



Bank of Ghana Monetary Policy Report

Financial Stability

Volume 6: No 5

December 2011

5.0 Introduction

5.0.1 Developments in the global financial system in the last quarter of 2011 showed increased global financial risks culminating from weaker growth prospects heightened sovereign debt in the euro area and absence of credible strategy in achieving long term sustainability of U.S. government debt.

5.0.2 Emerging market economies, however, registered rapid domestic credit growth with rising asset prices. Balance sheet re-leveraging and vulnerabilities to external shocks especially emanating from the euro area can impede the stability of these economies.

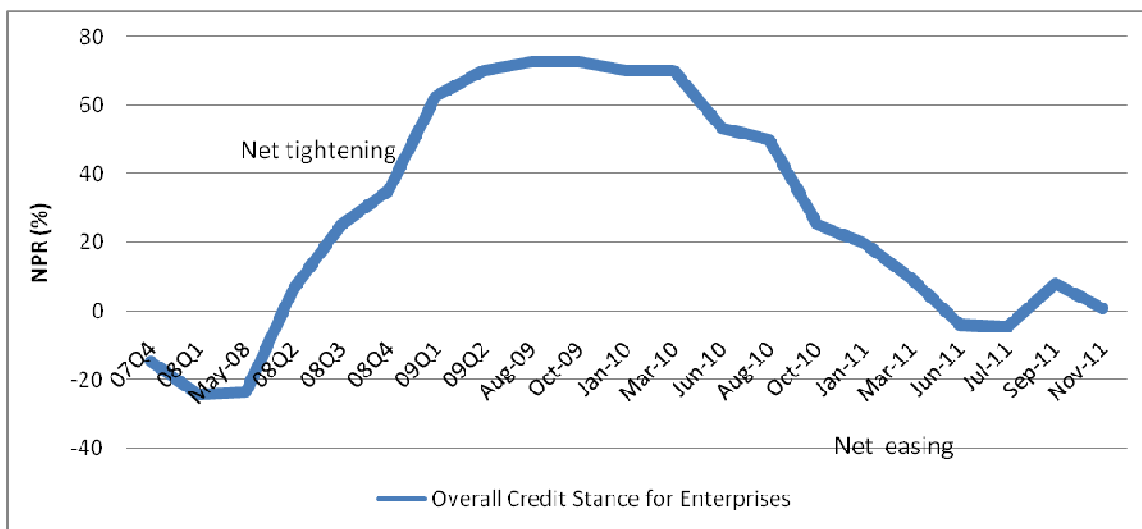
5.0.3 The domestic banking industry continued to record significant growth in assets, deposits and networth. The financial soundness indicators, measured in terms of earnings, portfolio quality, liquidity, and capital adequacy remained strong with declining non-performing loans in the banking industry.

5.1 Credit Conditions Survey

5.1.1 Loans or credit lines to Enterprises

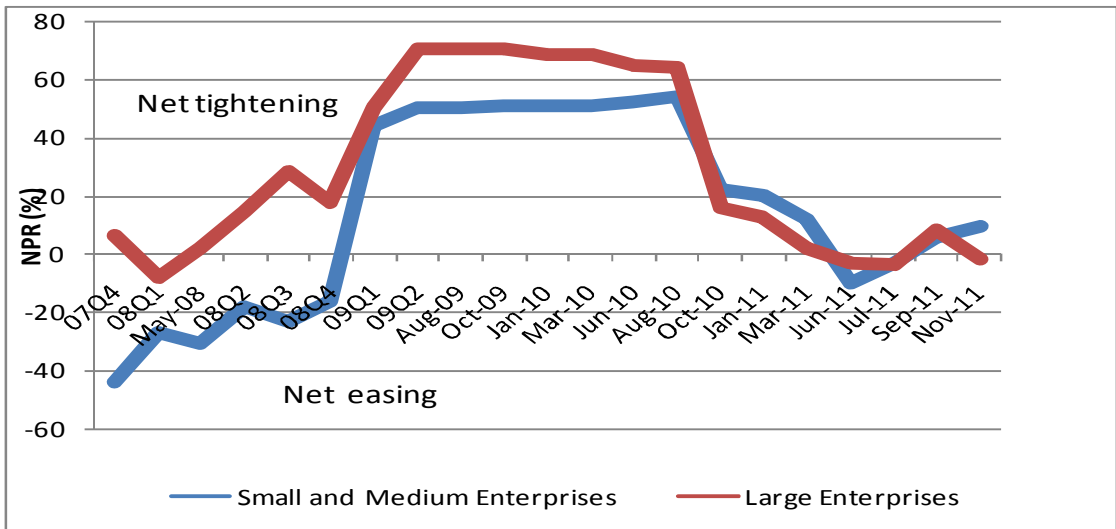
Credit standards on loans improved during the survey period with an easing of credit to enterprises. Banks eased credit stance on loans or credit lines to enterprises as at end November 2011 (See Chart 1). Banks' expected capital position, ability to access market financing, risks related to the current performance of 50 largest borrowers, changes in adversely classified loans in banks' portfolio and competition from other banks were the main contributing factors for easing of credit stance for enterprises. Small and medium sized enterprises (SMEs) and long term loans however experienced net tightening of credit stance (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: Enterprise Credit Stance



5.1.2 Loan Demand

Loan request for inventories and working capital increased during the period (see Chart 3a and Chart 3b), while there were marginal declines in the demand for loan restructuring and fixed investment. Large enterprises demand for credit inched up, but SMEs demand for credit continued to decline.

Chart 3a: Usage of credit

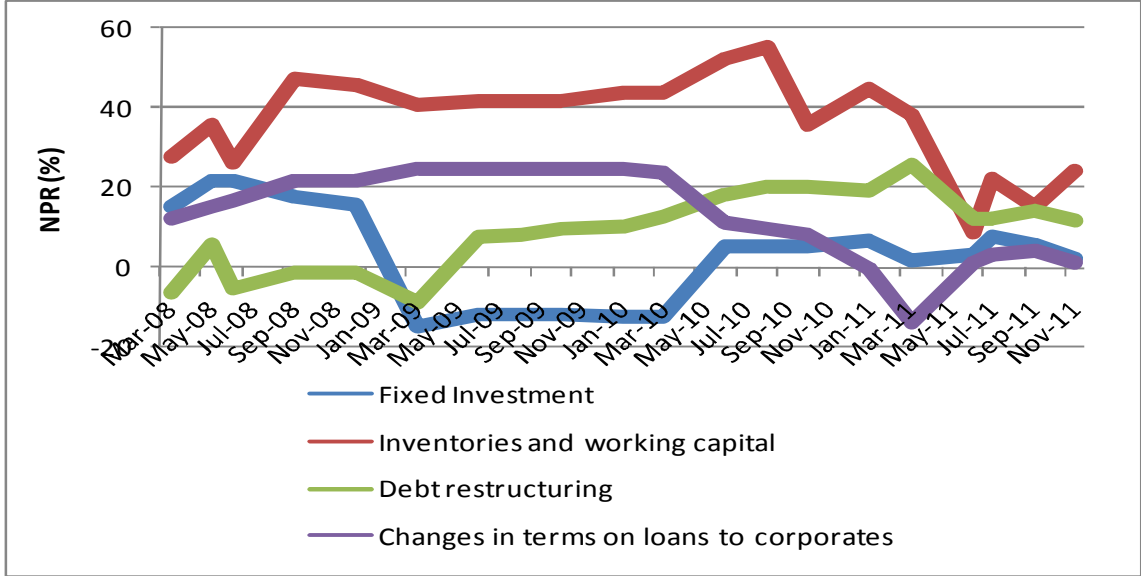
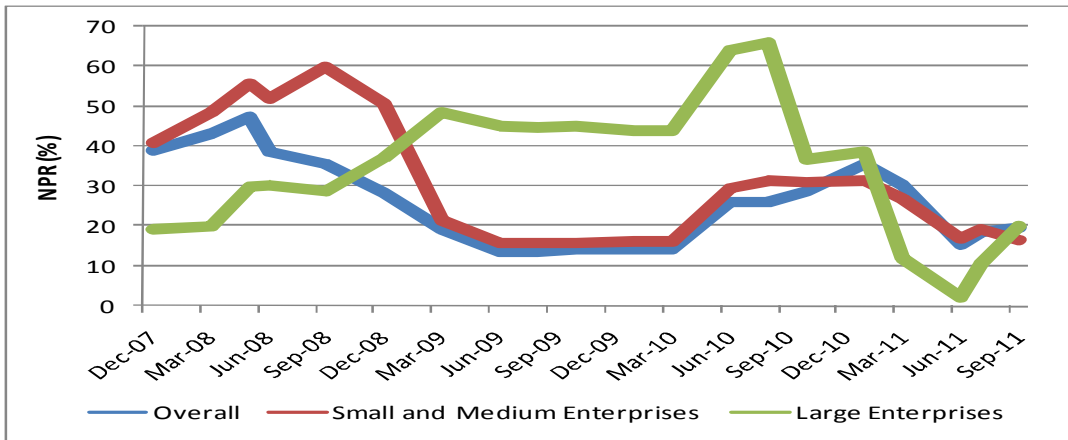


Chart 3b: Enterprise Demand for Credit

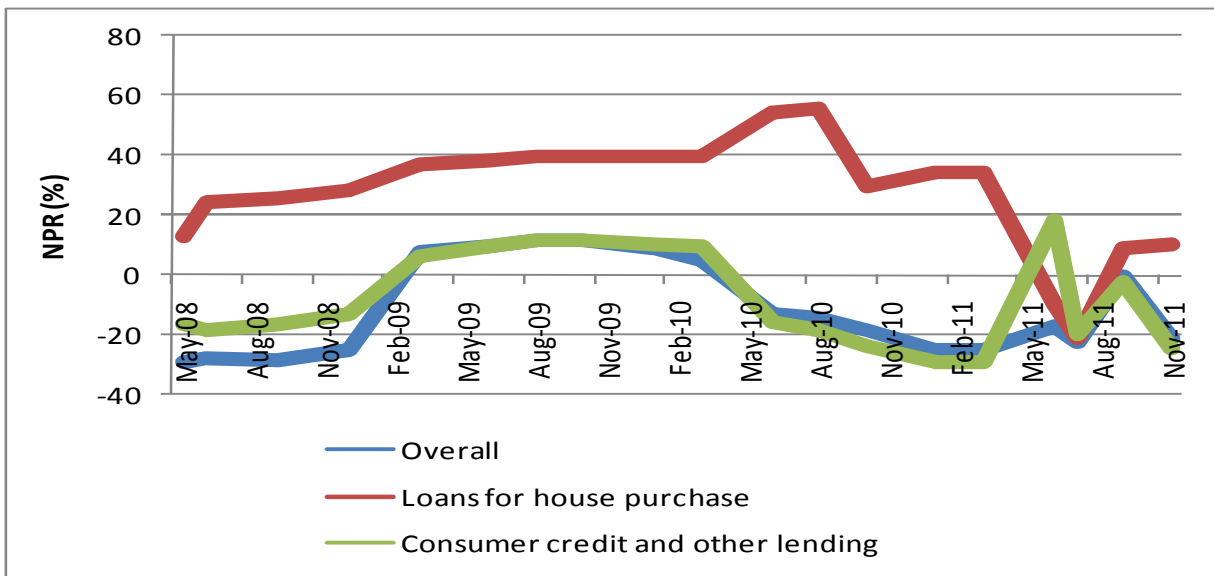


Notes: The net percentages for the questions on demand for loans are defined as the difference between the sum of the percentages for "increased considerably" and "increased somewhat" and the sum of the percentages for "decreased considerably" and "decreased somewhat".

5.2 Loans to households for house purchase

Banks tightened credit stance on loans to households for house purchase despite improvement in cost of funds, reduction in share of adversely classified loans and improved general economic activities. Margins on riskier loans and request for additional securities were employed to tighten credit for mortgages (see chart 4).

Chart 4: Credit Stance on Households' Credit



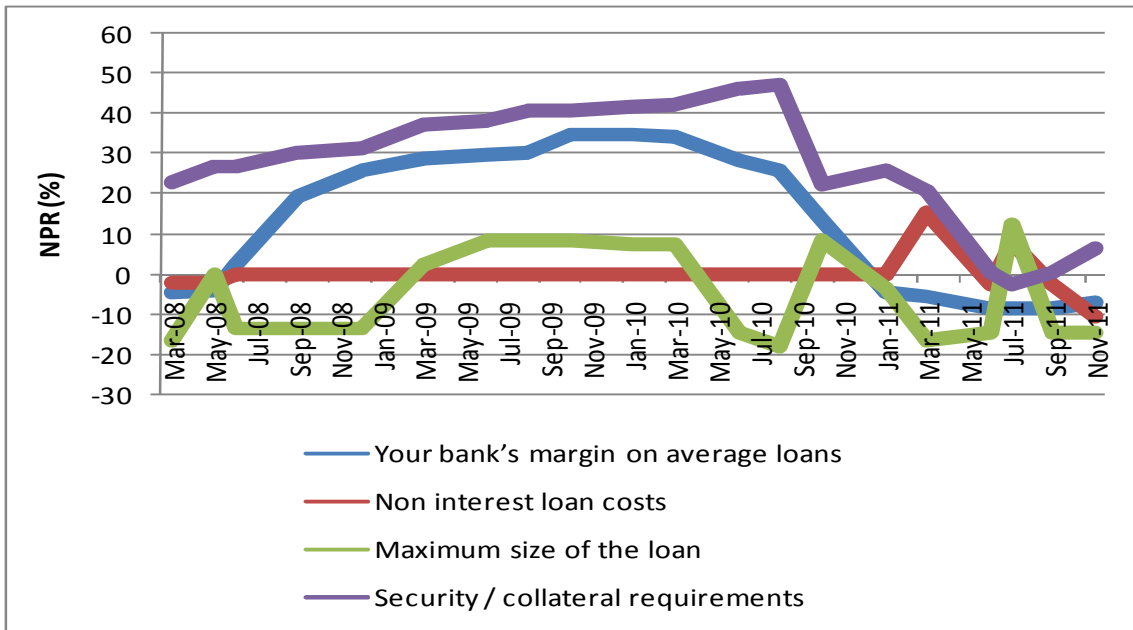
5.2.1 Loan demand

Households' demand for credit for mortgages declined compared with September 2011 survey period.

5.2.2 Consumer credit and other lending to households

Household access to credit improved on account of easing of collateral requirement, margin on average loans and non interest loan costs (see Chart 4). The net easing of stance for consumer credit was implemented through reduction in margins on average loans, collateral requirements and non interest loan costs (see Chart 5).

Chart 5: Measure of Tightening/Easing



5.3 BANKING SECTOR STABILITY ANALYSIS

5.3 Developments in Banks' Balance Sheet

The total assets of the banking sector as at October 2011 grew by 26.1 percent compared with 27.6 percent in the same period in 2010. Domestic assets increased by 24.6 percent by the end of October 2011 compared with the growth of 31.7 percent for the same period in October 2010. Foreign assets also grew by 43.0 percent compared with a decline of 6.2 percent for the corresponding period in 2010 (see Table 1).

Net loans and advances of GH¢7.56 billion represented a year-on-year growth of 16.3 percent in October 2011 compared with a slower growth rate of 6.0 percent recorded in October 2010 showing increased credit delivery. Banks' investment portfolio (bills and securities) reached GH¢5.51 billion and showed an annual growth of 33.9 percent by the end of October 2011 compared with a growth of 88.1 percent as at the end of October 2010 (see Table 1). Banks therefore channelled significant amounts of mobilised resources into credit.

Deposit liabilities, which continues to be the main source of banks' funding, grew by 39.3 percent from GH¢10.77 billion in October 2010 to GH¢15.01 billion in October 2011 and showed increase in financial intermediation. Total borrowings however continues to decline in year-on-year terms and was down by 6.4 percent, from GH¢ 1.76 billion in October 2010 to GH¢ 1.65 billion in October 2011 (see Table 1).

Paid – up capital increased by 22.2 percent to GH ¢1.55 billion by the end of October 2011, compared with the 63.1 percent growth in October 2010 (see Table 1).

Table 1: Key Developments in Banks' Balance Sheet

Key Dev'ts in DMBs' Balance Sheet	(GH ¢ 'million)			Y-on-y Growth (%)		Shares	
	Oct-09	Oct-10	Oct-11	Oct-10	Oct-11	Oct-10	Oct-11
TOTAL ASSETS	12,778.9	16,300.4	20,550.4	27.6	26.1	100.0	100.0
A. Foreign Assets	1,408.6	1,321.7	1,889.8	(6.2)	43.0	8.1	9.2
B. Domestic Assets	11,370.4	14,978.7	18,660.6	31.7	24.6	91.9	90.8
Investments	2,187.6	4,115.7	5,512.6	88.1	33.9	25.2	26.8
i. Bills	1,403.5	2,406.3	2,858.2	71.4	18.8	14.8	13.9
ii. Securities	728.7	1,636.2	2,518.6	124.6	53.9	10.0	12.3
Advances (Net)	6,128.7	6,498.7	7,559.0	6.0	16.3	39.9	36.8
of which Foreign Currency	1,597.1	2,070.3	2,486.0	29.6	20.1	12.7	12.1
Gross Advances	6,817.6	7,502.5	8,554.4	10.0	14.0	46.0	41.6
Other Assets	629.4	1,001.3	965.2	59.1	(3.6)	6.1	4.7
Fixed Assets	413.9	498.9	566.1	20.5	13.5	3.1	2.8
TOTAL LIABILITIES AND CAPITAL	12,778.9	16,300.4	20,550.4	27.6	26.1	100.0	100.0
Total Deposits	8,124.7	10,774.5	15,010.3	32.6	39.3	66.1	73.0
of which Foreign Currency	2,418.9	2,845.1	4,005.6	17.6	40.8	17.5	19.5
Total Borrowings	1,835.8	1,765.5	1,651.9	(3.8)	(6.4)	10.8	8.0
Foreign Liabilities	1,083.7	1,058.2	1,105.4	(2.4)	4.5	6.5	5.4
i. Short-term borrowings	477.5	357.6	367.7	(25.1)	2.9	2.2	1.8
ii. Long-term borrowings	333.3	381.4	261.9	14.4	(31.3)	2.3	1.3
iii. Deposits of non-reside	272.9	319.2	475.7	17.0	49.0	2.0	2.3
Domestic Liabilities	10,208.9	13,055.7	16,620.2	27.9	27.3	80.1	80.9
i. Short-term borrowing	899.8	841.5	834.3	(6.5)	(0.9)	5.2	4.1
ii. Long-term Borrowings	125.2	185.0	188.0	47.9	1.6	1.1	0.9
iii. Domestic Deposits	7,851.8	10,455.3	14,534.6	33.2	39.0	64.1	70.7
Other Liabilities	1,281.0	1,480.6	1,065.7	15.6	(28.0)	9.1	5.2
Paid-up capital	776.3	1,265.9	1,546.3	63.1	22.2	7.8	7.5
Shareholders' Funds	1,468.0	2,172.5	2,811.7	48.0	29.4	13.3	13.7

5.3.1 Asset and Liability Structure of the Banking Industry

Net advances, which continued to represent the highest proportion of the banking sector total assets, went up by 36.8 percent in October 2011 compared with 39.9 percent in October 2010. Cash and bank balances' proportion of total assets increased significantly from 25.2 percent in October 2010 to 26.8 percent in October 2011 showing increases in the liquidity conditions of banks. (See Table 2)

Table 2: Asset and Liability Structures of the Banking Sector

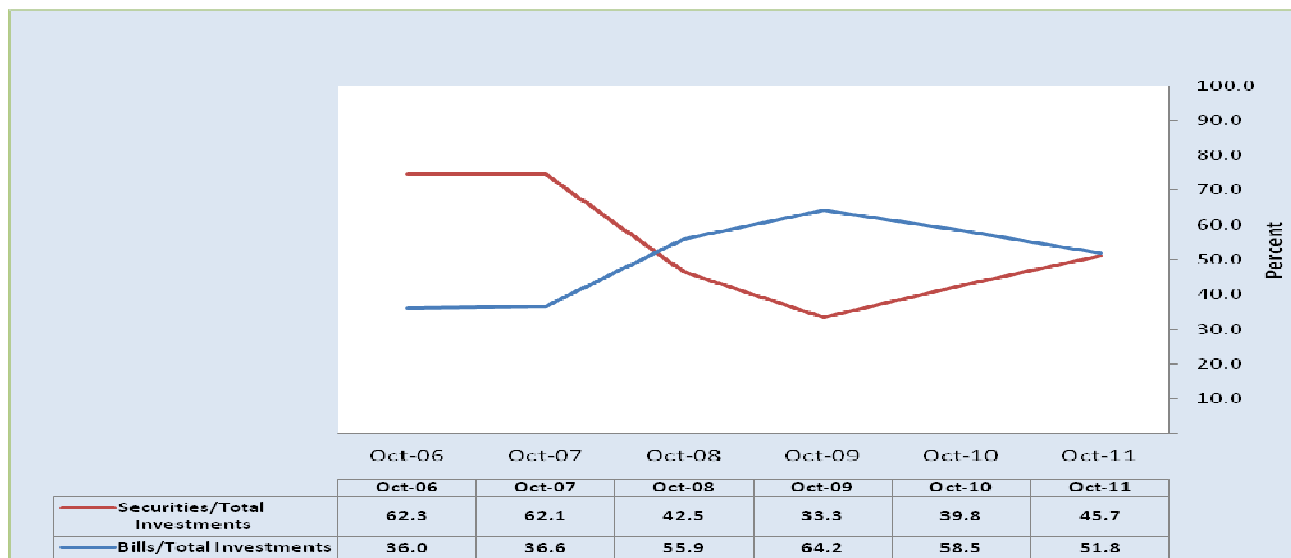
	Oct-07	Oct-08	Oct-09	Oct-10	Oct-11
<u>Components of Assets (In Percent of Total)</u>					
Cash and Due from Banks	22.5	21.9	26.6	25.5	28.7
Investments	18.8	14.2	17.1	25.2	26.8
Net Advances	49.0	54.0	48.0	39.9	36.8
Other Assets	6.6	6.4	4.9	6.1	4.7
Fixed Assets	3.1	3.3	3.2	3.1	2.8
<u>Components of Liabilities (In Percent of Total)</u>					
Total Deposits	60.6	63.7	63.6	66.1	73.0
Total Borrowings	14.0	13.7	14.4	10.8	8.0
Other Liabilities	14.1	11.6	10.0	9.1	5.2
Shareholders' Funds	10.3	10.5	11.5	13.3	13.7

Total deposits accounted for 73 percent of total liabilities at the end of October 2011 compared with 66.1 percent recorded in October 2010 while the proportion of shareholders' funds increased marginally from 13.3 percent in October 2010 to 13.7 percent in October 2011. The share of total borrowings in total liabilities however declined to 8.0 percent as at October 2011 from 10.8 percent in October 2010 (see Table 2).

5.3.2 Share of Banks' Investments

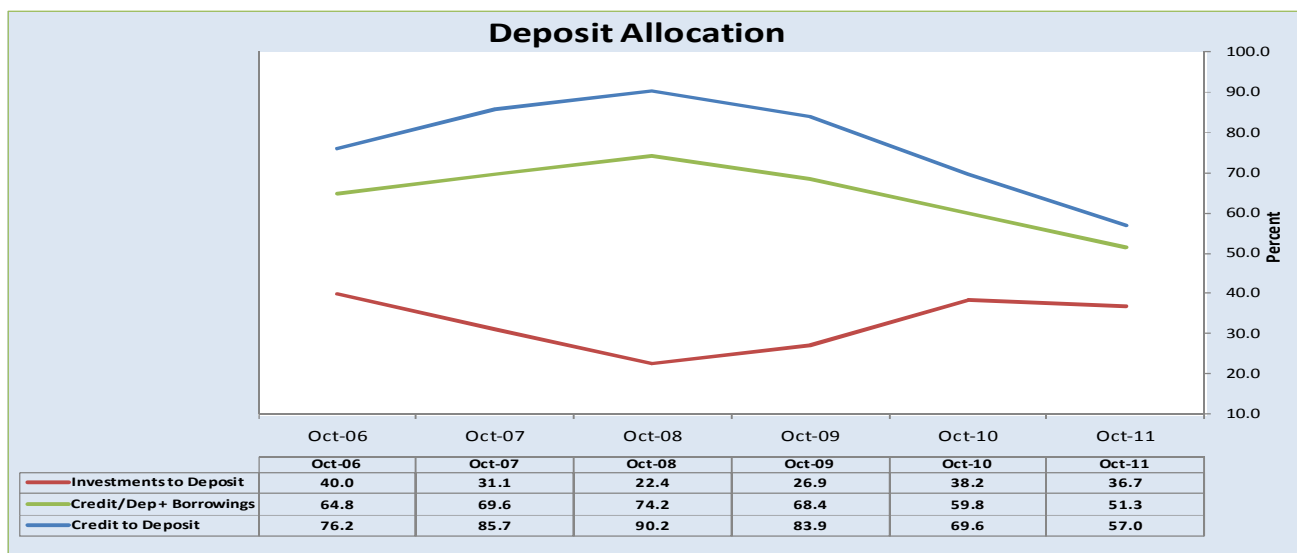
Chart 6 shows the distribution of the banks' investment portfolio between October 2006 and October 2011.

Chart 6 Banks' Investment (%)



Banks' investment in securities (long term investments) as a share of total investment increased from 39.8 percent in October 2010 to 45.7 percent in October 2011. However, investment in treasury bills as a share of total investment declined to 51.8 percent in October 2011, from 58.5 percent in October 2010 (see Chart 6). The decline in the share of Treasury bills in total investment portfolio compared with increases in long dated instruments showed improvement in inflation expectations as at October 2011.

Chart 7: Portfolio Allocation (%)



Credit to deposits ratio declined from 69.6 percent in October 2010 to 57.0 percent in October 2011 and credit to deposit plus borrowings ratio also followed a similar trend. Investments to deposit also decreased to 36.7 percent in October 2011 from 38.2 percent in October 2010 (see Chart 7). These developments showed that banks had cash and short term funds which were not deployed in assets.

5.4 Credit Risk

5.4.1 Credit Portfolio Analysis

Gross loans and advances of the banking industry grew in real terms by 5.03 percent in October 2011 compared with a real increase of 0.61 percent in the same period in 2010. Credit to the private sector also increased in real terms by 13.30 percent as at end of

October 2011 compared with real increase of 1.16 percent at the end of October 2010 (see Table 3).

The composition of banks' credit portfolio by economic institutions showed that the lowest proportion of loans and advances went to Public enterprises and formed 3.7 percent of gross loans and advances as at October 2011, compared with 11.7 percent recorded in October 2010. Loans to private enterprises accounted for 76.2 percent of gross loans in October 2011, up from 72.9 percent recorded in October 2010. The share of household loans in gross loans also increased to 16.4 percent in October 2011 from 12.9 percent in October 2010. Credit to Government and public institutions constituted 3.7 percent of gross loans and advances in October 2011 and showed an increase from 2.5 percent registered in October 2010 (see Table 3).

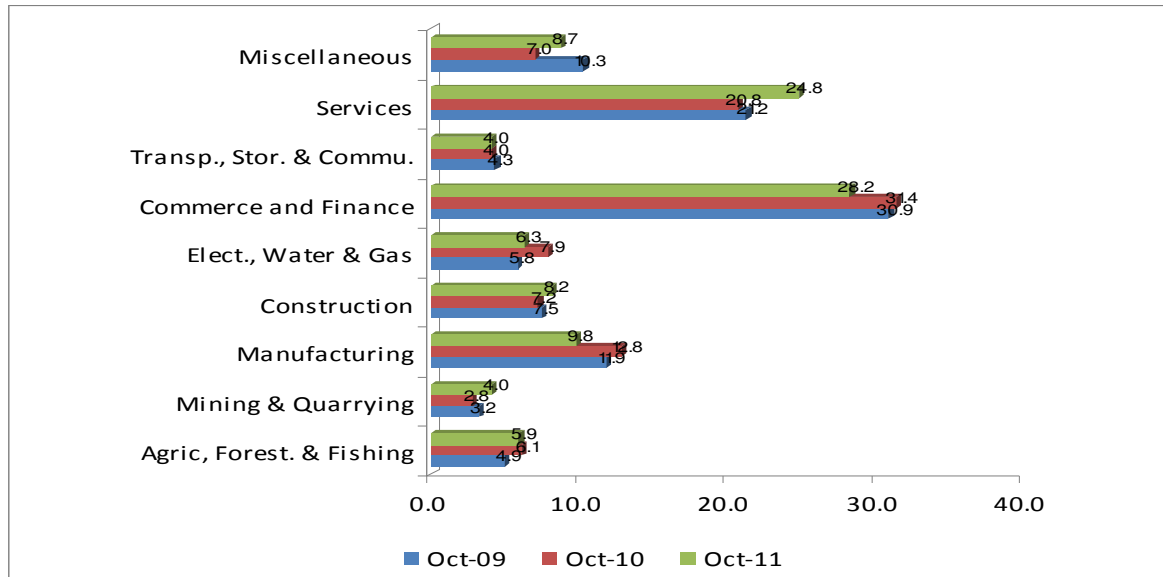
Table 3: Gross Loans and Real Annual Growth of Credit

	Oct-06	Oct-07	Oct-08	Oct-09	Oct-10	Oct-11
Gross Loans and Advances (GH¢m)	2,385.2	3,832.3	5,647.1	6,817.6	7,502.48	8,554.39
Real Growth % (y-o-y)	29.9	45.9	25.6	2.3	0.61	5.03
Private Sector Credit (GH¢m)	1,942.01	3,203.79	4,736.77	5,818.50	6,438.51	7,919.25
Real Growth % (y-o-y)	21.45	49.78	26.05	4.06	1.16	13.30
Distribution of Gross Loans by Economic Sector (percent)						
Private Enterprises	66.9	67.1	65.9	69.5	72.9	76.2
Household Loans	14.5	16.5	18.0	15.9	12.9	16.4
Govt & Public Institutions	4.3	3.4	4.3	1.9	2.5	3.7
Public enterprises	14.2	13.0	11.8	12.7	11.7	3.7

The sectoral allocation of credit showed that Commerce & Finance continued to receive the highest proportion of banks' credit though on year-on-year terms, its proportion in total credit declined from 31.4 percent in October 2010 to 28.2 percent in October 2011. The services sector's share of credit however improved from 20.8 percent in October 2010 to 24.8 percent in October 2011.

While the shares of credit of construction, services, mining and quarrying, agriculture, forestry and fishing sectors went up, those of manufacturing, electricity, gas and water, and commerce and finance sectors declined during the review period (see Chart 8).

Chart 8: Sectoral Credit Allocation



Off-Balance Sheet Activities

Off-balance sheet items (contingent liabilities) grew by 35.74 percent to GH¢2.75 billion as at October 2011 compared with a growth of 42.87 percent recorded in the corresponding period in 2010 (see Table 4).

Table 4: Contingent Liabilities

	<u>Oct-06</u>	<u>Oct-07</u>	<u>Oct-08</u>	<u>Oct-09</u>	<u>Oct-10</u>	<u>Oct-11</u>
Contingent Liabilities (GH¢m)	894.97	1,075.43	1,969.41	1,420.53	2,029.56	2,754.87
Growth (%)	12.00	20.16	83.13	(27.87)	42.87	35.74
Share in Total Liabilities (%)	18.49	14.57	20.03	11.12	12.45	13.41

5.4.2 Asset Quality

The indicators of asset quality at end October 2011 improved relative to the same period last year. The non-performing loans ratio declined from 18.4 percent at October 2010 to 15.2 percent in October 2011 (see Table 5).

The loss loan category of the total loans classifications continued to account for the greatest proportion of banks' impaired assets and formed 62 percent of the impaired assets, while substandard and doubtful categories accounted for 16.3 percent and 21.7 percent respectively. Loss loans category accounted for 58.7 percent, followed by doubtful loans with 22.6 percent and 18.7 percent for substandard loans in the same period of 2010.

The ratio of NPL net of provisions to capital of 11.02 percent at end October 2011 indicated an improvement over the October 2010 position of 28.93 percent. Loan loss provisions to gross loans ratio also improved from 10.22 percent to 8.24 percent over the same period.(see Table 5).

Table 5: Asset Quality

	<u>Oct-06</u>	<u>Oct-07</u>	<u>Oct-08</u>	<u>Oct-09</u>	<u>Oct-10</u>	<u>Oct-11</u>
SUB-STD (GH¢m)	53.4	58.9	109.8	297.0	265.5	212.7
DOUBTFUL (GH¢m)	64.2	70.4	133.0	231.7	319.4	283.8
LOSS (GH¢m)	144.2	123.1	181.7	399.4	831.6	808.9
NPL (GH¢m)	261.8	252.4	424.5	928.1	1,416.5	1,305.4
NPL Ratio (%)	11.0	6.6	7.5	13.6	18.4	15.2
NPL Net of Provision to Capital (%)	5.70	4.98	8.32	16.30	28.93	11.02
Loan provision to Gross loan (%)	7.66	4.50	4.86	8.61	10.22	8.24

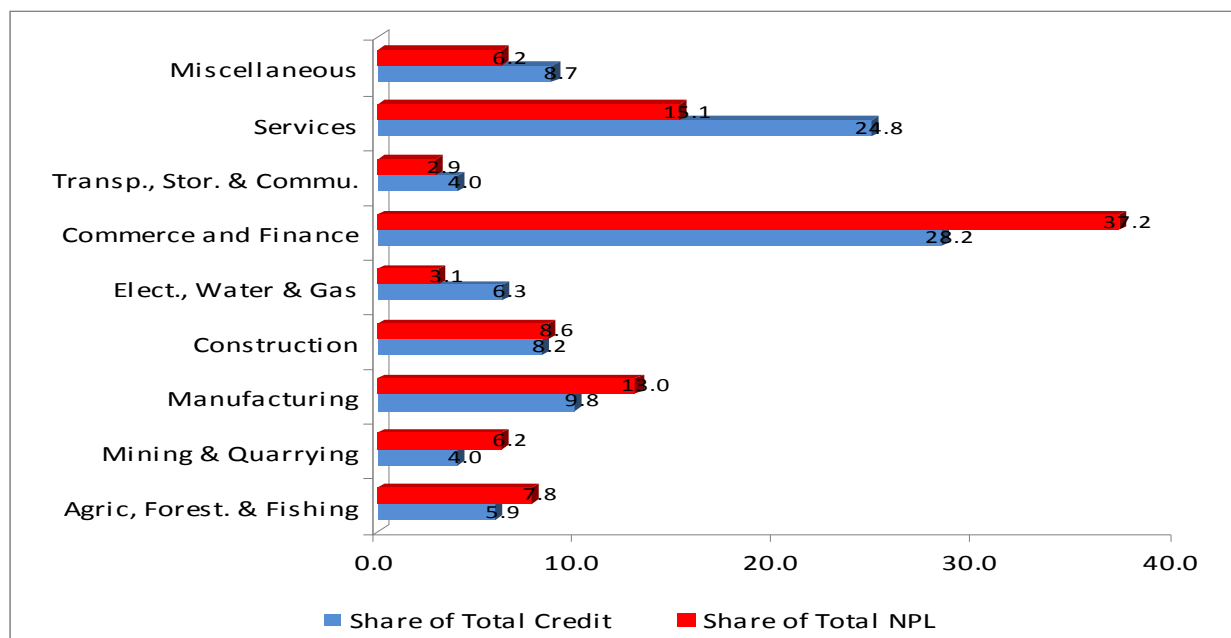
The private sector received 92.6 percent of total credit and accounted for 91.9 percent of the total non-performing loans as at the end of October 2011. Similarly, the public sector's share of total credit was 7.4 percent and contributed 8.1 percent of non-performing loans as at October 2011 (see Table 6).

Table 6: Distribution of gross loans and NPLs by Borrower Type

Distribution of Gross Loans and NPLs By Borrower Type: October 2011		
	share in Total Credit	share in NPLs
a. Public Sector	7.4	8.1
i Central government	2.3	0.1
ii Public Institutions	1.0	0.6
iii Public Enterprises	4.0	7.3
b. Private Sector	92.6	91.9
i Private Enterprises	74.3	83.1
o/w Foreign	10.8	4.3
Indigenous	63.5	78.8
ii Households	16.7	7.7
iii Others	1.7	1.2
Grand Total	100.0	100

Commerce and finance, and service sectors together received 53.0 percent of total credit and accounted for 52.3 percent of NPL at end October 2011 (see Chart 9).

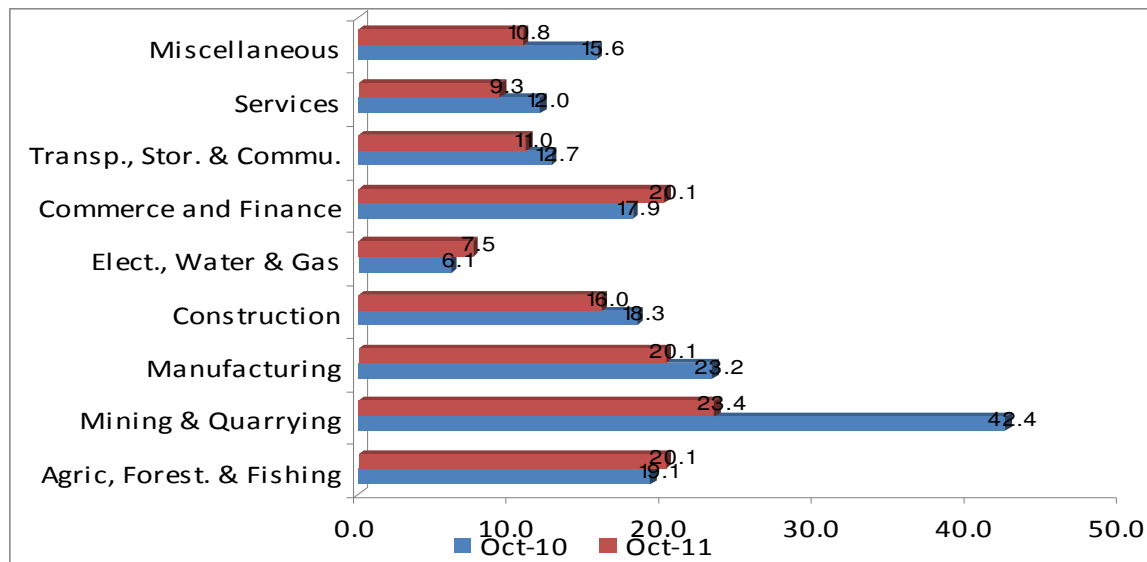
Chart 9: Sectoral Distribution of Total Credit and Non- Performing Loans as at October 2011



Mining and Quarrying sector continued to record the highest proportions of impaired loans to its gross loans but the ratio dipped significantly from 42.4 percent in October 2010 to 23.4 percent in October 2011. Similarly, the proportion of loans impaired in other sectors

broadly declined except Commerce and Finance, Electricity, Water and Gas, and Agriculture, Forest and Fishing sectors which recorded relatively higher non-performing loans in October 2011 (see Chart 10).

Chart 10: Proportion of Loans Impaired in Each Sector



5.5 Liquidity Indicators

Liquidity in the banking sector remained strong as evidenced by increases in both broad and core measures of liquid assets to total assets in October 2011 compared to the same period in 2010. Other measures of liquidity such as liquid assets to total deposits (core) also registered some improvements in year-on-year terms (see Table 7).

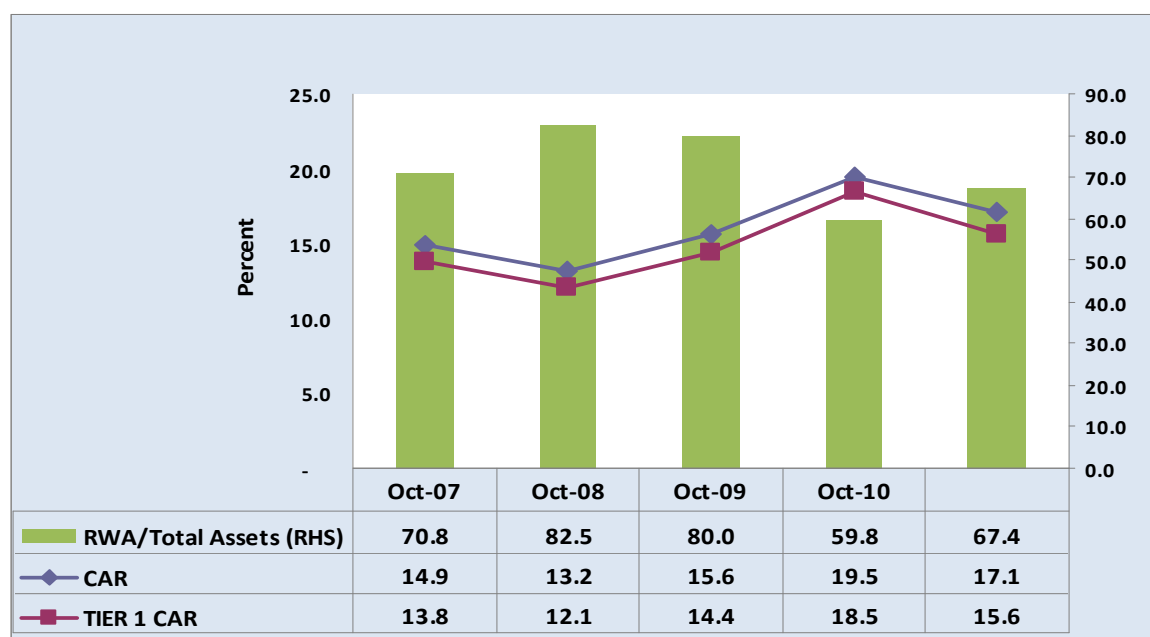
Table 7: Liquidity Ratios

	<u>Oct-06</u>	<u>Oct-07</u>	<u>Oct-08</u>	<u>Oct-09</u>	<u>Oct-10</u>	<u>Oct-11</u>
Liquid Assets (Core) - (GH¢'million)	1,035.7	1,657.3	2,157.6	3,404.9	4,164.7	5,907.4
Liquid Assets (Broad) - (GH¢'million)	2,265.2	3,030.6	3,535.1	5,537.1	8,207.3	11,284.2
Liquid Assets to total deposits (Core)	33.1	37.0	34.5	41.9	38.7	39.4
Liquid Assets to total deposits (Broad)	72.3	67.7	56.5	68.2	76.2	75.2
Liquid assets to total assets (Core)	21.4	22.5	21.9	26.6	25.5	28.7
Liquid assets to total assets (Broad)	46.8	41.1	36.0	43.3	50.4	54.9

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 from 19.5 percent in October 2010 to 17.1 percent in October 2011 (see Chart 11). The CAR was well above the 10 percent prudential and statutory requirements.

Chart 11: Capital Adequacy Ratio – Industry (%)



5.7 Profitability

5.7.1 Highlights from the Banks' Income Statement

Indicators of profitability for the banking industry showed some improvement in banks' earnings performance for the ten months ended October 2011.

The banking sector's profit before tax in terms of year-on-year growth slowed down from 42.1 percent in October 2010 to 33.2 percent in October 2011. Similarly, growth in the industry's net profit after tax also dipped from 33.6 percent in October 2010 to 29.3 percent in the corresponding period of 2011. Net fees and commission however improved from 16.1 percent to 29.3 percent over the same comparative periods while other income also posted significant increases (see Table 8).

The banking industry's interest expenses declined by 14.7 percent in October 2011 from 1.2 percent growth in October 2010, reflecting improved macroeconomic conditions (see Table 8.).

Table 8 DMBs Income Statement

DMBs' Income Statement Highlights	Oct-09	Oct-10	Oct-11	Oct-10	Oct-11
	<u>(GH ₵'million)</u>			<u>Y-on-y Growth (%)</u>	
Interest Income	1,451.7	1,925.9	1,820.8	32.7	(5.5)
Interest Expenses	(693.7)	(702.2)	(599.2)	1.2	(14.7)
Net Interest Income	757.9	1,223.8	1,221.5	61.5	(0.2)
Fees and Commissions (Net)	305.6	354.8	458.8	16.1	29.3
Other Income	247.4	142.4	294.9	(42.5)	107.2
Operating Income	1,310.9	1,721.0	1,975.3	31.3	14.8
Operating Expenses	(750.2)	(933.1)	(1,118.8)	24.4	19.9
Staff Cost	(298.5)	(422.7)	(496.5)	41.6	17.4
Other operating Expenses	(451.8)	(510.4)	(622.4)	13.0	21.9
Net Operating Income	560.7	787.8	856.5	40.5	8.7
Total Provision (Loan losses, Depreciation & others)	(250.0)	(347.3)	(272.9)	38.9	(21.4)
Monetary Loss	(0.7)	0.1	3.3	-	-
Income Before Tax	310.0	440.5	587.0	42.1	33.2
Tax	(66.7)	(115.4)	(166.7)	73.1	44.4
Net Income	243.3	325.1	420.3	33.6	29.3
Gross Income	2,004.6	2,423.1	2,574.6	20.9	6.2

5.7.2 Interest Margin and Spread

The ratio of gross income to total assets (i.e. assets utilisation) declined from 14.9 percent in October 2010 to 12.5 percent by the end of October 2011. However, interest spread increased marginally over the period from 8.0 percent in October 2010 to 8.2 percent at the end of October 2011 (see Table 9).

Table 9: Profitability Indicators (%)

	<u>Oct-06</u>	<u>Oct-07</u>	<u>Oct-08</u>	<u>Oct-09</u>	<u>Oct-10</u>	<u>Oct-11</u>
Gross Yield	12.8	12.6	13.2	16.6	14.4	13.0
Int Payable	4.7	6.0	6.2	9.4	6.4	4.8
Spread	8.1	6.5	7.1	7.2	8.0	8.2
Asset Utilisation	15.3	14.2	15.6	18.8	14.9	12.5
Interest Margin to Total Assets	6.7	5.6	5.5	5.9	7.5	5.9
Interest Margin to Gross income	52.5	47.4	42.4	37.8	50.5	47.4
Profitability Ratio	17.4	16.4	14.1	12.1	13.4	16.3
Return On Assets (%) Before tax	36.0	36.7	30.2	26.4	25.2	27.1
Return On Equity (%) after tax	3.0	2.7	2.5	2.5	2.3	2.6

5.7.3 Return on Assets and Return on Equity

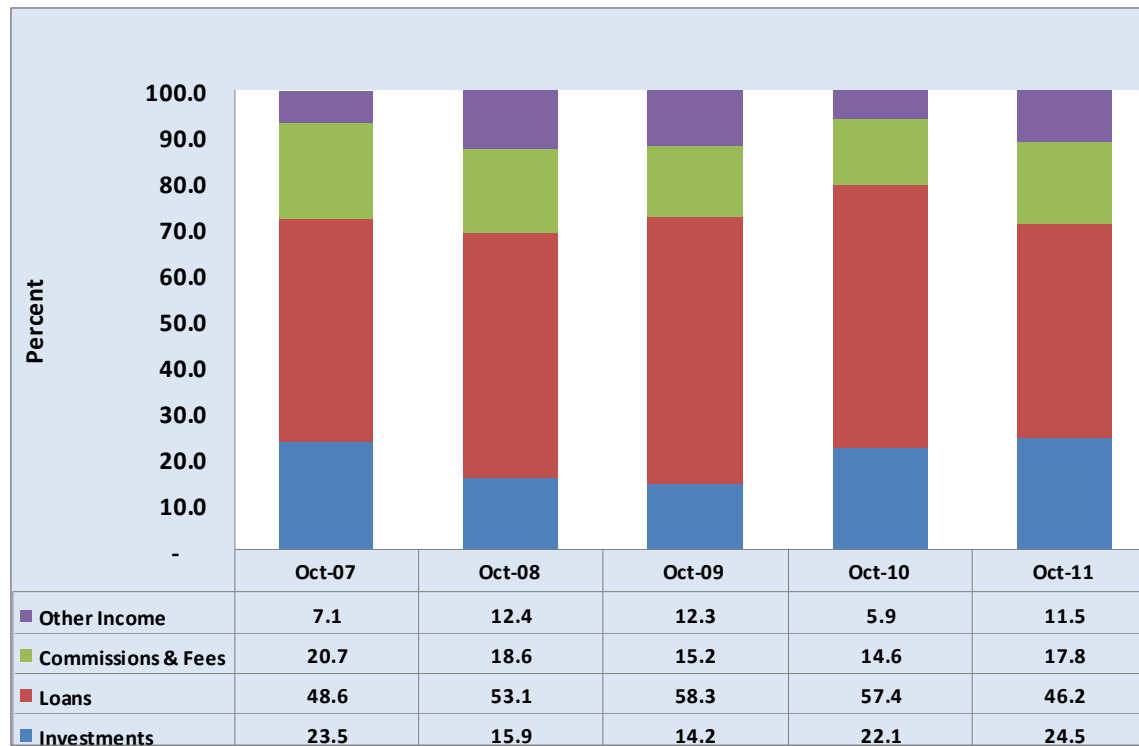
The banking industry's return on assets (ROA) increased from 25.2 percent as at end October 2010 to 27.1 percent by end October 2011. Similarly, return on equity (ROE) increased marginally from 2.3 percent in October 2010 to 2.6 percent in October 2011 (see Table 9).

5.7.4 Composition of Banks' Income

Interest income from loans which continued to be the main source of income for the banking industry constituted 46.2 percent of total income in October 2011 compared with 57.4 percent in October 2010. Investment income share of 24.5 percent of total income was an improvement over the 22.1 percent recorded in October 2010.

The share of income from fees and commission improved from 14.6 percent in October 2010 to 17.8 percent in October 2011 (see Chart 12).

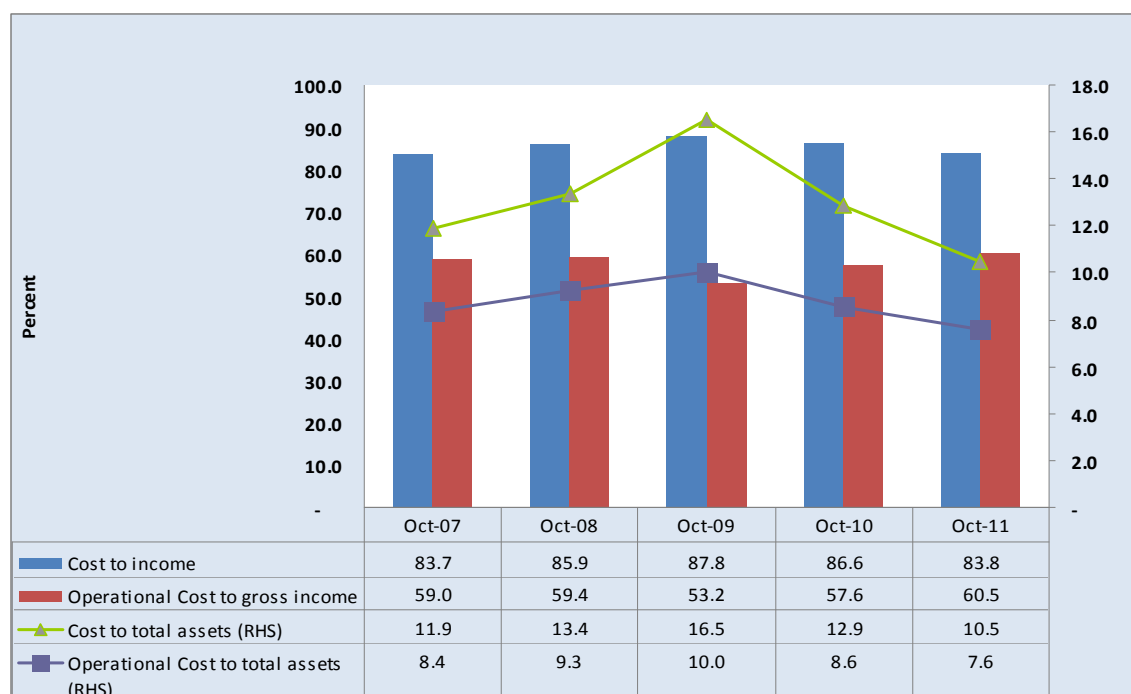
Chart 12: Composition of Income (%)



5.8 Operational Efficiency

Indicators of operational efficiency as at October 2011 broadly indicated some improvement relative to the same period last year. All the efficiency ratios registered improvement with the exception of operational cost to gross income. For instance, cost to income declined from 86.6 percent in October 2010 to 83.8 percent in October 2011 and operational cost to total assets decreased from 8.6 percent to 7.6 percent over the same period (see Chart 13).

Chart 13: Efficiency Indicators



5.9 Banks' Counterparty Relationships

5.9.1 Developments in Banks' Offshore balances & External Borrowing

Banks' offshore balances as at October 2011 registered a growth of 44.66 percent compared with 50.77 percent in October 2010 (see Table 10).

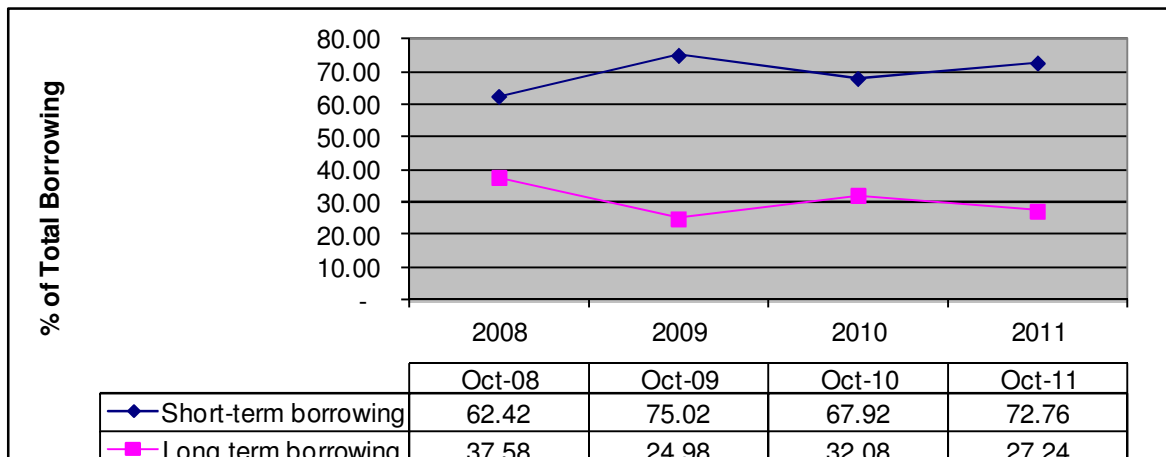
Table 10: Developments in Banks' Offshore Balances (%)

	Sep-09	Oct-09	Sep-10	Oct-10	Sep-11	Oct-11
Offshore balances as % to Networth	79.21	89.47	55.97	55.26	66.04	61.77
Monthly Growth in Offshore balances (%)	0.82	23.87	(4.20)	0.16	(4.19)	(3.89)
Annual Growth in Offshore balances (%)	29.75	71.79	13.05	(8.59)	50.77	44.66
Growth in Industry Networth (%)	30.67	42.28	59.99	47.99	27.78	29.42

Long-term external borrowings as a proportion of total external borrowing declined from 32.08 percent in October 2010 to 27.24 percent in October 2011 while short term foreign

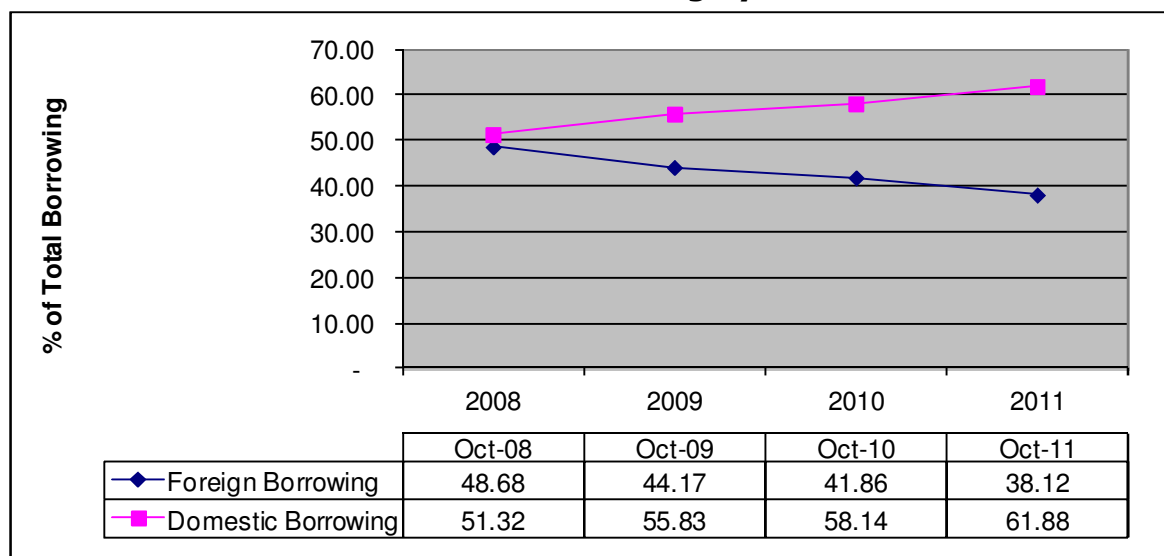
borrowings continued its increases and represented the largest share of the banking industry external borrowings (see Chart 14).

Chart 14: Distribution of Banks' External Borrowings



External borrowings as a proportion of total borrowings continued to decline as banks sourced for more domestic borrowings. Classification of banks' borrowings by source is provided in Chart 15.

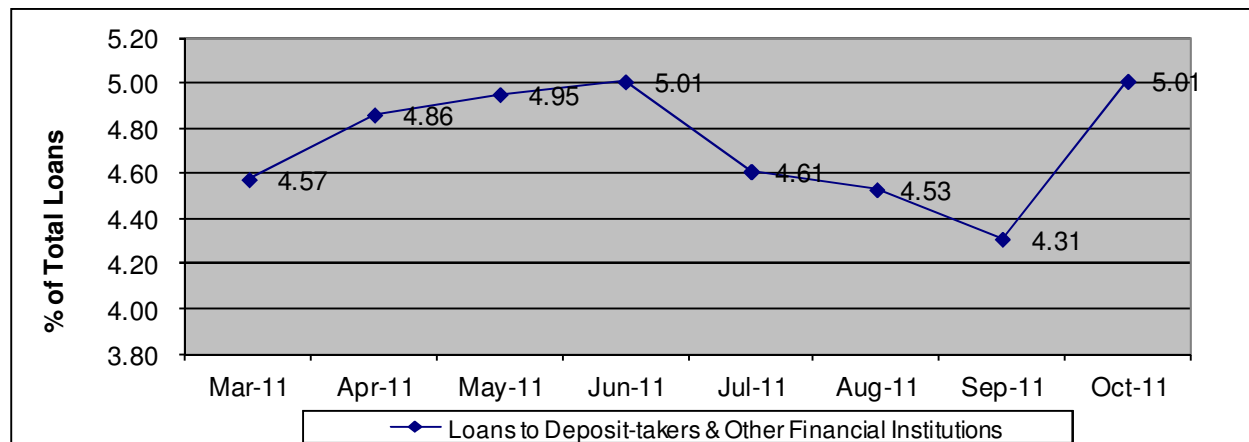
Chart 15: Classification of Banks' Borrowing by Source



5.9.2 Developments in Banks' Lending to Deposit-Takers and Other Financial Companies

Banks' loans to deposit-takers and other financial companies as a proportion to total banking loans increased marginally from 4.53 percent in August 2011 to 5.01 percent in October 2011 (see Chart 16).

Chart 16: Banks' Loans to Deposit-Takers and Other Financial Companies



6.1 Outlook

The continuous decline in money market interest rates shows that banks' returns on loan portfolio are expected to decline. Looking ahead therefore, Banks need to reduce their operational expenses and adopt innovative ways to improve their performance. Similarly, the declining trends in the banking sector NPLs is expected to enhance credit delivery.

6.2 Conclusions

The analysis of the banking sector's balance sheet, profit and loss accounts and other prudential reports revealed that:

- The banking industry is adequately capitalized, liquid and profitable.
- Generally, the financial soundness indicators of the banking industry, measured in terms of earnings, portfolio quality, liquidity, and capital adequacy remained strong.
- Liquidity risks also remained well-contained in the short to medium term.
- Non-performing loans, though declining, still remains a major source of concern to banks' solvency.

APPENDIX

Appendix A1: Selected Indicators of the Banking Industry

Indicators of Financial Depth and Intermediation						
	<u>Oct-06</u>	<u>Oct-07</u>	<u>Oct-08</u>	<u>Oct-09</u>	<u>Oct-10</u>	<u>Oct-11</u>
Asset to GDP	42.1	52.8	60.3	59.1	62.9	66.0
Private Sector Credi/GDP	16.9	22.9	29.1	26.9	24.8	25.4
Total Credit to GDP	20.8	27.4	34.7	31.5	28.9	27.5
Deposits to GDP	27.3	32.0	38.4	37.6	41.5	48.2
<i>% of Revised GDP</i>						
Asset to GDP	25.9	31.9	32.6	34.7	36.4	36.2
Private Sector Credi/GDP	10.4	13.8	15.7	15.8	14.4	13.9
Total Credit to GDP	12.8	16.6	18.7	18.5	16.7	15.1
Deposits to GDP	16.7	19.3	20.7	22.0	24.1	26.4

Appendix A2: Balance Sheet (flow data)

Balance Sheet (flow data)	Oct-10	Oct-11
Assets		
Credit	684,897.0	1,051,902.9
<i>of which foreign currency</i>	473,189.5	415,672.6
Investments	1,928,119.1	1,396,896.1
Foreign Assets	(86,840.9)	568,105.3
Total Assets	3,521,461.9	4,249,995.8
Share of Assets (flow)		
Credit	19.4	24.8
<i>of which foreign currency</i>	13.4	9.8
Investments to total Assets	54.8	32.9
Foreign Assets	(2.5)	13.4
Liabilities		
Deposits	2,649,819.5	4,235,739.9
<i>of which foreign currency</i>	426,143.5	1,160,511.8
Borrowings	(70,268.1)	(113,610.1)
Shareholders' Funds	704,495.7	639,218.5
Shareholders' Funds & Liabilities	3,521,461.9	4,249,995.8
Share of Liabilities (flow)		
Deposits	75.2	99.7
<i>of which foreign currency</i>	12.1	27.3
Borrowings	(2.0)	(2.7)
Shareholders' Funds	20.0	15.0