a tightened stance by banks in the last quarter (see Chart 2).

Chart 1: Overall Credit Stance



Notes: (NPR) -Net percentage refers to the difference between the sum of the percentages for "tightened considerably" and "tightened somewhat" and the sum of the percentages for "eased somewhat" and "eased considerably". The net percentages for the questions related to the contributing factors are defined as the difference between the percentage of banks reporting that a given factor contributed to a tightening and the percentage reporting that it contributed to an easing

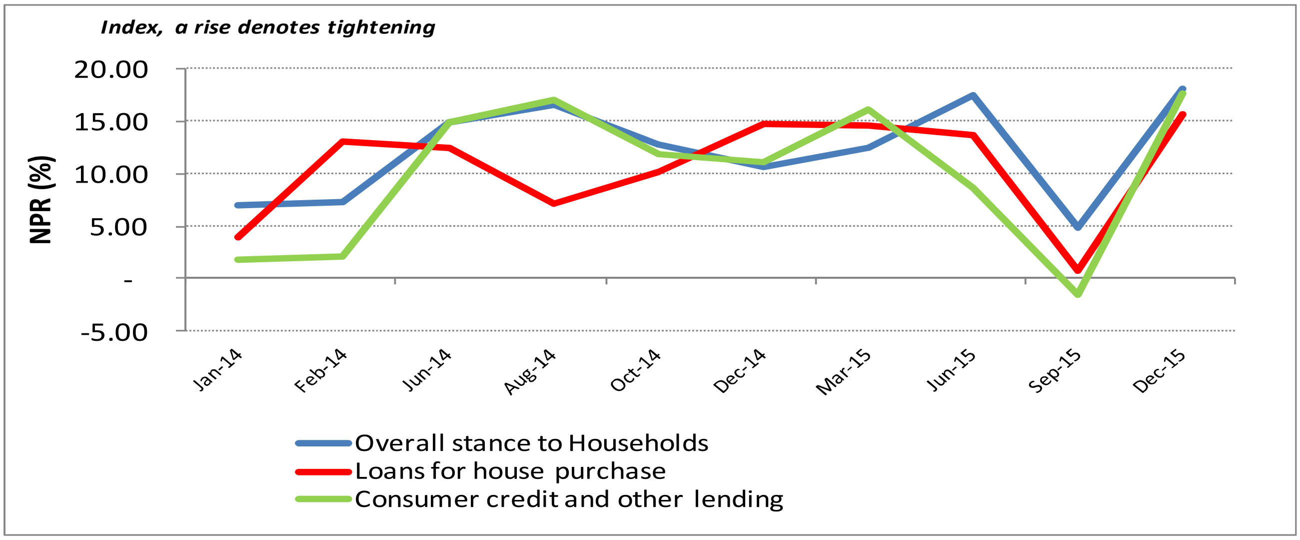
Chart 2: Factors which influenced banks' credit stance



5.1.2 Loans or credit lines to Households

Similarly, the banks reported during this survey round, a tightening in loans to households for house purchase and consumer credit and this translated into an overall tightening in banks' credit to households (see Chart 3). This tightened credit stance also largely reflected the tightened monetary policy stance (see Chart 3b).

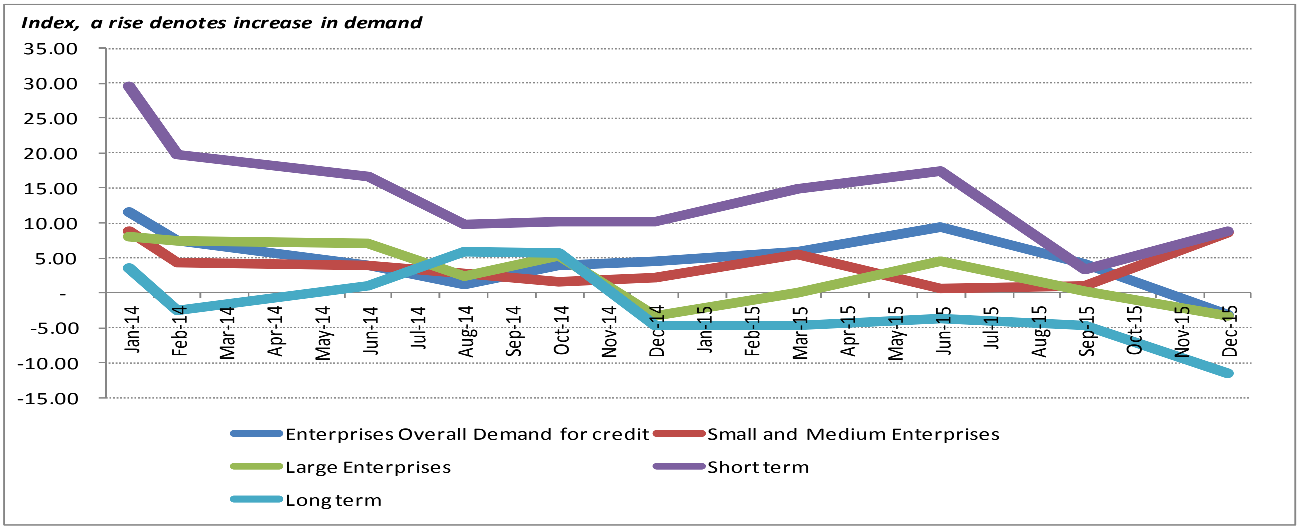
Chart 3: Credit Stance on Households Credit



5.2.1 Loan Demand for Enterprises

Demand for credit by large enterprises declined in net terms during this survey round, resulting in a decline in the overall enterprise demand for credit (see Chart 4). Demand for credit by small and medium enterprises however increased in net terms. Additionally, demand for long term credit dipped while that of short term loans increased in net terms during the survey period (see Chart 4). The decline in the overall enterprise demand for credit reflected the high cost of borrowing as a result of the tightened monetary policy stance.

Chart 4: Enterprise Demand for Credit

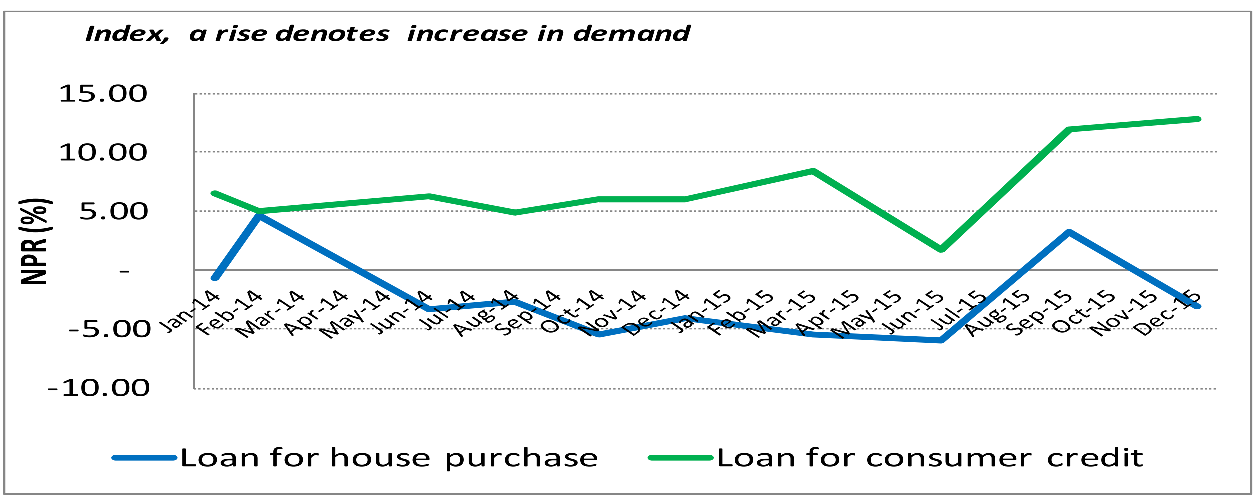


Notes: The net percentages for the questions on demand for loans are defined as the difference between the sum of the percentages for "increased considerably" and "increased somewhat" and the sum of the percentages for "decreased considerably" and "decreased somewhat".

5.2.2 Loan demand for Households

The survey round also reported an increase in households' demand for consumer credit, but a decline in demand for loans for house purchase (see Chart 5). This increase in households demand for consumer credit was to smoothen households' consumption over the period.

Chart 5: Demand for credit by Households



5.3 BANKING SECTOR STABILITY ANALYSIS

5.3 Developments in Banks' Balance Sheet

Total assets of the banking sector grew by 23.2 percent to GH¢63.38 billion as at end December 2015 compared with the 42.2 percent growth recorded in December 2014. Domestic assets component of total assets increased by 24.3 percent to GH¢58.07 billion at the end of December 2015 compared with 39.9 percent growth recorded for the same period in 2014. Growth in foreign assets slowed down from the 69.4 percent recorded in December 2014 to 12.1 percent growth in December 2015 (see Table 1).

Net loans and advances of GH¢27.04 billion as at the end of December 2015 represented an annual growth of 21.7 percent compared with the 44 percent growth in the corresponding period last year. Banks' investment portfolio (bills and securities) increased, in year-on-year terms, by 18.6 percent to reach GH¢14.34 billion by the end of December 2015 compared with the 11.2 percent growth at the end of December 2014 (see Table 1).

The banking sector total deposits liabilities as at end December 2015 was GH¢41.25 billion and showed an annual growth of 27.2 percent compared with 39.0 percent growth in December 2014. Banks' borrowings recorded a slowdown in growth from 69.2 percent in December 2014 to 15.7 percent in December 2015. The slowdown in banks' borrowings was driven mainly by the sharp decline in banks' long term foreign borrowings and the contraction in short term foreign borrowing (see Table 1).

Banks paid –up capital also showed an annual growth of 20.7 percent to GH¢3.2 billion by the end of December 2015, compared with 13.1percent growth in December 2014 (see Table 1). The pace in the year-on-year growth of shareholders' funds slowed down from 38.4 percent in December 2014 to 25.0 percent in December 2015. The key developments in the banks' balance sheet are provided in Table 1 below:

Table 1: Key Developments in Banks' Balance Sheet

Key Devts in DMBs' Balance Sheet	Dec-13	Dec-14	Dec-15	Y-on-Y Growth (%) Dec-14	Y-on-Y Growth (%) Dec-15	Shares Dec-15
TOTAL ASSETS	36,169.9	51,441.6	63,381.97	42.2	23.2	100.0
A. Foreign Assets	2,797.4	4,737.8	5,311.19	69.4	12.1	8.4
B. Domestic Assets	33,372.5	46,703.8	58,070.79	39.9	24.3	91.6
Investments	10,872.5	12,086.1	14,337.10	11.2	18.6	22.6
i. Bills	6,650.3	8,478.5	11,356.99	27.5	34.0	17.9
ii. Securities	4,040.4	3,190.8	2,569.85	(21.0)	(19.5)	4.1
Advances (Net)	15,426.1	22,215.7	27,039.26	44.0	21.7	42.7
of which Foreign Currency	5,404.7	7,206.8	8,796.64	33.3	22.1	13.9
Gross Advances	17,027.2	24,103.7	30,102.39	41.6	24.9	47.5
Other Assets	1,071.2	1,859.9	3,067.97	73.6	65.0	4.8
Fixed Assets	897.1	1,456.6	2,152.05	62.4	47.7	3.4
TOTAL LIABILITIES AND CAPITAL	36,169.9	51,441.6	63,381.97	42.2	23.2	100.0
Total Deposits	23,331.7	32,428.2	41,252.30	39.0	27.2	65.1
of which Foreign Currency	6,403.9	9,597.3	12,016.14	49.9	25.2	19.0
Total Borrowings	4,858.7	8,221.6	9,509.32	69.2	15.7	15.0
Foreign Liabilities	3,269.2	4,628.0	4,220.67	41.6	(8.8)	6.7
i. Short-term borrowings	2,558.0	2,931.2	2,237.65	14.6	(23.7)	3.5
ii. Long-term borrowings	487.9	1,346.2	1,715.21	175.9	27.4	2.7
iii. Deposits of non-residents	223.2	350.6	267.81	57.1	(23.6)	0.4
Domestic Liabilities	27,540.8	39,287.1	49,844.95	42.7	26.9	78.6
i. Short-term borrowing	1,586.1	3,485.9	4,884.61	119.8	40.1	7.7
ii. Long-term Borrowings	226.6	458.4	671.85	102.3	46.6	1.1
iii. Domestic Deposits	23,108.5	32,077.6	40,984.48	38.8	27.8	64.7
Other Liabilities	2,548.0	3,291.9	3,411.46	29.2	3.6	5.4
Paid-up capital	2,345.4	2,652.9	3,201.21	13.1	20.7	5.1
Shareholders' Funds	5,323.1	7,368.9	9,208.87	38.4	25.0	14.5

5.3.1 Asset and Liability Structure of the Banking Industry

Net advances constituted 42.7 percent of banks' assets in December 2015 compared with 43.2 percent in December 2014. Investment share in total assets however declined to 22.6 percent as at December 2015 from 23.5 percent recorded in the same period in 2014 (see Table 2).

Table 2: Asset and Liability Structures of the Banking Sector

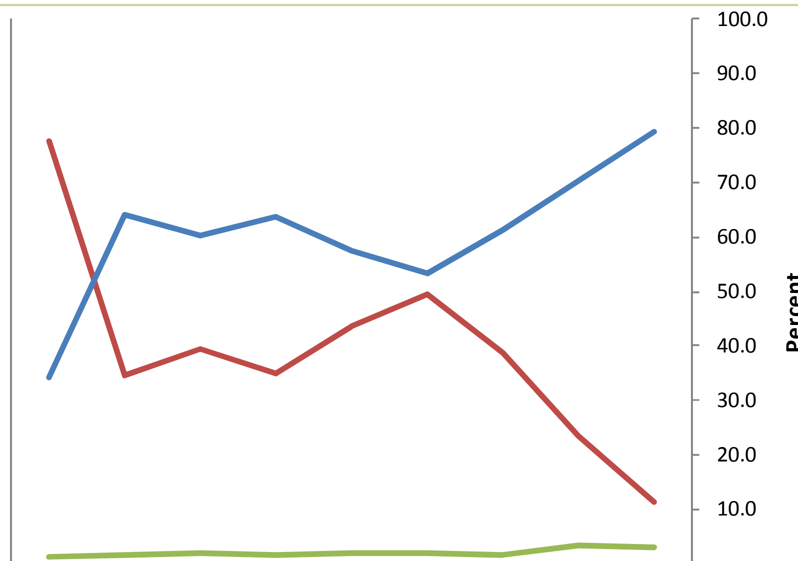
	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15
Cash and Due from Banks	23.3	25.2	26.3	25.3	27.8	24.1	21.7	26.8	26.4
Investments	17.6	14.5	21.4	26.5	27.6	27.4	30.1	23.5	22.6
Net Advances	50.3	52.3	43.8	40.1	37.8	42.9	42.6	43.2	42.7
Other Assets	5.7	4.7	5.4	5.2	3.8	3.0	3.0	3.6	4.8
Fixed Assets	3.1	3.2	3.0	2.9	2.7	2.5	2.5	2.8	3.4
	Components of Liabilities (In Percent of Total)								
Total Deposits	63.0	65.0	63.9	67.9	72.5	71.9	64.5	63.0	65.1
Total Borrowings	13.5	12.7	13.3	10.8	8.1	8.3	13.4	16.0	15.0
Other Liabilities	12.2	11.8	9.8	7.4	5.3	4.7	7.0	6.4	5.4
Shareholders' Funds	10.3	10.4	12.6	13.3	13.7	14.8	14.7	14.3	14.5

Total deposits' share of total liabilities of 65.1 percent at end December 2015 was higher than the 63.0 percent recorded in December 2014. The proportion of shareholders' funds in total liabilities also increased marginally to 14.5 percent as at December 2015 from 14.3 percent in December 2014. The share of banks' borrowings as a proportion of total liabilities also decreased to 15.0 percent as at December 2015 from 16.0 percent in December 2014 (see Table).

5.3.2 Share of Banks' Investments

Chart 6 shows the distribution of the banks' investment portfolio between December 2006 and December 2015.

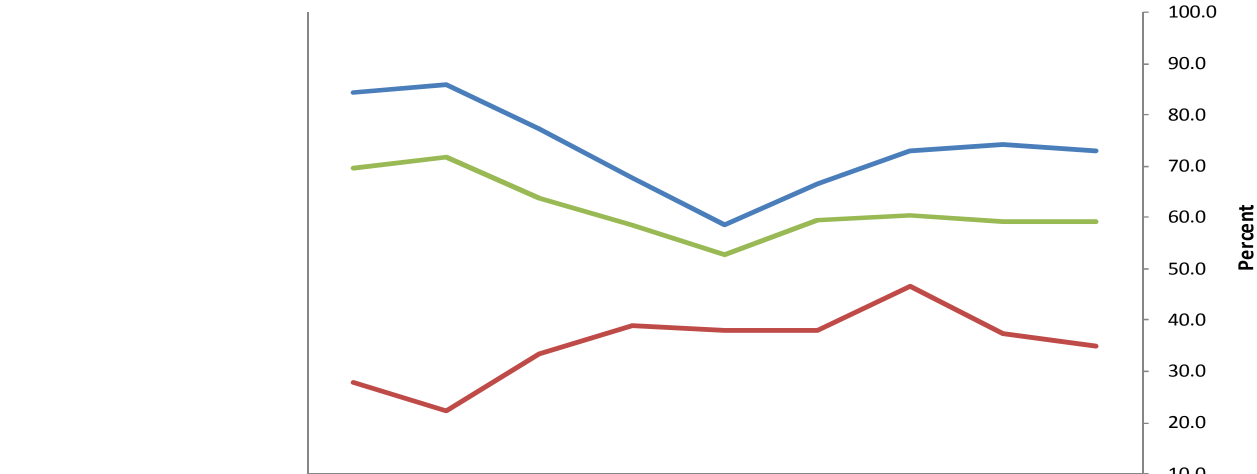
Chart 6 Banks' Investment (%)



	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15
Securities/Total Investments	64.4	34.2	37.7	34.5	40.5	44.7	37.2	26.4	17.9
Bills/Total Investments	34.3	64.2	60.3	63.9	57.4	53.3	61.2	70.2	79.2
Shares & Other Equities/Total Investments	1.3	1.6	2.0	1.6	2.0	2.0	1.7	3.4	2.9

Banks' investment in securities as a share of total investment decreased to 17.9 percent in December 2015 from 26.4 percent in December 2014. Investment in treasury bills as a share of total investment however increased to 79.2 percent in December 2015 from 70.2 percent in December 2014. Banks' investments in shares and other equities as a share of total investment also decreased to 2.9 percent as at December 2015 from 3.4 percent in the same period last year (see Chart 6).

Chart 7: Portfolio Allocation (%)



	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15
Investments to Deposit	27.9	22.3	33.4	38.9	38.1	38.1	46.6	37.3	34.8
Credit/Deposit + Borrowings	69.5	71.8	63.8	58.4	52.6	59.6	60.4	59.3	59.3
Credit to Deposit	84.4	85.9	77.2	67.7	58.5	66.5	73.0	74.3	73.0

Credit to deposits ratio decreased to 73.0 percent in December 2015 from 74.3 percent in December 2014; whereas credit to deposit plus borrowings ratio increased marginally to 59.3 percent in December 2015 from 59.3 percent in December 2014. Investments to deposit ratio also decreased to 34.8 percent in December 2015 from 37.3 percent in December 2014 (see Chart 7).

5.4 Credit Risk

5.4.1 Credit Portfolio Analysis

The banking industry's gross loans and advances grew in real terms by 6.13 percent at the end of December 2015 compared with 21.0 percent growth recorded in the same period in 2014. Credit to the private sector also grew by 5.7 percent at end of December 2015 compared with the 21.2 percent growth at the end of December 2014. Credit to the households also contracted by 8.2 percent in December 2015 compared with 23.7 percent growth recorded in the same period in 2014 (see Table 3).

The composition of banks' credit portfolio by economic institutions showed that the proportion of banks' loans to Government and public institutions decreased from 6.8 percent in December 2014 to

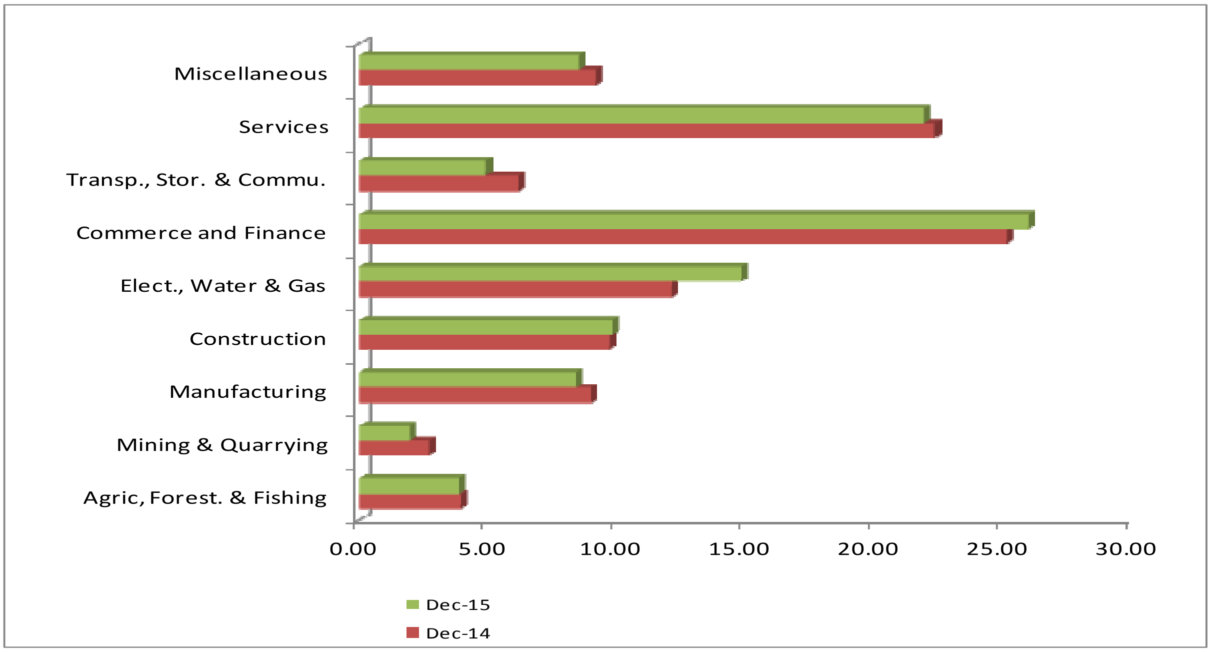
5.4 percent in December 2015. Credit to private enterprises however increased to 77.5 percent of gross loans in December 2015 from 74.0 percent recorded in December 2014. The share of household loans in gross loans declined to 14.9 percent in December 2015 from 16.6 percent in December 2014. Credit to public enterprises accounted for 2.2 percent of gross loans and advances in December 2015, compared with 2.6 percent registered in December 2014 (see Table 3).

Table 3: Gross Loans and Real Annual Growth of Credit

	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15
Gross Loans and Advances (GH¢m)	4,146.5	5,966.8	6,920.85	7,994.69	9,352.42	13,021.88	17,027.23	24,103.74	30,229.35
Real Growth (y-o-y)	46.0	21.8	0.01	6.4	7.7	27.9	11.62	21.01	6.13
Private Sector Credit (GH¢m)	3,378.5	4,834.4	5,746.2	6,916.2	8,560.89	11,477.37	14,894.33	21,121.96	26,258.63
Real Growth (y-o-y)	43.5	21.1	2.5	10.9	14.0	23.2	10.78	21.23	5.65
Households Loans (GH¢)	724.1	1,049.1	1,070.1	1,098.4	1,481.30	2,084.65	2,862.56	4143.2929	4,477.86
Real Growth (y-o-y)	71.0	22.6	(12.0)	(5.5)	24.2	29.3	17.2	23.7	(8.2)
Distribution of Gross Loans by Economic Sector (percent)									
Private Enterprises	64.0	63.4	67.6	72.8	76.2	71.1	74.3	74.0	77.5
Household Loans	17.5	17.6	15.5	13.7	15.8	16.0	16.8	16.6	14.9
Govt & Public Institutions	4.7	5.3	2.5	2.6	4.5	7.6	5.3	6.8	5.4
Public enterprises	13.8	13.7	14.5	10.9	3.4	5.3	3.5	2.6	2.2

The Commerce & Finance sector continued to receive the highest amount of credit, accounting for 25.9 percent as at December 2015 compared with 25.1 percent in December 2014. The three highest recipient sectors of credit, namely Commerce & Finance, Services, and Electricity, Gas & Water, accounted for 62.6 percent of credit allocation in December 2015 compared with 59.4 percent recorded in December 2014. The share of credit allocation to other sectors including Manufacturing, Construction and Miscellaneous improved while Mining & Quarrying, Transportation, Storage & Communication, and Agriculture, Forest & Fishing declined during the review period (see Chart 8).

Chart 8: Sectoral Credit Allocation



Off-Balance Sheet Activities

Off-balance sheet items (contingent liabilities) grew, in year-on-year terms, by 10.8 percent to GH¢7.39 billion as at December 2015 compared with a growth of 40.2 percent in the corresponding period in 2014. The decrease in the growth of off–balance sheet exposures reflected some deceleration in trade finance over the period. Contingent liabilities as a percent of total liabilities, decreased marginally to 13.6 percent in December 2015 from 15.1 percent in December 2014 (see Table 4).

Table 4: Contingent Liabilities

	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15
Contingent Liabilities (GH¢'million)	1,253.8	1,750.0	1,477.4	2,101.2	3,377.2	3,640.4	4,752.3	6,664.7	7,385.9
Growth (y-o-y)	36.9	39.6	(15.6)	42.2	60.7	7.8	30.5	40.2	10.8
% of Total Liabilities	16.1	16.4	10.5	12.1	15.3	15.7	15.4	15.1	13.6

5.4.2 Asset Quality

Banks loan quality generally deteriorated in 2015 with an increase in the non–performing loans (NPLs) from GH¢ 2.72 billion in December 2014 to GH¢ 4.42 billion in December 2015, representing a year-on-year increase of 62.5 percent and a NPL ratio of 14.7 percent. The adjusted

NPL ratio (i.e. NPLs ratio minus the loss category) of 6.8 percent as at December 2015 also represented deterioration over the 5.6 percent recorded in December 2014. Similarly, the ratio of NPL net of provisions to capital deteriorated to 14.7 percent in December 2015 from 11.2 percent in December 2014. However, loan loss provision to gross loans increased to 6.3 percent in December 2015 from 4.6 in the same period in 2014 (see Table 5).

Table 5: Asset Quality

	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15
SUB-STD (GH¢m)	62.8	124.0	322.8	265.7	239.9	347.2	327.4	535.3	748.6
DOUBTFUL (GH¢m)	77.9	129.2	321.3	242.3	259.7	326.7	397.3	741.1	1,127.6
LOSS (GH¢m)	125.2	205.0	477.1	937.6	823.4	1,045.2	1,320.3	1,439.9	2,541.0
NPL (GH¢m)	266.0	458.1	1,121.2	1,445.6	1,323.0	1,719.0	2,045.0	2,716.3	4,417.1
NPL Ratio (%)	6.9	7.7	16.2	17.6	14.1	13.2	12.0	11.3	14.7
NPL Net of Provision to Capital (%)	4.76	7.66	19.87	29.23	10.37	9.44	8.34	11.24	14.70
Loan provision to Gross loan (%)	4.73	5.13	9.42	9.37	7.68	6.43	5.52	4.58	6.28
Adjusted NPL Ratio	3.8	4.4	10.0	7.0	5.9	5.6	4.6	5.6	6.8

Credit to the private sector contributed 96.0 percent of the total banking sector's non-performing loans as at December 2015 compared with 97.7 percent in December 2014. The proportion of banks' NPLs attributable to the public sector deteriorated from 2.3 percent in December 2014 to 4.0 percent in December 2015. Even though private enterprises received only 71.0 percent of the private sector credit, they accounted for 88.5 percent of NPLs in the sector as at December 2015 compared with 68.5 percent of credit received and 88.2 percent of NPLs respectively in the same period in 2014. The highly disproportionate level of NPLs associated with the private enterprises was driven mainly by indigenous enterprises, which received 61.0 percent of credit to private enterprises but accounted for 79.6 percent of NPLs as at December 2015. However, while foreign enterprises' share of private sector credit declined marginally from 10.1 percent in December 2014 to 10.0 percent in December 2015, their contribution to private sector NPLs increased significantly over the period under review. Households' share of private sector credit and contribution to NPLs declined over the review period (see Table 6).

Table 6: Distribution of gross loans and NPLs by Borrower TYPE (Percent)

Distribution of Loans and NPLs By Economic Sector (Percent)								
	Dec-12		Dec-13		Dec-14		Dec-15	
	Share in Total Credit	Share in NPLs	Share in Total Credit	Share in NPLs	Share in Total Credit	Share in NPLs	Share in Total Credit	Share in NPLs
a. Public Sector	**11.4**	**8.1**	**12.6**	**10.0**	**12.4**	**2.3**	**12.8**	**4.0**
i. Government	4.7	0.2	3.7	2.3	3.6	1.6	2.4	1.7
ii. Public Institutions	1.8	0.6	1.4	0.4	1.5	0.2	2.0	0.1
iii. Public Enterprises	4.9	7.3	7.5	7.2	7.3	0.5	8.4	2.2
b. Private Sector	**88.6**	**91.9**	**87.4**	**90.0**	**87.6**	**97.7**	**87.2**	**96.0**
i. Private Enterprises	70.8	82.5	68.4	80.8	68.5	88.2	71.0	88.5
o/w Foreign	9.6	7.1	11.3	5.5	10.1	6.7	10.0	8.9
Indigeneous	61.2	75.4	57.1	75.3	58.4	81.4	61.0	79.6
ii. Households	16.0	7.6	16.8	8.6	17.2	8.7	14.9	7.0
iii. Others	1.8	1.7	2.2	0.6	1.9	0.9	1.4	0.6

Commerce and finance sector continued to account for the largest amount of the banking sector NPLs followed by services, and manufacturing. The three sectors accounted for 70.0 percent of NPLs in December 2015 compared with 66.7 percent in December 2014. Mining and quarying sector accounted for the lowest amount of the industry's NPLs (see Chart 9).

Chart 9: Sectoral Distribution of Total Credit and Non-Performing Loans as at December 2015

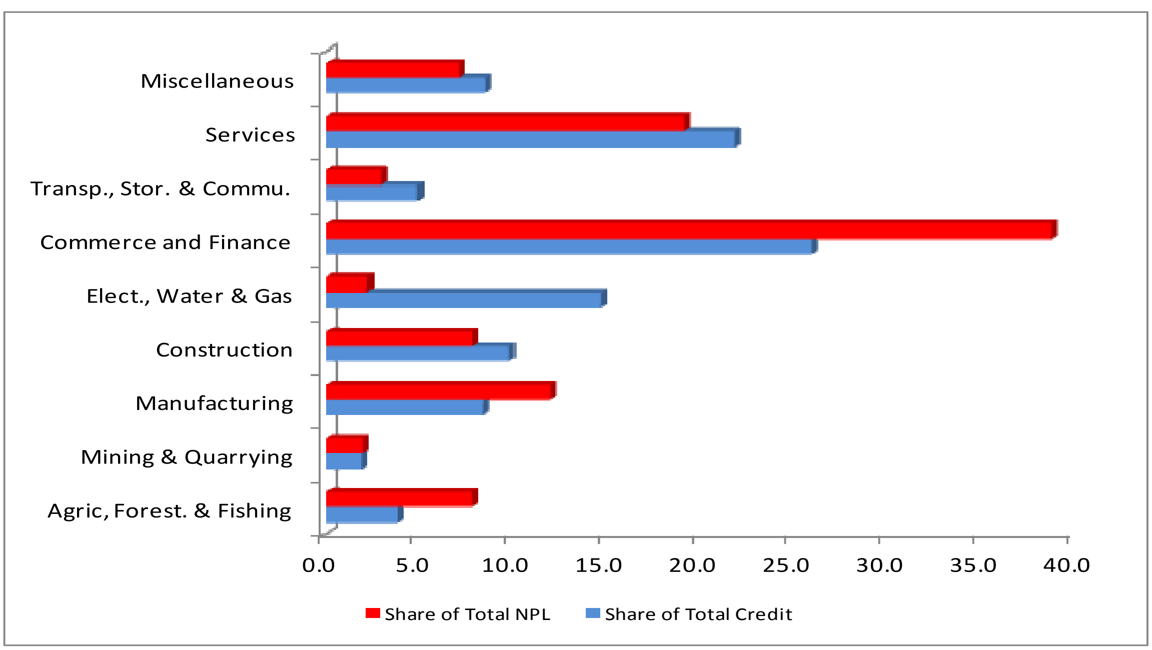
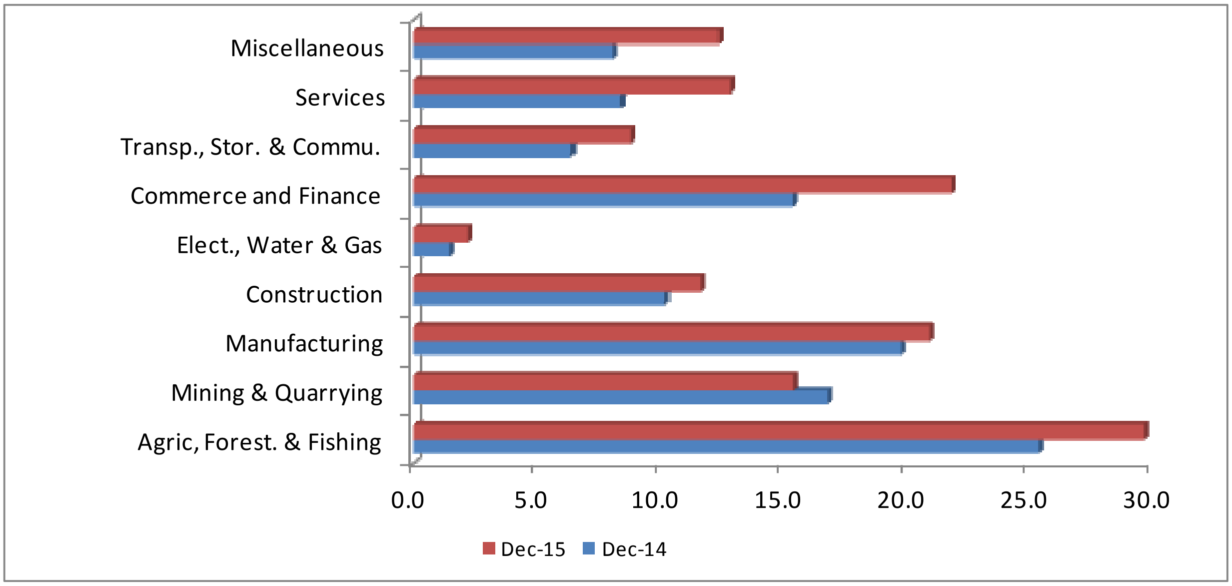


Chart 10: Proportion of Loans Impaired in Each Sector (Sectoral NPLs)



5.5 Liquidity Indicators

The liquidity conditions of the banking tightened in December 2015. All indicators of liquidity decreased but generally remained within acceptable thresholds during the period under the review (see Table 7).

Table 7: Liquidity Ratios

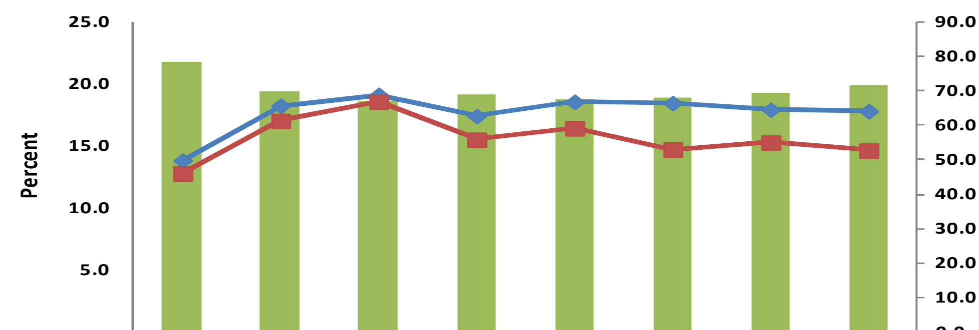
	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15
Liquid Assets (Core) - (GH¢'million)	1,816.9	2,692.8	3,689.0	4,406.9	6,139.1	6,572.5	7,854.0	13,790.5	16,752.6
Liquid Assets (Broad) -(GH¢'million)	3,170.3	4,215.5	6,629.7	8,933.6	12,109.1	13,881.6	18,544.7	25,459.7	30,679.4
Liquid Assets to total deposits (Core)	37.0	38.8	41.1	37.3	38.4	33.6	33.7	42.5	40.6
Liquid Assets to total deposits (Broad)	64.5	60.7	73.9	75.6	75.7	70.9	79.5	78.5	74.4
Liquid assets to total assets (Core)	23.3	25.2	26.3	25.3	27.8	24.1	21.7	26.8	26.4
Liquid assets to total assets (Broad)	40.7	39.4	47.2	51.3	54.9	51.0	51.3	49.5	48.4

5.6 Capital Adequacy Ratio

The industry's capital adequacy ratio (CAR) as measured by the ratio of risk-weighted capital to risk–weighted assets declined marginally from 17.9 percent in December 2014 to 17.8 percent in

December 2015 mainly on account of the weaker credit delivery during the review period and loan write-offs by some banks (see Chart 11). The industry CAR however remained well-above the 10 percent prudential and statutory requirements.

Chart 11: Capital Adequacy Ratio – Industry (%)



	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15
RWA/Total Assets (RHS)	78.1	69.8	67.0	68.8	67.6	67.8	69.5	71.8
CAR	13.8	18.2	19.1	17.4	18.6	18.5	17.9	17.8
TIER 1 CAR	12.8	17.0	18.6	15.5	16.4	14.7	15.3	14.6

5.7 Profitability

5.7.1 Highlights from the Banks' Income Statement

Indicators of profitability for the banking industry showed some deterioration in banks' earnings performance for the period ended December 2015. The industry net interest income registered a growth of 35.2 percent in December 2015 compared with 38.2 percent growth registered in December 2014.

The sector's income before tax registered a negative growth over the period from a growth of 34.9 percent in December 2014 to -5.4 percent growth in December 2015. Similarly, the industry's net profit after tax contracted by 7.4 percent in December 2015 compared with 35.5 percent growth in December 2014 (see Table 8).

Table 8: DMBs Income Statement

	Dec-13	Dec-14	Dec-15	Dec-14	Dec-15
	(GH ¢'million)			Y-on-y Growth (%)	
Interest Income	4,516.8	6,354.2	9,236.8	*40.7*	*45.4*
Interest Expenses	(1,455.0)	(2,123.4)	(3,515.9)	*45.9*	*65.6*
Net Interest Income	**3,061.8**	**4,230.8**	**5,721.0**	***38.2***	***35.2***
Fees and Commissions (Net)	814.3	1,085.7	1,325.0	*33.3*	*22.0*
Other Income	739.8	1,062.6	872.2	*43.6*	*(17.9)*
Operating Income	**4,615.9**	**6,379.1**	**7,918.1**	***38.2***	***24.1***
Operating Expenses	**(2,090.7)**	**(2,963.1)**	(3,948.2)	***41.7***	***33.2***
Staff Cost	(963.3)	(1,611.2)	(2,048.6)	*67.3*	*27.1*
Other operating Expenses	(1,127.5)	(1,351.9)	(1,899.6)	*19.9*	*40.5*
Net Operating Income	**2,525.2**	**3,416.0**	**3,969.9**	***35.3***	***16.2***
Total Provision (Loan losses, Depreciation & others)	(549.4)	(696.3)	- 1,381.4	*26.7*	*98.4*
Monetary Loss	4.5	(47.6)	-	*(1,159.8)*	*(100.0)*
Income Before Tax	**1,980.3**	**2,672.1**	**2,588.5**	***34.9***	***(3.1)***
Tax	(533.8)	(712.1)	(772.7)	*33.4*	*8.5*
Net Income	**1,446.5**	**1,960.0**	**1,815.8**	***35.5***	***(7.4)***
Gross Income	**6,070.9**	**8,502.5**	**11,434.0**	***40.1***	***34.5***

5.7.2 Interest Margin and Spread

The ratio of gross income to total assets (i.e. assets utilisation) increased to 18.0 percent in December 2015 from 16.5 percent in the corresponding period in 2014. Banks' interest spread also increased to 16.0 percent in December 2015 from 12.9 percent in December 2014 (see Table 9).

Table 9: Profitability Indicators (%)

	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15
Gross Yield	14.9	17.0	20.4	19.5	15.3	15.9	18.6	20.5	25.8
Int Payable	6.6	8.4	11.2	8.3	5.6	5.5	7.0	7.6	9.8
Spread	8.4	8.6	9.1	11.1	9.7	10.3	11.6	12.9	16.0
Asset Utilitisation	14.0	15.9	17.6	16.7	14.1	15.4	16.8	16.5	18.0
Interest Margin to Total Assets	6.4	6.6	6.9	8.4	6.6	7.5	8.5	8.2	9.0
Interest Margin to Gross income	46.1	41.3	39.4	50.1	46.8	48.5	50.4	49.8	50.0
Profitability Ratio	16.2	13.3	9.8	14.6	17.8	21.5	23.8	23.1	15.9
Return On Assets (%) before tax	3.7	3.2	2.8	3.8	3.9	4.8	6.2	6.4	**4.6**
Return On Equity (%) after tax	25.8	23.7	17.5	20.4	19.7	25.8	31.1	32.3	**22.1**

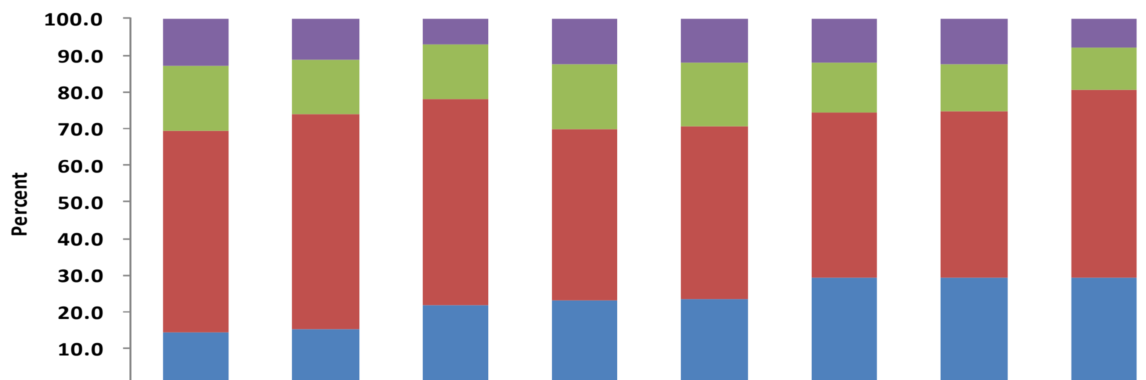
5.7.3 Return on Assets and Return on Equity

The banking industry's return on assets (ROA) decreased marginally to 4.6 percent in December 2015 from 6.4 percent in December 2014. Similarly, return on equity (ROE) decreased to 22.1 percent in December 2015 from 32.3 percent in December 2014 (see Table 9).

5.7.4 Composition of Banks' Income

Interest income from loans continued to be the main source of income for the banking industry and constituted 51.5 percent of total income in December 2015 compared with 45.5 percent in December 2014. Investment income share of 29.3 percent of total income in December 2015 was marginally above the 29.2 percent recorded in December 2014. The share of income from fees and commission however declined to 11.6 percent in December 2015 from 12.8 percent in December 2014 (see Chart 12).

Chart 12: Composition of Income (%)

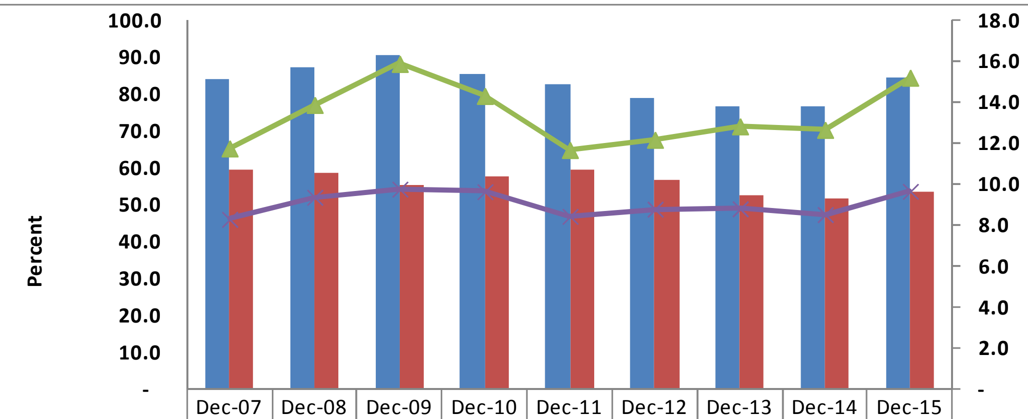


	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15
Other Income	12.7	11.0	7.1	12.3	11.9	12.2	12.5	7.6
Commissions & Fees	17.8	14.8	14.9	18.1	17.7	13.4	12.8	11.6
Loans	55.3	58.7	55.9	46.4	47.0	45.1	45.5	51.5
Investments	14.3	15.4	22.1	23.3	23.5	29.3	29.2	29.3

5.8 Operational Efficiency

Indicators of operational efficiency showed deterioration in 2015, mainly because of the energy challenges which increased the operational cost of banks and increased staff cost. Cost to income ratio increased to 84.1 percent in December 2015 from 76.4 percent in December 2014; while cost to total assets ratio increased to 15.2 percent in December 2015 from 12.6 percent in December 2014. Similarly, operational cost to total assets increased to 9.6 percent in December 2015 from 8.5 percent in December 2014. Operational cost to gross income also increased from 51.4 percent in December 2014 to 53.4 percent in December 2015 (see Chart 13).

Chart 13: Efficiency Indicators



	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15
Cost to income	83.9	86.9	90.1	85.4	82.4	78.7	76.2	76.4	84.1
Operational Cost to gross income	59.1	58.6	55.4	57.5	59.5	56.7	52.3	51.4	53.4
Cost to total assets (RHS)	11.7	13.8	15.8	14.3	11.6	12.1	12.8	12.6	15.2
Operational Cost to total assets (RHS)	8.3	9.3	9.7	9.6	8.4	8.8	8.8	8.5	9.6

5.9 Banks' Counterparty Relationships

Banks continued to trade actively with both domestic and foreign counterparties in the fourth quarter of 2015.

5.9.1 Developments in Banks' Offshore balances & External Borrowing

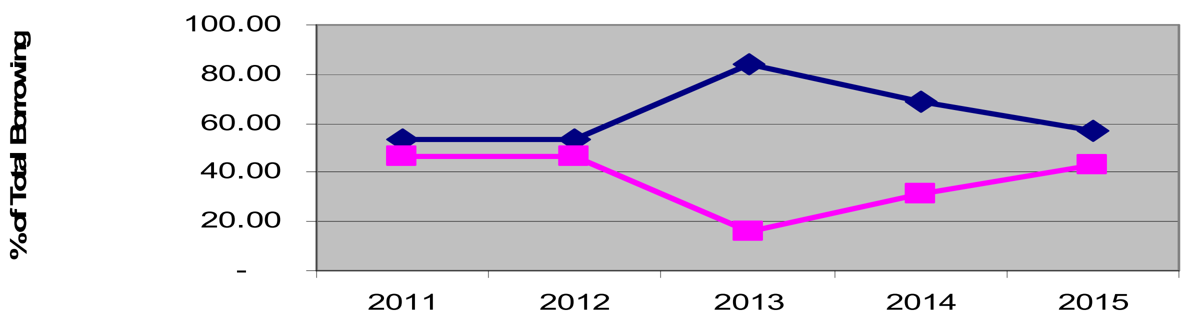
Growth in banks' offshore balances and placements continued to decline in the last quarter of 2015. Nostro balances declined in growth from 56.37 percent in December 2014 to 19.13 percent in December 2015. Banks' placements with foreign banks contracted sharply in December 2015, after recording a growth of 123.7 percent in December 2014 (Table 10). The sharp drop was as a result of the relative stability in the exchange rate and a slow down in trade finance partly due to the on-going fiscal consolidation by the government.

Table 10: Developments in Banks' Offshore Balances (%)

	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15
Offshore balances as % to Networth	60.20	47.89	47.55	60.14	53.41
Annual Growth in Offshore balances (%)	50.56	5.55	31.36	75.06	11.00
Annual Growth in Nostro Balances (%)	27.65	32.22	51.14	56.37	19.13
Annual Growth in Placement (%)	79.72	(20.13)	0.88	123.70	(2.53)

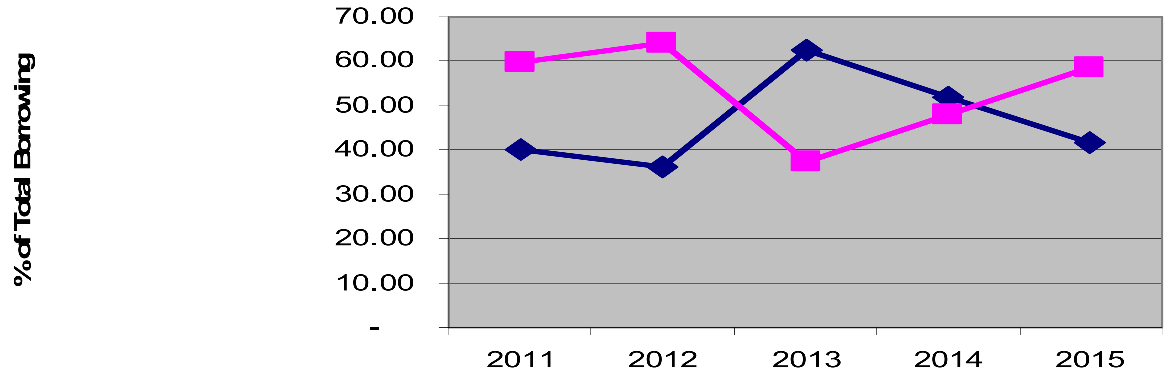
Banks' demand for long term external borrowing continued to increase relative to short term borrowing, shown by an increase in the proportion of long term borrowing from 31.47 percent in December 2014 to 43.39 percent in December 2015 (see Chart 14). There was however a slowdown in the demand for short term external borrowing by banks in December 2015. Banks' demand for domestic sources of borrowing also increased significantly over the period, relative to foreign sources of borrowing (see Chart 15).

Chart 14: Composition of Banks' External Borrowing



	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15
Short-term borrowings	53.28	53.16	83.98	68.53	56.61
Long term borrowings	46.72	46.84	16.02	31.47	43.39

Chart 15: Classification of Banks' Borrowing by Source



	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15
Foreign Borrowing	40.23	36.00	62.69	52.03	41.57
Domestic Borrowing	59.77	64.00	37.31	47.97	58.43

6.1 Conclusion and Outlook

Ghana's banking sector continued to be sound and solvent as evidenced by key financial soundness indicators, though there has been some deterioration in asset quality and efficiency. The year 2015 was characterized by the licensing of two new banks, GN Bank and First National Bank (FNB). The entry of new banks into the industry engenders healthy competition, moderates concentration by major banks and improves access to financial services. The banking industry's performance is expected to pick up with the improvement in the energy supply; on-going fiscal consolidation reflected in the lower Treasury bill rates; and relative stability in the exchange rate.