



PRESS RELEASE

GOVERNMENT ESTABLISHES NEW INDIGENOUS BANK; BANK OF GHANA REVOKES LICENCES OF FIVE BANKS AND APPOINTS RECEIVER IN RESPECT OF THEIR ASSETS AND LIABILITIES

The Bank of Ghana today has granted a universal banking licence to Consolidated Bank Ghana Limited established by the Government. The Bank of Ghana has also today revoked the licences of uniBank Ghana Limited, The Royal Bank Limited, Beige Bank Limited, Sovereign Bank Limited, and Construction Bank Limited and has appointed Mr. Nii Amanor Dodoo of KPMG as the Receiver for the five banks.

All deposits of the five banks are safe and have been transferred to the Consolidated Bank. Customers can carry out their business as usual at their respective banks which will now become branches of the Consolidated Bank. All staff of these banks will become staff of the Consolidated Bank. Boards of Directors and shareholders of these banks no longer have any roles.

Ghana needs a strong and stable banking sector to drive the process of economic transformation. A weak banking sector means that access to credit will be limited while lending rates will continue to be high.

The Bank of Ghana is mandated by law to promote the safety, soundness, and stability of the financial system and to protect the interests of depositors. In this context, the Bank has over the last year rolled out measures to strengthen the financial system to protect the interests of depositors however, a number of legacy problems have plagued the banking sector including macroeconomic factors, poor corporate governance and risk management practices, related party transactions that were not above board, regulatory non-compliance, and poor supervision, (questionable licensing processes and weak enforcement) leading to a significant build-up of vulnerabilities in the sector.

From an Asset Quality Review (AQR) of banks conducted by the Bank of Ghana in 2015 and updated in 2016, a few indigenous banks were identified as vulnerable with inadequate capital, high levels of non-performing loans, and weak corporate governance. In August 2017, the Bank of Ghana closed two of those banks (UT Bank and Capital Bank) and approved the acquisition by GCB Bank of some of their assets and liabilities under a Purchase and Assumption Agreement. Other banks that were more recently licensed in 2016 and commenced operations in 2017 also began to show signs of distress, primarily due to conditions under which they obtained their licences.

Efforts by these banks to extricate themselves from financial difficulty have not borne fruit. The situation has rather worsened for these banks.

uniBank and Royal Bank were identified during the AQR update in 2016 exercise to be significantly undercapitalized. The two banks subsequently submitted capital restoration plans to the Bank of Ghana. These plans however, yielded no success in returning the banks to solvency and compliance with prudential requirements. The Official Administrator appointed for uniBank in March 2018 has found that the bank is beyond rehabilitation. Shareholders, related and connected parties had taken amounts totaling GH¢3.7 billion which were neither granted through the normal credit delivery process nor reported as part of the bank's loan portfolio. In addition, amounts totaling GH¢1.6 billion had been granted to shareholders, related and connected parties in the form of loans and advances without due process and in breach of relevant provisions of Act 930. Altogether, shareholders, related and connected parties of uniBank had taken out an amount of GH¢5.3 billion from the bank, constituting 75 percent of total assets of the bank.

In the case of Royal Bank, an on-site examination conducted by the Bank of Ghana in 31st March, 2018 revealed a number of irregularities. Its non-performing loans constitute 78.9 percent of total loans granted, owing to poor credit risk and liquidity risk management controls. A number of the bank's transactions totaling GH¢161.92 million were entered into with shareholders, related and connected parties, structured to circumvent single obligor limits, conceal related party exposure limits, and overstate the capital position of the bank for the purpose of complying with the capital adequacy requirement.

In the case of Sovereign Bank Limited, as part of Bank of Ghana's investigations into the failure of Capital Bank Limited (currently in receivership), it emerged that Sovereign Bank's licence was obtained by false pretences through the use of suspicious and non-existent capital. The bank is insolvent and unable to meet daily liquidity obligations falling due. Liquidity support granted so far to the bank amounts to GH¢21 million as of 31st July 2018. The bank has not been able to publish its audited accounts for December 2017, in violation of section 90 (2) of Act 930.

Beige Bank and Construction Bank were each granted provisional licences in 2016 and launched in 2017. Subsequent investigations conducted by the Bank of Ghana, revealed that similar to the case of Sovereign Bank, both banks obtained their banking licences under false pretences through the use of suspicious and non-existent capital, which has resulted in a situation where their reported capital is inaccessible to them for their operations.

A more detailed description of the current situation of the five banks can be found in the attached Annex.

To help ensure that the banking sector maintains a strong indigenous presence, the government has established a new bank called Consolidated Bank Ghana Limited which will act as a bridge bank pursuant to section 127 (11) of Act 930, to assume some of the assets and liabilities of the five banks. The Government has capitalised the new bank in the amount of GH¢450 million and the Bank of Ghana has issued it with a universal banking licence with effect from 1st August 2018.

The Bank of Ghana has also approved a Purchase and Assumption Agreement between Consolidated Bank and the Receiver for the five banks. Under the Agreement, Consolidated Bank has acquired all deposits and other specified liabilities, and good assets of the five banks. To finance the gap between the liabilities and good assets assumed by Consolidated Bank, the Government has issued a bond of up to GH¢ 5.76 billion.

Consolidated Bank will assume the branches and staff of the five banks and will operate its head office from the Manet Tower C, Airport City, Accra. All customers will have immediate access to their funds through the existing branches and ATMs of the five banks.

No customers of uniBank, Royal Bank, Beige Bank, Sovereign Bank, or Construction Bank will lose their deposits. All deposits in the five banks are safe. We expect that the new bank will be better governed and managed to become a strong indigenous bank to support Ghana's economic transformation.

The Government has assured the Bank of Ghana that it will be providing financial support to other indigenous banks as needed, to help them meet the minimum capital requirement of GH¢400 million by 31st December 2018. The Government has indicated that such support will be limited to indigenous banks that are solvent, well governed and managed, in full compliance with the Bank of Ghana's regulatory requirements, and able to demonstrate that they have been unable to access private sector solutions for recapitalization due to market conditions. Additionally, the Government has committed to further explore policy interventions needed to make the entire financial system more robust, for the benefit of the Ghanaian economy.

The Bank of Ghana remains committed to supporting the orderly development of Ghana's banking sector, including indigenous Ghanaian banks, while promoting a strong and resilient sector to drive Ghana's economic growth. In keeping with this commitment, the Bank of Ghana will take additional steps to ensure that all relevant parties whose actions contributed to the failure of the five banks are held accountable through administrative, civil, and criminal actions as appropriate.

For further enquiries, kindly contact the Bank of Ghana on the following numbers:

0302665034

0244325961

End

1st August, 2018



ANNEX

Background

The Bank of Ghana has taken the above measures as part of its efforts to address legacy problems in the banking sector and to restore the stability and resilience of the financial system. While some of the weaknesses in the sector were attributable to macroeconomic factors, a trend of poor corporate governance, poor risk management practices, related party transactions that were not above board, regulatory non-compliance, and poor supervision (questionable licensing processes and weak enforcement) had emerged over the years, leading to a significant build-up of vulnerabilities in the sector.

uniBank

It would be recalled that on 20th March 2018, the Bank of Ghana appointed KPMG as Official Administrator (OA) for uniBank to help ascertain the true financial condition of the bank, protect depositors' funds held by the bank, and explore how the bank could be returned to viability within a period of no later than six months.

In line with the requirements of Act 930, KPMG submitted an Inventory of Assets and Liabilities of uniBank (Ghana) Limited on 20th April 2018 (30-day report), and a report on the Financial Conditions and Future Prospects of uniBank (Ghana) Limited on 20th June 2018 (90-day report).

KPMG's reports confirmed, based on a detailed review and validation of the financial condition of uniBank that the bank was balance sheet insolvent at the time of their appointment as official administrator and remains so. As official administrator, KPMG made efforts to ascertain the assets and liabilities of the bank and evaluated options for turning around the bank's fortunes. KPMG, however, found that the bank's operations are not sustainable. Among other things, the bank's interest income and other sources of income are insufficient to cover the associated cost of funds of underlying borrowings and liabilities, as well as overheads of about GH¢0.31 billion per annum. A significant portion of the bank's loan book which forms the largest component of the bank's assets, is non-performing. The earning capacity of the bank continues to deteriorate. In addition, the bank's governance and internal control environments have been assessed as weak, with significant deficiencies in credit underwriting and loan approval process, compliance and reporting. Key findings from KPMG's reports indicated serious corporate governance, risk management, compliance and management flaws, as well as unlawful transactions involving shareholders, related parties, and connected parties.

In particular:

- uniBank had given out amounts totaling GH¢1.6 billion to shareholders and related parties in the form of loans and advances without due process and in breach of relevant provisions of Act 930. In addition, these shareholders and related parties had also been given amounts totaling GH¢3.7 billion which were neither granted through the normal credit delivery process nor reported as part of the bank's loan portfolio. They were also not secured with collateral, and attracted no interest income for uniBank. Altogether, shareholders and related parties of uniBank had taken out an amount of GH¢5.3 billion, constituting 75 percent of total assets of the bank;
- Out of total customer deposits of GH¢4.3 billion, GH¢2.3 billion was not disclosed to the Bank of Ghana. Loans and advances to customers were also overstated by GH¢1.3 billion in prudential returns to the Bank of Ghana;
- Over 89% of uniBank's loans and advances book of GH¢3.74 billion as of 31st May 2018 was classified as non-performing, in addition to amounts totaling GH¢3.7 billion given out to shareholders and related parties which were not reported as part of the bank's loan portfolio;
- After making allowances for impairments to recognise the deterioration in the quality of uniBank's assets and other requirements under Bank of Ghana's capital adequacy framework, uniBank was balance sheet insolvent with negative shareholders' funds of GH¢6.78 billion as at 31 May 2018 (representing assets of GH¢ 2.38 billion less liabilities of GH¢9.15 billion);
- The bank therefore has a capital deficit of GH¢7.4 billion, compared to the regulatory minimum of GH¢ 400 million;
- After making adjustments to uniBank's balance sheet to offset outstanding debts totaling GH¢ 428,817,961 owed it by Government contractors (backed by Interim Payment Certificates issued by the Government), the bank's liabilities (including an amount of GH¢ 3.04 billion owed to the Bank of Ghana) remain significantly more than its assets, and is therefore insolvent

To summarise, as of 31st May 2018, uniBank was insolvent, with a capital deficit of GH¢7.4 billion (compared to the regulatory minimum of GH¢ 400 million), and a capital adequacy ratio (CAR) of negative 74.65% (compared to the regulatory minimum of 10%). uniBank is also cash-flow insolvent, given that a significant portion of the its assets are locked up in interest-free loans and other advances to its shareholders and related parties.

As a result of the financial condition of the bank, it has continued to survive largely on liquidity support to meet maturing liabilities including operating expenses. As of June 2018, total liquidity support that has been provided to uniBank was GH3.1 billion,

including approximately GH¢ 927.2 million provided since the appointment of KPMG in March 2018. KPMG estimates that uniBank will need additional liquidity support estimated at GH¢3.0 billion through the end of 2018 to help meet overdue and maturing obligations and operating expenses.

Further reliance on liquidity support at this stage is unsustainable, and the bank's continued inability to honour outstanding obligations to depositors including financial institutions, public sector institutions, and others, continues to fuel liquidity pressures in the financial system.

uniBank's shareholders and related parties have admitted to acquiring several real estate properties in their own names using the funds they took from the bank under questionable circumstances. Promises by these shareholders and related parties to refund monies by mid-July 2018 and legally transfer title to assets acquired back to uniBank have failed to materialize.

Based on the Bank of Ghana's review of KPMG's assessment of the financial condition of uniBank, the Bank of Ghana has concluded that uniBank is insolvent and has no reasonable prospect of rehabilitation, or a reasonably credible path to viability.

In arriving at this conclusion, the Bank of Ghana has carefully considered the options provided under Act 930 to rehabilitate a bank under official administration. The Bank of Ghana finds that, in the interest of promoting financial stability, protecting the interests of depositors and lenders, minimising the costs to the tax payer, and restoring integrity in the financial sector, the only reasonable option is to fully resolve the bank by revoking its banking licence and winding down its affairs through a receiver appointed by the Bank of Ghana.

The Royal Bank (Royal)

Royal Bank was licensed as a universal bank in October 2012. It has over the last few years experienced solvency and acute liquidity challenges. An on-site examination conducted by the Bank of Ghana in 31st March, 2018 revealed a number of irregularities. The Bank of Ghana appointed an advisor for Royal Bank in May 2018 to advise management of the bank, with the primary mandate to stabilize and improve the affairs of the bank.

Based on the Bank of Ghana's assessment, Royal is insolvent and faced with acute liquidity challenges. Specifically:

- The bank suffered severe capital impairment due to under-provisioning for loans, over estimation of investments with other financial institutions, and overstatement of capital on account of fixed assets which were rejected by the Bank of Ghana for capital purposes. This resulted in an adjusted capital of negative GH¢484 million,

yielding a CAR of negative 80.53 percent. a capital deficiency of GH¢567.78 million and a net-worth of negative GH¢498.63 million as at 31st May, 2018;

- The bank has persistently faced serious liquidity challenges since September 2017, resulting in the continuous breach of the cash reserve ratio required by section 36 of Act 930. It has survived on liquidity support totaling GH¢ 295 million;
- Its non-performing loans constitute 78.79 percent of total loans granted, owing to poor credit risk and liquidity risk management controls;
- A number of the bank's transactions totaling GH¢161.92 million were entered with shareholders and related parties structured to circumvent single obligor limits under Act 930, conceal related party exposure limits under Act 930, and to overstate the capital position of the bank for the purpose of complying with the capital adequacy requirement.

The Beige Bank Limited

The Beige Bank commenced banking operations in December 2017 after operating as a savings and loans company since [].

A special examination conducted by the Bank of Ghana into the affairs of the bank six months after the commencement of its operations, revealed that:

- Funds purportedly used by the bank's parent company to recapitalize were sourced from the bank through an affiliate company and in violation with regulatory requirements for bank capital. In particular, an amount of GH¢163.47 million belonging to the bank was placed with one of its affiliate companies (an asset management company) and subsequently transferred to its parent company which in turn purported to reinvest it in the bank as part of the bank's capital. The placement by the bank with its affiliate company amounted to 86.86% of its net own funds as at end June 2018, thereby breaching the regulatory limit of 10%. Furthermore, the purported use of the same funds by the parent company of the bank to reinvest in the bank was in contravention of the Bank of Ghana's requirements for bank capital. Also, the bank has not been able to recover these funds for its operations.
- The bank persistently breached the cash reserve requirement (CRR) of 10% (CRR at 23 July, 2018 was 1.97%) since the beginning of January 2018;
- The quality of the bank's loan portfolio had seriously deteriorated resulting in a Non-Performing Loans Ratio (NPL) of 72.80%;

- The bank's Capital Adequacy Ratio (CAR) was assessed to be negative 17.18% as against the regulatory minimum of 10%, thus, recording a capital deficit of GH¢159,162,557.64, rendering the bank insolvent.

Sovereign Bank Limited ("Sovereign")

Sovereign Bank Limited was licensed as a universal bank in January 2016 and began operations in April 2016. As part of Bank of Ghana's investigations into the failure of Capital Bank Limited (currently in receivership), it emerged that Sovereign Bank's initial capital contributed by its shareholders was funded from transfers from Capital Bank which had been presented to the Bank of Ghana as investments on behalf of the bank. Subsequent to its licensing, a substantial amount of the bank's capital was placed with another financial institution as an investment for the bank. The bank has however not been able to retrieve this amount from the investment firm with which it was placed, and it has emerged that the investments were liquidated by the shareholders and parties related to them. Following enquiries by the Bank of Ghana, the promoters of the bank admitted that they did not pay for the shares they acquired in the bank.

The promoters of the bank have since surrendered their shares to the bank, while the directors representing those original shareholders have since resigned. In April 2018, the Bank of Ghana appointed an Advisor to advise the management of the bank with a view to improving the affairs of the bank. Following further deterioration in the capital of the bank due to its inability to recover the investments placed with financial institutions, as well as impairments to its loan book, its capital adequacy ratio is currently negative 11.

The Bank of Ghana has concluded that Sovereign Bank is insolvent, and that there is no reasonable prospect of a return to viability. The bank is unable to meet daily obligations as they fall due. Liquidity support granted so far to the bank amounts to GH¢12 million as of May 2018. The bank has not been able to publish its audited accounts for end-December, 2017 breaching section 90 (2) of Act 930.

The bank's current situation has resulted in persistent breaches of key regulatory requirements and prudential limits.

The Construction Bank Limited ("Construction Bank")

Construction Bank was licensed in May 2017 and commenced operations in December 2017. In the course of the official administration of uniBank, the Bank of Ghana discovered certain transactions involving Construction Bank. Further investigations revealed that:

- the initial minimum paid up capital of the bank provided by its promoter/shareholder, was funded by loans obtained from NIB Bank Limited (GH¢34

million) and uniBank (Ghana) Limited (GH¢61.00 million), contrary to section 9 (d) of Act 930;

- An amount of GH¢80 million out of the amounts reported as the bank's paid up capital and purportedly placed with NIB and uniBank, remains inaccessible to the bank;
- The bank's inability to inject additional capital to restore its capital adequacy to the minimum capital of GH¢ 120 million required at the date of licensing threatens the safety of depositors' funds and the stability of the banking system.

Owing to the bank's inability to access investments purportedly made in its name with other financial institutions, the Bank of Ghana has concluded that a total of GH¢80 million of the bank's GH¢120 million initial paid up capital is unavailable to the bank for its operations, leaving an amount of GH¢ 40 million (one-third of the minimum capital of GH¢ 120 million).

The Bank of Ghana has since requested the bank's shareholder to recapitalize it to the minimum capital required at the time of its licensing. While the shareholder submitted plans to the Bank of Ghana, these plans have not yielded any success.