



THE CHARTERED INSTITUTE OF BANKERS, GHANA

**EXAMINER'S REPORT FOR BANKING OPERATIONS: REGULATION,
MARKET PRACTICE AND TREASURY MANAGEMENT-LEVEL III**

OCTOBER 2025

Introduction

In the October 2025 sitting, only 11 candidates wrote the paper, and the performance was rather disappointing in my estimation. I expected the candidates to have been better prepared, owing to the fact that this was the last exam of the old curriculum, and failure meant automatic migration to the new curriculum.

Out of the 11 candidates who wrote the paper, only 2 of them passed, representing a pass rate of just 18%, which I consider very disturbing.

A summary of the overall performance of the candidates is shown in the table below:

Question	No. of candidates attempted	% of candidates attempted	Number passed	Number Failed	% Passed	% Failed
1	7	64%	0	7	0%	100%
2	6	55%	0	6	0%	100%
3	9	82%	3	6	33%	67%
4	7	64%	3	4	43%	57%

5	5	45%	2	3	40%	60%
6	10	91%	4	6	40%	60%

1. Examination questions

Question 1 required candidates to explain Bank Capital, Capital Adequacy Requirements of Banks in Ghana, and to explain what happens to banks in the event of undercapitalization.

This question was poorly answered in my estimation, as I expected the candidates to do better. The C part of the question, which was on undercapitalization, was where most of the candidates faced challenges. I expected candidates to answer the question along these lines.

Bank capital refers to the shareholders' funds and retained earnings that act as a buffer to absorb unexpected losses. It represents the portion of a bank's assets financed by equity rather than deposits or borrowings. Bank capital includes:

Tier 1 Capital (highest quality)

Paid-up stated capital

Retained earnings

Capital surplus

Statutory reserves

Tier 2 Capital (lower quality)

Subordinated term debt

Revaluation reserves

Hybrid instruments

Capital adequacy requirements ensure banks have enough capital to support their risk exposures. In Ghana, these requirements are set by the Bank of Ghana (BOG), largely based on the Basel

II/III framework. In Ghana, every universal bank must have a minimum paid-up capital of GHS 400 million (introduced during the 2017 recapitalization).

The minimum Capital Adequacy Ratio for banks in Ghana is:

- 13% CAR (after adding a 3% capital conservation buffer).

Breakdown:

Minimum regulatory CAR: 10%

Capital Conservation Buffer: 3%

Total required: **13%**

What Happens if a Bank Becomes Undercapitalized?

If a bank fails to meet capital adequacy requirements—especially the 13% CAR—it becomes classified as undercapitalized. The Bank of Ghana applies corrective actions as per the Banks and SDIs Act, 2016 (Act 930).

The implications include:

Immediate supervisory intervention

BOG may:

Issue a Directive instructing the bank to restore capital.

Impose restrictions on new lending or high-risk activities.

Prevent dividend payments or expansion of branches.

Submission of a Capital Restoration Plan

The bank must prepare and submit a plan outlining how it will restore capital within a set timeframe. The plan may include:

Raising additional equity

Retaining all profits (no dividends)

Selling non-core assets

Reducing risk-weighted assets

Restrictions imposed by BOG

BOG can impose:

Caps on asset growth

Limits on loan portfolio expansion

Prohibition on bonuses or management compensation increments

Restrictions on new product launches

Increased supervisory monitoring

The bank may be placed under:

Enhanced supervision

On-site monitoring

More frequent regulatory reporting

Failure to Recapitalize → BOG Resolution Actions

If the bank cannot restore capital within the required period:

Bank of Ghana may:

Place the bank under official administration

Force a merger or acquisition

Recapitalize the bank through Ghana Deposit Protection funds (in extreme cases)

Revoke the bank's license (as happened during the 2018 banking sector clean-up)

License revocation is a last resort, but BOG will take this step if the bank poses systemic risk and cannot meet capital requirements.

Unfortunately, none of the 7 candidates who attempted this question obtained the pass mark of 15 out of 30.

Question 2 required candidates to describe Interest Rate Risk and describe its effect from the earnings perspective of a bank. It also required them to explain Gap or mismatch risk and Re-investment risk as sources of IRR. They were to suggest ways in which a bank may effectively mitigate IRR.

This question was also poorly answered, as candidates faced challenges with almost all aspects of the question. Candidates were expected to answer the questions along the following lines:

Interest Rate Risk (IRR) is the risk that changes in market interest rates will negatively affect a bank's financial performance and economic value. Because banks typically borrow short-term and lend long-term, mismatches in the repricing of assets and liabilities make them highly sensitive to rate movements.

The earnings perspective focuses on how changes in interest rates affect a bank's Net Interest Income (NII) in the short term (usually within a 12-month horizon).

A rise or fall in market rates affects earnings because assets and liabilities do not reprice at the same time or by the same magnitude.

How IRR affects earnings:

If interest rates rise:

Asset yields may reprice slowly

Deposit and borrowing costs may increase quickly

Result: NII decreases (margin compression)

If interest rates fall:

Loan and investment yields reprice downward quickly

Deposit costs may be sticky downward (especially retail term deposits)

Result: NII may also decrease, depending on the bank's balance sheet structure

High IRR volatility leads to unstable revenue, making planning and liquidity management difficult. Thus, IRR directly influences:

Net interest income

Profitability

Pricing decisions

ALCO strategy

Gap or Mismatch Risk (a Source of IRR)

Gap or Mismatch Risk arises when the repricing maturities of assets and liabilities differ across time buckets. For example, if assets reprice in 12 months and liabilities reprice in 1 month. If interest rates rise:

Liability costs increase quickly, and asset returns remain fixed.

NII falls → the bank suffers because of the mismatch

Key features of Gap/Mismatch Risk:

Caused by differences in tenor or repricing intervals

Measured by the Repricing Gap Report

Positive gap (assets > liabilities) → benefit when rate rises

Negative gap (liabilities > assets) → benefit when rate falls

This is the most common source of IRR in commercial banks.

Reinvestment Risk (a Source of IRR)

Reinvestment Risk occurs when assets mature, and cash flows (loan repayments, coupon income, maturing T-bills/bonds) must be reinvested at lower interest rates. For example, if a bank holds a 1-year T-bill at 21%, and when it matures, market yields have fallen to 14%. Reinvesting at 14% reduces the bank's expected earnings.

Reinvestment risk is more severe in:

Falling interest rate environments

Portfolios with large short-term securities

Banks with high reliance on periodic loan repayments

It affects both NII (earnings) and economic value.

How a Bank May Effectively Mitigate Interest Rate Risk

Banks can mitigate IRR through both structural and derivative-based strategies.

Balance Sheet (Structural) Strategies

Aligning asset–liability repricing (reduce mismatches)

Lengthen liability tenors

Shorten asset repricing windows

Improve repricing frequency on floating-rate loans

Product pricing adjustments

Use floating-rate pricing linked to policy rate or reference rates

Introduce floors and caps on asset pricing

Reprice term deposits strategically to avoid sudden jumps

Diversify earnings

Increase fee-based income (FX, trade finance, digital fees)

Reduce dependence on interest-only revenues

Derivative-Based Hedging Strategies

Banks may use hedging instruments such as:

Interest Rate Swaps

Convert fixed-rate assets into floating (or vice versa)

Forward Rate Agreements (FRAs)

Lock in future interest rates

Interest Rate Futures or Options

These tools help stabilize NII by reducing exposure to market rate fluctuations.

Out of the 6 candidates who attempted this question, none of them got the minimum pass mark of 15 out of 30.

Question 3 required students to describe a “Run on a Bank”, especially in this technological age, and what steps a bank and the regulator take to forestall this event. They were also required to write short notes on Deposit Concentration and the steps a bank should take to mitigate it. I was very disappointed to realize that some of the candidates had no clue as to what a bank run was. The performance of candidates with this question was also poor. Candidates were expected to answer the question along these lines.

What is a Run on a Bank?

A run on a bank occurs when a large number of customers withdraw their deposits simultaneously due to fear that the bank may fail or become insolvent. When confidence collapses, even a fundamentally sound bank can run out of liquid cash—because banks operate on fractional reserve banking, meaning they hold only a fraction of deposits as immediate liquidity.

In the technological age, A bank run today is far more dangerous because withdrawals can occur instantly, through mobile apps, ATMs, and online transfers

At a massive scale, without customers visiting branches triggered by social media rumours, misinformation, or panic

24/7, even outside banking hours

This phenomenon is sometimes called a digital bank run.

Why is a Bank Run Bad?

A run on a bank can quickly lead to:

A liquidity crisis where the bank may not have enough immediate liquid assets to meet withdrawal demands.

Solvency threat where forced liquidation of long-term assets (loans, bonds) at discount can create real losses.

Contagion and systemic risk when fear spreads to other banks → leading to economy-wide instability.

Reputation damage, even if the bank survives, trust erosion can cause long-term loss of customers.

Bank runs are often the trigger for regulatory intervention, official administration, or resolution.

Steps a Bank Can Take to Forestall a Run

Banks can reduce the chances of a run through strong liquidity, communication, and risk management:

Maintain strong liquidity buffers by holding high-quality liquid assets (HQLA); ensure a robust Liquidity Coverage Ratio (LCR); maintain a stable CASA base.

Strengthen customer communication through proactive communication during rumours; transparency on financial health; 24/7 customer engagement during stress periods

Diversify funding sources by avoiding over-reliance on large depositors; increase more stable retail deposits; use term deposits with notice periods.

Strong risk governance through active ALCO oversight; liquidity stress tests; contingency Funding Plan (CFP)

Steps the Regulator (Bank of Ghana) Can Take

Deposit protection schemes: Reassure depositors that deposits are safe up to the insured limit (e.g., Ghana Deposit Protection Scheme).

On-site and off-site monitoring: Identify early liquidity weaknesses and instruct corrective measures.

Public communication: Issue statements to calm the market and reassure the public.

Provide emergency liquidity through the lender of Last Resort (LOLR); emergency Liquidity Assistance (ELA)

Enforce strong liquidity regulations like LCR, NSFR, Reserve requirements, and Funding concentration limits

Short Notes on Deposit Concentration

Deposit concentration refers to a situation where a bank's total deposits are heavily dominated by a small number of customers, groups, or sectors.

For example, the Top 20 customers account for 40% of total deposits, or one corporate group holds 25% of the bank's liabilities

Why Deposit Concentration is Bad

Deposit concentration introduces several key risks:

Liquidity risk, unstable funding, loss of negotiating power, and contagion risk

How a Bank Can Mitigate Deposit Concentration

Grow retail (mass market) deposits

Promote digital accounts
 Payroll onboarding
 Merchant services acquisition
 Savings mobilisation campaigns

Build a stable CASA base

Invest in transaction banking
 Offer value-added services, not just rate competition
 Improve customer experience and retention

Set internal limits

ALCO imposes limits on % of deposits held by the top 20 depositors
 Trigger thresholds for early warning signals

Diversify corporate deposits

Target SMEs, mid-market corporates, government institutions
 Avoid over-reliance on a single sector
 Etc.

Question 4 was rather direct and required candidates to identify and illustrate five main sources of profits or income for an integrated treasury department. The preamble stated that the treasury business has evolved from service centers focused on liquidity to profit centers as a result of globalization. 7 candidates attempted this question, and only 3 got the minimum pass mark of 10 out of 20, which I consider disappointing. I expected answers to be along these lines:

Net Interest Income (NII) from Balance Sheet Management
 Trading Income (FX Trading, Fixed Income Trading, and Money Market Trading
 Fee-Based / Commission Income from Treasury Products

Customer/Dealer Spread
Funds Transfer Pricing
Etc.

Question 5 was also direct and required candidates to define and describe the securitization process and explain why entities undertake securitization. 5 candidates attempted this question, and only 2 got the minimum pass mark of 10 out of 20. This was disappointing because this particular question has been repeated in several diets. I expected candidates to answer along the following lines:

Securitization is the process through which an entity (usually a bank, financial institution, or corporate) converts a pool of illiquid financial assets (such as loans, receivables, mortgages, or leases) into marketable securities that are sold to investors.

The cash flows from the underlying assets—loan repayments, interest, and lease rentals—are used to pay investors who buy the issued securities. It therefore transforms illiquid assets into tradable securities and future cash flows into immediate funding.

Why Entities Undertake Securitization

Liquidity Creation: Securitization converts illiquid assets (e.g., long-term loans) into immediate cash. This improves liquidity without increasing debt on the balance sheet.

Capital Relief (Regulatory Capital Optimization): By selling the assets to an SPV, banks reduce risk-weighted assets (RWA); credit exposure; required regulatory capital.

This allows the bank to improve its capital adequacy ratio and expand lending capacity.

Risk Transfer: Part of the credit, interest rate, or prepayment risk is transferred to investors.

This diversifies risks and stabilizes the balance sheet.

Cheaper Funding: Securitized notes, especially senior tranches, often attract lower interest rates than unsecured borrowing because the securities are backed by asset cash flows, so they can obtain higher credit ratings than the originator. This reduces the overall cost of funding.

Balance Sheet Management: Securitization helps entities to reduce asset concentration, lengthen the maturity profile, improve liquidity ratios, and strengthen financial leverage indicators.

Diversification of Funding Sources: It provides an additional funding channel besides deposits, corporate loans, bonds, and shareholder capital. This is particularly important for banks in developing markets like Ghana, seeking Stable long-term funding, market-based funding, and reduced reliance on volatile deposits.

Question 6 required candidates to explain five key roles played by internal audit in treasury operations, and to state and explain five sound controls that need to be in place to prevent banks from losing money and reputation. This was a direct question, and I expected the well-prepared candidates to answer with utmost ease. However, of the 10 candidates who attempted it, only 4 obtained 10 marks or higher out of 20. I expected the candidates to answer along the following lines:

Key Roles Played by Internal Audit in Treasury Operations

Internal Audit provides independent assurance that the treasury function is operating safely, effectively, and in compliance with policy, regulation, and risk appetite. Treasury is a high-risk area because it involves market, liquidity, counterparty, and operational risks; therefore, Internal Audit plays a crucial monitoring and evaluation role. The key roles consist of the following:

- Independent Review of Treasury Controls:

Internal Audit assesses whether treasury processes, systems, segregation of duties, and risk management practices are working effectively and in line with best practice (e.g., ALM, FX dealing, settlement, confirmations, limits).

- Verification of Compliance with Policies, Limits, and Regulations: Internal Audit ensures that the treasury adheres to Board-approved policies, Limits (FX, counterparty, dealing, stop-loss, VaR) are not breached, and regulatory requirements (BoG prudential rules) are complied with.
- Examination of Trading and Risk Management Practices: This includes evaluating the appropriateness of valuation models, market data sources, hedge effectiveness, and accuracy of mark-to-market and P&L reporting.
- Review of Treasury Systems and Data Integrity by ensuring the accuracy of treasury system records, integrity of pricing models and rate uploads, and reliability of risk reports (e.g., repricing gap, liquidity ratios)
- Detection and Prevention of Fraud and Unauthorized Activities through the prevention of unauthorized trades, protection against rogue trading, and assurance that dealer mandates exist and are enforced.
- Review of Treasury Settlements and Confirmations: Internal Audit ensures that deals are confirmed independently, settlements are matched correctly, and no fictitious trades are entered.

- Assurance on Governance and Reporting: Internal Audit evaluates ALCO processes and minutes, roles of Treasury Front, Middle, and Back Office, and escalation procedures for exceptions and breaches.

Sound Controls Needed in the Treasury Environment

- Segregation of Duties (Front, Middle, Back Office Separation)
- Daily Independent Reconciliation and Confirmation of Trade
- Strict Limit Management (Dealing Limits, Counterparty Limits, Stop-Loss Limits)
- Strong Access and System Controls
- Dealing Room Monitoring and Recording
- Standard Settlement Instructions (SSIs) to be used in the settlement of trades
- Automation
- Etc.

Concluding remarks.

Generally, the performance in this final exam of the old curriculum was poor. I believe the more serious and prepared candidates took advantage of the special window in July, as the performance was impressive. I expected the candidates to come better prepared than they did, knowing this was their last chance before they were automatically migrated to the new curriculum.

I would like to encourage candidates to always take their studies seriously if they want to find the exams easy. There are no shortcuts to success. I would also advise them to take the meet-the-examiner sessions seriously. Most of them come to the session expecting the examiner to discuss with them the questions that will come in the examination. When that is not coming, they lose interest and, as a result, also lose out on equally important discussions about how to answer exam questions. They also fail to ask the examiner questions that will be beneficial to them in the exams.

I would like to recommend that lecturers for this course should engage the students more by giving them assignments based on past examination questions and strictly ensuring that the students return the assignments for marking and feedback. With this approach, students' shortcomings can be remedied in time. They will also be able to identify students who need special attention because they lack the necessary basics for this course and arrange for additional lectures for them. I also recommend at least one mock examination for the students based on past questions under examination conditions. This approach will adequately prepare them for future exams, which I strongly believe will lead to improved student performance in this course.

I hope that if lecturers and students follow this advice and recommendations, the performance in the next sitting will be better.

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