Bank of Ghana
Monetary Policy Report

Financial Stability

Volume 5: No 5/2011 Nov 2011

5.0 Introduction

5.0.1 A review of developments in the global financial system identified increased global financial risks culminating from the Greece debt crisis, the downgrade of some banks in Europe and the lowered sovereign rating of the United States.

5.0.2 Emerging market economies, especially those in Sub-Saharan Africa also faced pressure on their exchange rates and possible build up of financial risks and vulnerabilities.

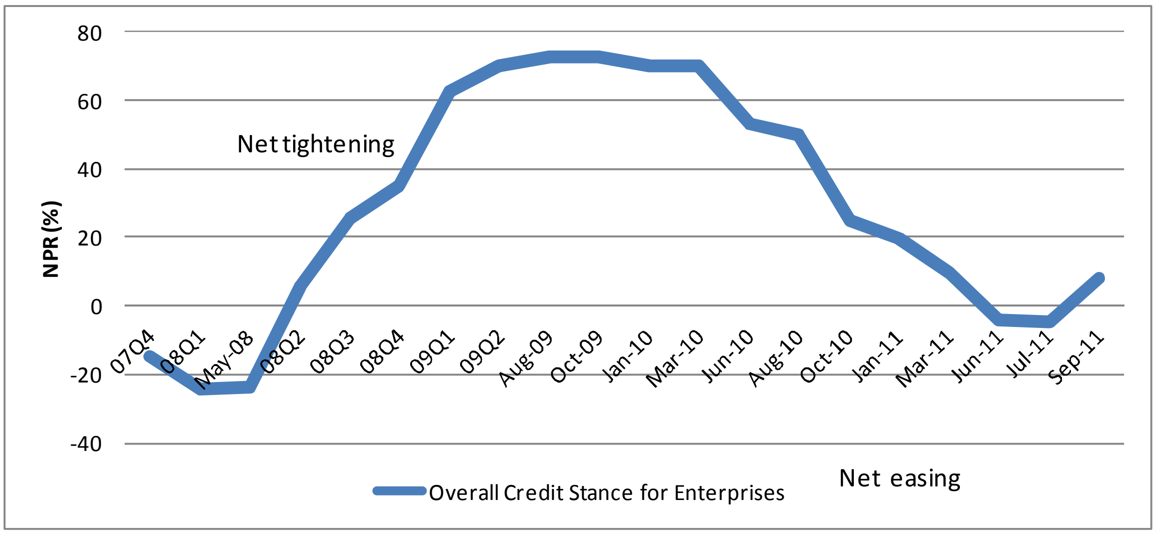
5.0.3 Generally, the domestic banking sector continued to record steady growth in assets, deposits and networth. The financial soundness indicators of the banking industry, measured in terms of earnings, portfolio quality, liquidity, and capital adequacy remained strong with declining non-performing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

5.1 Credit Conditions Survey

5.1.1 Loans or credit lines to Enterprises

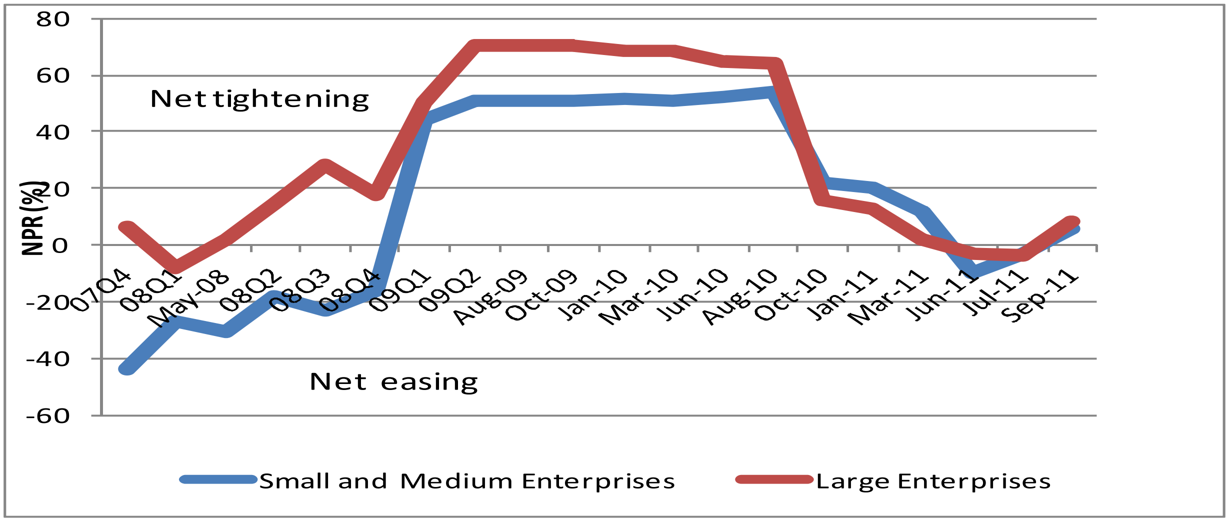
Banks tightened credit stance on loans during the September 2011 survey period with net tightening of credit stance to enterprises with different sizes and maturity. The tightening of credit stance reflected banks' expected capital position, banks' ability to access market financing, risk related to the current performance of 50 largest borrowers and changes in adversely classified loans in banks' portfolio. Other factors including security requirements, margins on average and riskier loans and changes in pressure from competition contributed to the net tightening of credit (see Chart 2). Non-price factors such as additional collateral requirements and smaller size of loans were also used by banks to tighten credit to small and medium sized companies.

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 fixed investment and inventories and working capital declined (see Chart 3a) while there was an increase in demand for loan for debt restructuring. Overall net demand for credit declined, however, loan request by large enterprises improved (see Chart 3b).

Chart 3a: Usage of credit

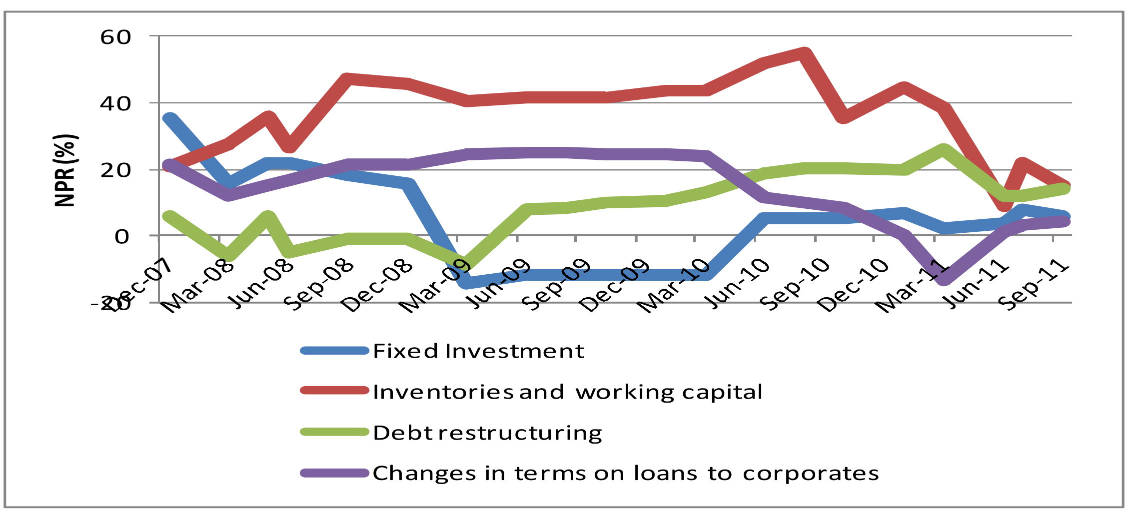
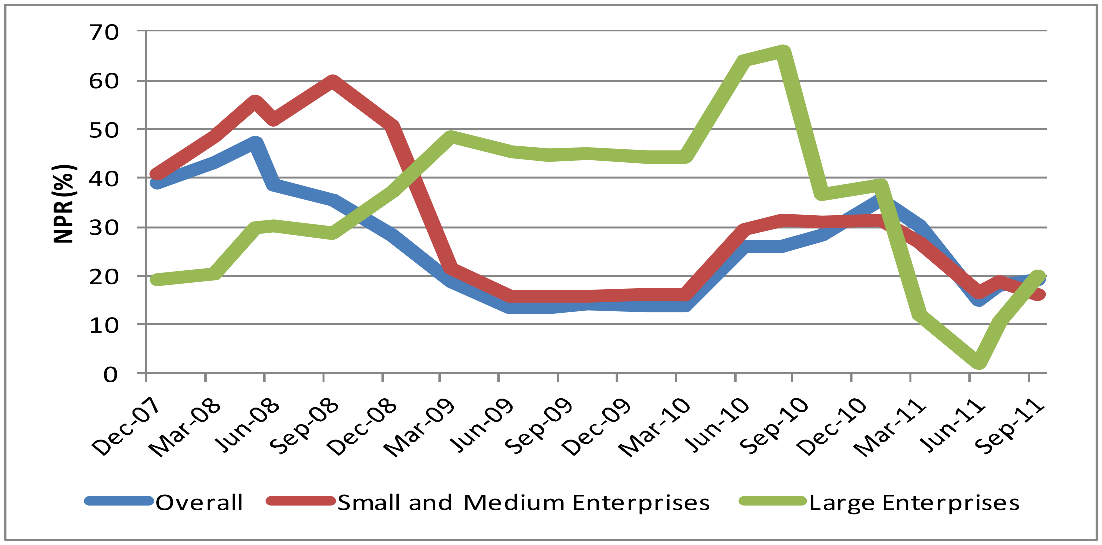


Chart 3b: Enterprise Demand for Credit

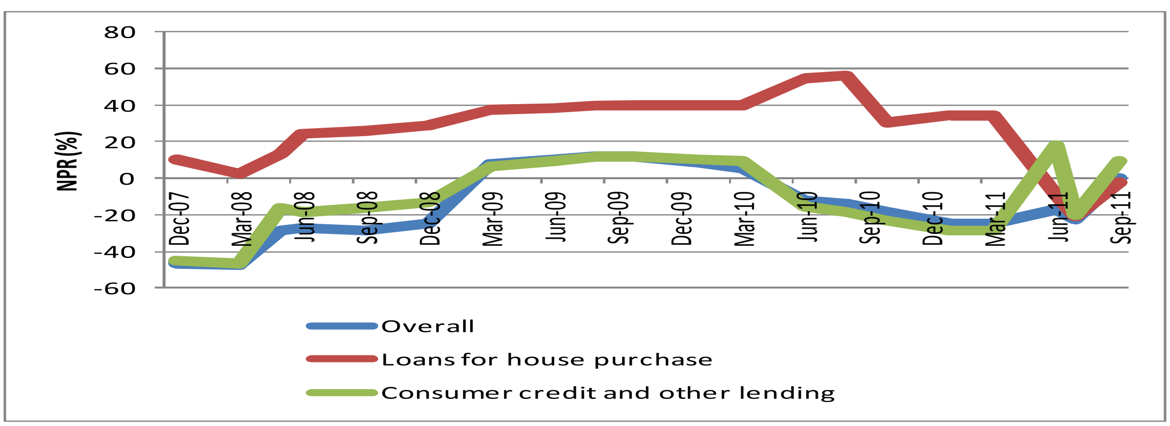


Notes: The net percentages for the questions on demand for loans are defined as the difference between the sum of the percentages for "increased considerably" and "increased somewhat" and the sum of the percentages for "decreased considerably" and "decreased somewhat".

5.2 Loans to households for house purchase

Banks tightened credit stance on loans to households for house purchase citing their expected capital position and margins on riskier loans (see chart 4).

Chart 4: Credit Stance on Households' Credit



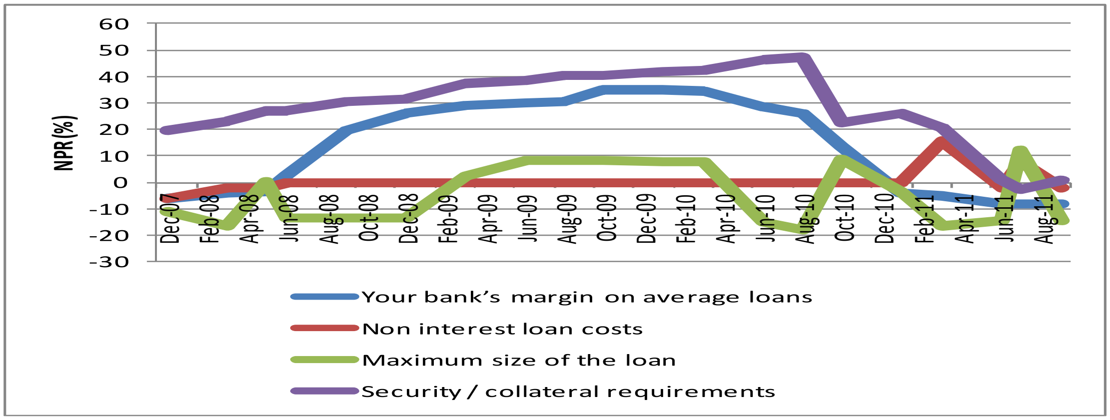
5.2.1 Loan demand

Households' credit demand for mortgages declined in the September 2011 survey compared with the July 2011 survey.

5.2.2 Consumer credit and other lending to households

Banks continued to ease access to consumer credits to the household sector citing the performance of their current 50 largest borrowers and expected capital positions (see Charts 4 & 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 August 2011 grew by 28.9 percent compared with 29.0 percent in the same period in 2010. Domestic assets increased by 26.7 percent by the end of August 2011 compared with the growth of 30.2 percent for the same period in August 2010. Foreign assets also grew by 51.3 percent compared with a growth of 17.8 percent for the corresponding period in 2010 (see Table 1).

Net loans and advances of GH¢7.11 billion represented a year-on-year growth of 14.0 percent in August 2011 compared with a slower growth rate of 4.9 percent recorded in August 2010. Banks' investment portfolio (bills and securities) reached GH¢5.92 billion and showed an annual growth of 55.3 percent by the end of August 2011 compared with a growth of 98.6 percent as at the end of August 2010 (see Table 1).

Deposit liabilities, which remains the main source of banks' funding, grew by 39.8 percent from GH¢ 9.91 billion in August 2010 to GH¢ 13.85 billion in August 2011. Total borrowings grew in year-on-year terms by 2.5 percent, up from GH¢ 1.65 billion in August 2010 to GH¢ 1.69 billion in August 2011 (see Table 1).

Paid –up capital also increased by 26.6 percent to GH ¢1.53 billion by the end of August 2011, compared with the 89.0 percent growth in August 2010 (see Table 1).

Table 1: Key Developments in Banks' Balance Sheet

Key Devts in DMBs' Balance Sheet			Y-on-y Growth (%)		Shares
	Aug-10	Aug-11	Aug-10	Aug-11	Aug-11
TOTAL ASSETS	15,116.5	19,483.4	29.0	28.9	100.0
A. Foreign Assets	1,354.0	2,047.9	17.8	51.3	10.5
B. Domestic Assets	13,762.5	17,435.5	30.2	26.7	89.5
Investments	3,812.2	5,920.6	98.6	55.3	30.4
i. Bills	2,198.9	3,233.8	72.3	47.1	16.6
ii. Securities	1,548.4	2,582.3	160.9	66.8	13.3
Advances (Net)	6,237.6	7,108.3	4.9	14.0	36.5
of which Foreign Currency	1,880.3	2,243.2	17.8	19.3	11.5
Gross Advances	7,192.9	8,074.2	8.3	12.3	41.4
Other Assets	996.8	985.9	58.0	(1.1)	5.1
Fixed Assets	490.8	543.6	24.9	10.7	2.8
TOTAL LIABILITIES AND CAPITAL	15,116.5	19,483.4	29.0	28.9	100.0
Total Deposits	9,908.9	13,849.9	25.6	39.8	71.1
of which Foreign Currency	2,720.7	3,893.2	7.2	43.1	20.0
Total Borrowings	1,645.5	1,686.7	10.1	2.5	8.7
Foreign Liabilities	989.6	1,092.0	8.7	10.3	5.6
i. Short-term borrowings	338.6	446.7	44.5	31.9	2.3
ii. Long-term borrowings	396.4	276.2	5.6	(30.3)	1.4
iii. Deposits of non-residents	254.6	369.2	(15.3)	45.0	1.9
Domestic Liabilities	12,057.5	15,695.5	26.3	30.2	80.6
i. Short-term borrowing	771.7	773.2	7.0	0.2	4.0
ii. Long-term Borrowings	138.7	190.7	(15.4)	37.5	1.0
iii. Domestic Deposits	9,654.3	13,480.7	27.2	39.6	69.2
Other Liabilities	1,415.6	1,263.4	36.8	(10.8)	6.5
Paid-up capital	1,212.3	1,534.3	89.0	26.6	7.9
Shareholders' Funds	2,055.4	2,673.0	64.9	30.0	13.7

5.3.1 Asset and Liability Structure of the Banking Industry

The banks' balance sheet structure as of August 2011 showed significant increases in the share of investments in total assets relative to the same period in 2010. The share of the banking sector assets and liabilities is shown in Table 2 below:

Table 2. Asset and Liability Structures of the Banking Sector

	Aug-06	Aug-07	Aug-08	Aug-09	Aug-10	Aug-11
	Components of Assets (In Percent of Total)					
Cash and Due from Banks	21.0	23.0	23.7	24.1	23.5	25.1
Investments	27.4	20.2	14.2	16.4	25.2	30.4
Net Advances	43.6	46.1	52.5	50.7	41.3	36.5
Other Assets	4.9	7.6	6.2	5.4	6.6	5.1
Fixed Assets	3.1	3.0	3.4	3.4	3.2	2.8
	Components of Liabilities (In Percent of Total)					
Total Deposits	66.6	58.4	65.6	67.3	65.6	71.1
Total Borrowings	9.4	14.7	13.4	12.7	10.9	8.7
Other Liabilities	10.8	15.5	10.1	8.8	9.4	6.5
Shareholders' Funds	12.4	10.4	10.8	10.6	13.6	13.7

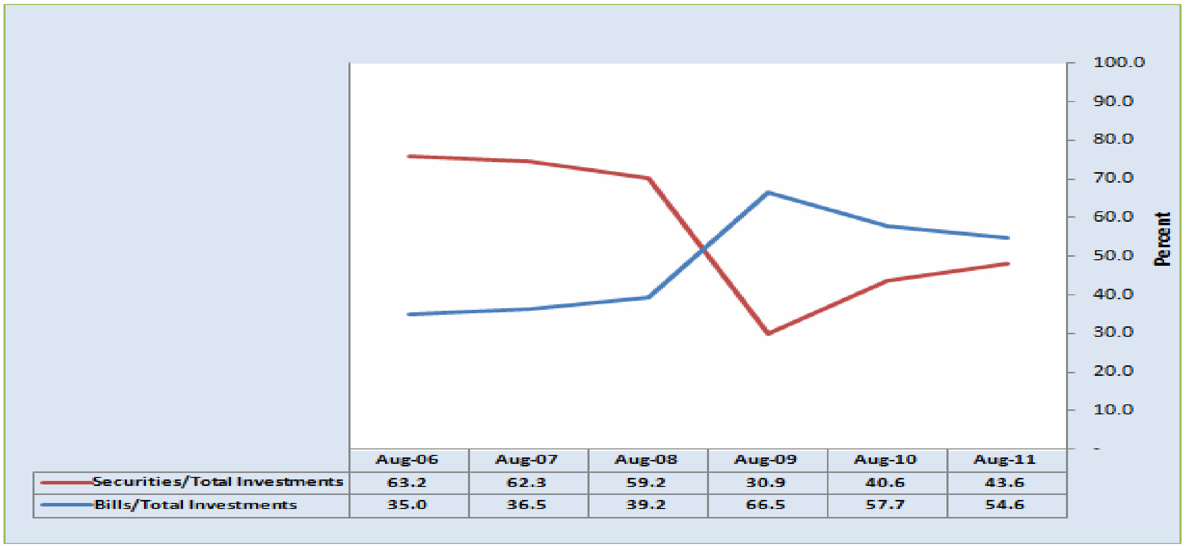
The share of net loans & advances in banks' assets of 36.5 percent in August 2011 was a reduction from the 41.3 percent recorded in August 2010. The share of investments (in both bills and securities) in total assets increased from 25.2 percent in August 2010 to 30.4 percent in August 2011.

Total deposits accounted for 71.1 percent of total liabilities at the end of August 2011 compared with 65.6 percent recorded in 2010. Also, the proportion of shareholders' funds in total liabilities inched up marginally from 13.6 percent in August 2010 to 13.7 percent in August 2011. This implies that 13.7 percent of the banking sector assets are backed by equity. However, the share of total borrowings in total liabilities declined to 8.7 percent as at August 2011 from 10.9 percent registered in August 2010 (see Table 2).

5.3.2 Share of Banks' Investments

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

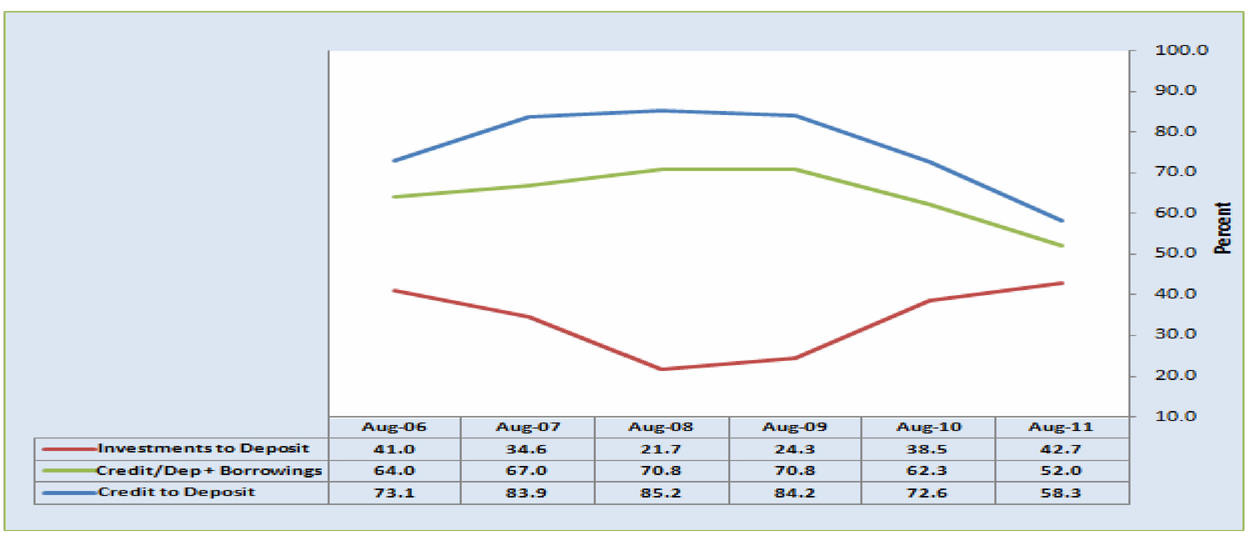
Chart 6 Banks' Investment (%)



	Aug-06	Aug-07	Aug-08	Aug-09	Aug-10	Aug-11
Securities/Total Investments	63.2	62.3	59.2	30.9	40.6	43.6
Bills/Total Investments	35.0	36.5	39.2	66.5	57.7	54.6

Banks' investment in securities (long term investments) as a share of total investment increased slightly from 40.6 percent in August 2010 to 43.6 percent in August 2011. However, investment in treasury bills as a share of total investment declined to 54.6 percent in August 2011, from 57.7 percent in August 2010 (see Chart 6).

Chart 7. Portfolio Allocation (%)



	Aug-06	Aug-07	Aug-08	Aug-09	Aug-10	Aug-11
Investments to Deposit	41.0	34.6	21.7	24.3	38.5	42.7
Credit/Dep+ Borrowings	64.0	67.0	70.8	70.8	62.3	52.0
Credit to Deposit	73.1	83.9	85.2	84.2	72.6	58.3

Credit to deposits ratio declined from 72.6 percent in August 2010 to 58.3 percent in August 2011. Credit to deposit plus borrowings ratio also followed a similar trend.

However, investments to deposit increased to 42.7 percent in August 2011 from 38.5 percent in August 2010 and reflected banks' channelling of a greater proportion of mobilised funds into investments (see Chart 7).

5.4 Credit Risk

5.4.1 Credit Portfolio Analysis

Gross loans and advances of the banking industry grew by 3.54 percent in real terms at the end of August 2011 compared with the decline of 1.02 percent recorded in the same period in 2010. Credit to the private sector increased by 12.54 percent as at end of August 2011 compared to the 0.38 percent growth at the end of August 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 accounted for 3.5 percent of gross loans and advances as at August 2011, compared with 11.8 percent recorded in August 2010. Loans to private enterprises accounted for 75.8 percent of gross loans in August 2011, up from 72.3 percent recorded in August 2010. The share of household loans in gross loans also increased marginally to 16.9 percent in August 2011 compared with 13.4 percent in August 2010. Credit to Government and public institutions constituted 3.8 percent of gross loans and advances in August 2011, an increase from 2.4 percent registered in August 2010 (see Table 3).

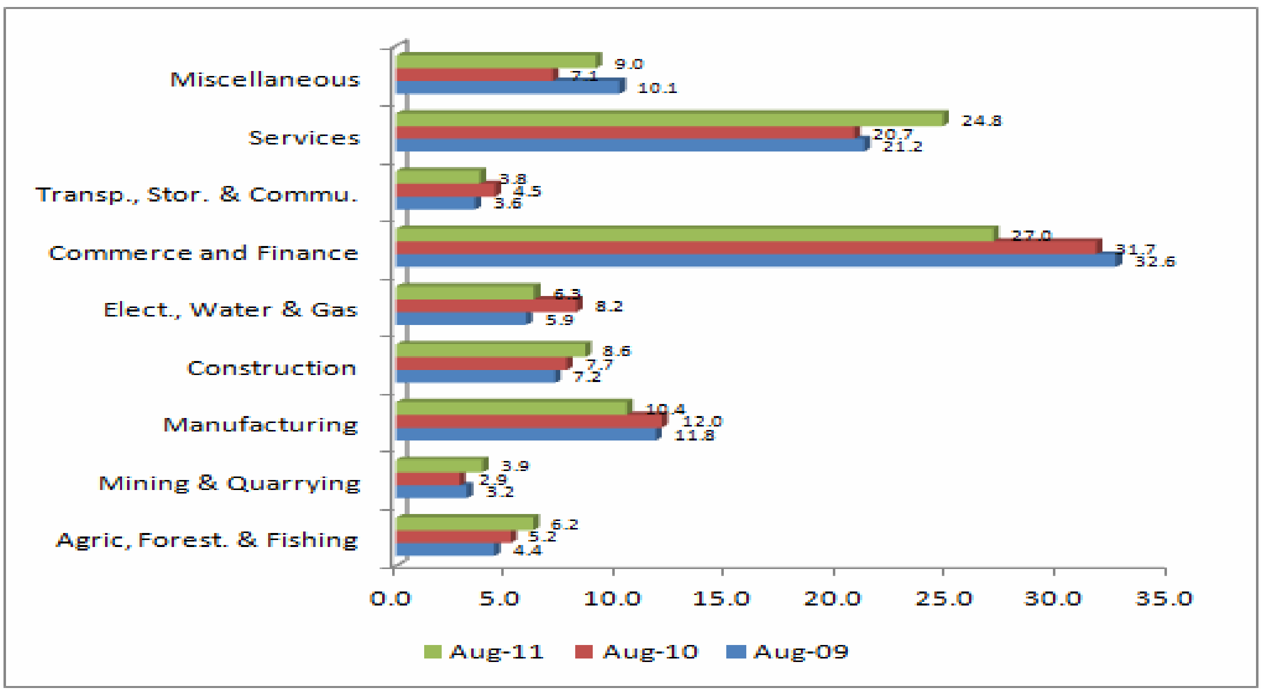
Table 3: Gross Loans and Real Annual Growth of Credit

	Aug-06	Aug-07	Aug-08	Aug-09	Aug-10	Aug-11
Gross Loans and Advances (GH¢m)	2,126.1	3,494.5	5,122.3	6,640.2	7,192.94	8,074.25
Real Growth (y-o-y)	19.7	48.9	24.1	8.3	(1.02)	3.54
Private Sector Credit (GH¢m)	1,718.8	2,689.4	4,280.4	5,613.0	6,166.2	7,522.93
Real Growth (y-o-y)	14.68	41.72	34.77	9.60	0.38	12.54
Distribution of Gross Loans by Economic Sector (percent)						
Private Enterprises	67.0	60.3	64.9	69.0	72.3	75.8
Household Loans	13.9	16.7	18.6	15.5	13.4	16.9
Govt & Public Institutions	6.6	8.0	4.6	3.4	2.4	3.8
Public enterprises	12.5	15.0	11.8	12.1	11.8	3.5

The sectoral allocation of credit showed that Commerce & Finance continued to receive the highest proportion of credit though in year-on-year terms its proportion in total credit declined from 31.7 percent in August 2010 to 27.0 percent in August 2011. The services sector's share of credit however improved from 20.7 percent in August 2010 to 24.8 percent in August 2011.

While the credit allocation to construction, services, mining and quarrying and agriculture, forestry and fishing sectors improved, those of manufacturing, electricity, gas and water sectors, transportation, storage and communication and commerce 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 52.0 percent to GH¢2.49 billion as at August 2011 compared with a growth of 24.7 percent in the corresponding period in 2010 (see Table 4).

Table 4: Contingent Liabilities

	Aug-06	Aug-07	Aug-08	Aug-09	Aug-10	Aug-11
Contingent Liabilities (GH¢)	913.5	983.2	1,547.6	1,315.7	1,640.6	2,492.9
Growth (y-o-y)	32.9	7.6	57.4	(15.0)	24.7	52.0
Share in Total Liabilities (%)	20.9	13.8	16.9	11.2	10.9	12.8

5.4.2 Asset Quality

The indicators of asset quality at end August 2011 pointed to improvement relative to the same period last year. The non-performing loans ratio declined from 18.5 percent at August 2010 to 16.0 percent in August 2011 (see Table 5).

The loss loan category of the total loans classifications continued to account for the greatest proportion of banks' impaired assets. It accounted for 62.3 percent of the impaired assets, while substandard and doubtful categories accounted for 15.8 percent and 21.9 percent respectively. Loss loans category accounted for 57.4 percent, followed by doubtful loans with 25.7 percent and 16.9 percent for substandard loans in the same period of 2010.

The ratio of NPL net of provisions to capital of 12.1 percent at end August 2011 was an improvement over the August 2010 position of 18.5 percent. Loan loss provisions to gross loans ratio also improved from 8.6 percent to 6.7 percent over the same periods (see Table 5).

Table 5: Asset Quality

	Aug-06	Aug-07	Aug-08	Aug-09	Aug-10	Aug-11
SUB-STD (GH¢m)	44.3	47.8	96.7	269.3	226.2	203.3
DOUBTFUL (GH¢m)	62.2	71.7	123.4	241.2	343.6	282.8
LOSS (GH¢m)	142.9	119.3	157.4	341.8	766.9	803.5
NPL (GH¢m)	249.5	238.8	377.5	852.3	1,336.6	1,289.6
NPL Ratio (%)	11.7	6.8	7.4	12.8	18.0	16.0
NPL Net of Provision to Capital (%)	4.8	3.8	6.3	12.6	18.5	12.1
Loan provision to Gross loan (%)	5.4	3.5	4.4	8.1	8.6	6.7

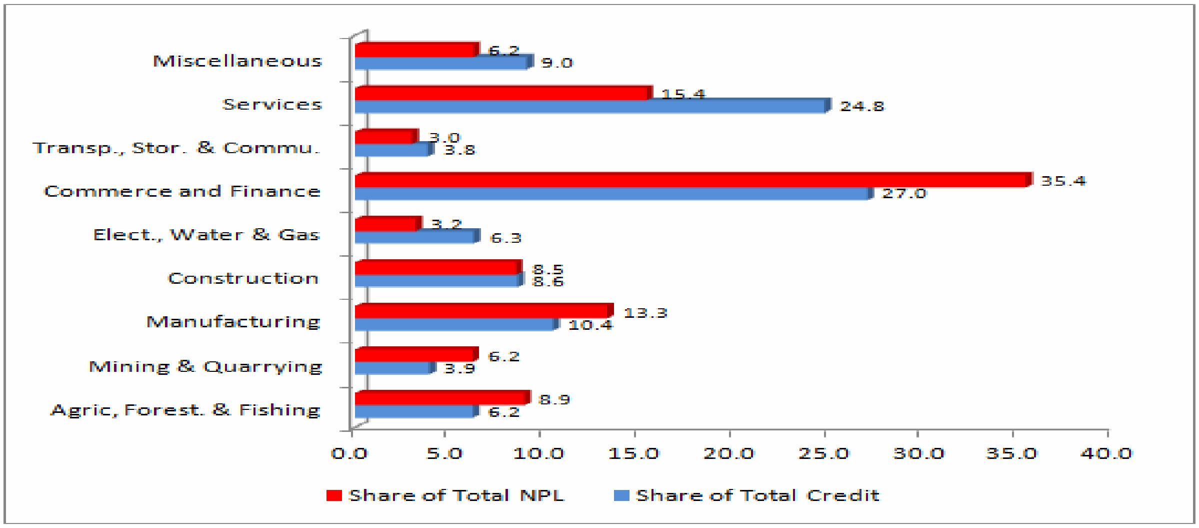
The private sector received 93.4 percent of total credit and accounted for 91.4 percent of the total non-performing loans as at the end of August 2011. Similarly, the public sector's share of total credit was 6.6 percent and contributed 8.6 percent of non-performing loans as at August 2011 (see Table 6).

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

Distribution of Gross Loans and NPLs By Borrower Type: August 2011		
	share in Total Credit	share in NPLs
a. Public Sector	6.6	8.6
i Central government	2.3	0.1
ii Public Institutions	1.2	0.6
iii Public Enterprises	3.1	7.8
b. Private Sector	93.4	91.4
i Private Enterprises	75.0	83.6
o/w Foreign	8.5	4.0
Indigeneous	66.5	79.7
ii Households	16.9	7.5
iii Others	1.5	0.3
Grand Total	100.0	100

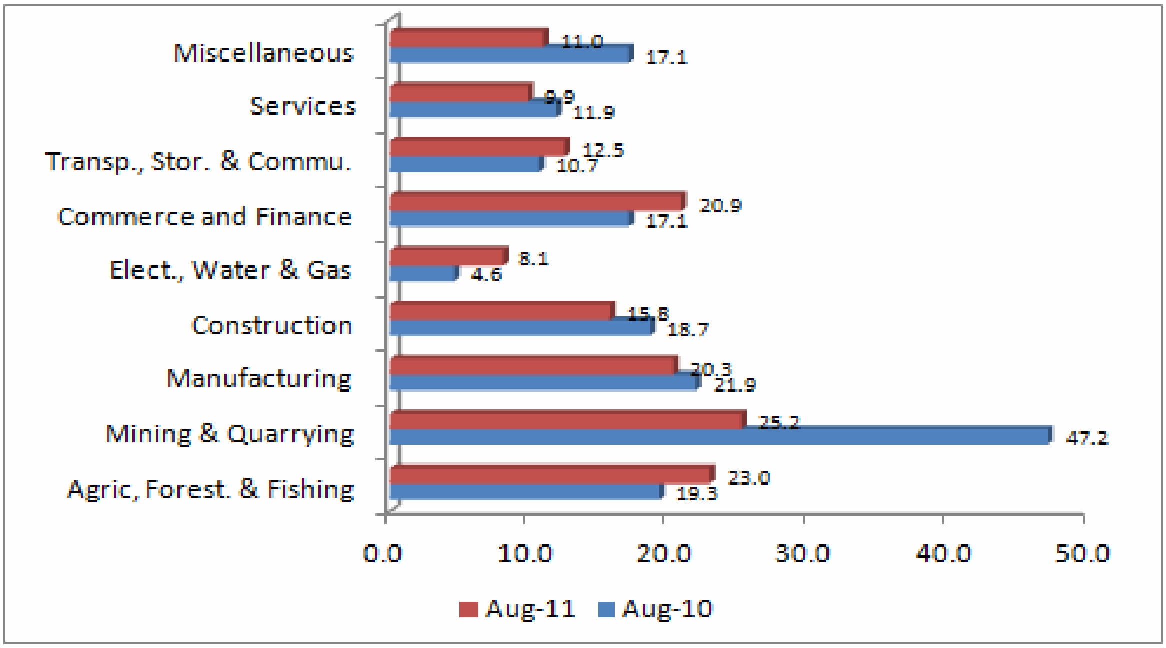
Commerce and finance, and service sectors together received 51.8 percent of total credit and accounted for 50.8 percent of NPL at end August 2011 compared with the same period in 2010 (see Chart 9).

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



Mining and Quarrying, Agriculture, Forestry and Fishing are sectors that have high proportions of impaired loans to gross loans. However, the proportion of impaired loans of the mining and quarrying sector dipped significantly from 47.2 percent in August 2010 to 25.2 percent in August 2011. Similarly, the proportion of loans impaired in other sectors also declined except Commerce and Finance, Electricity, Water and Gas, and Transportation, Storage and Communication sectors which recorded relatively higher non-performing loans in August 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 August 2011 relative to the same period in 2010. Other measures of liquidity such as liquid assets to total deposits also registered some improvements in year-on-year terms (see Table 7).

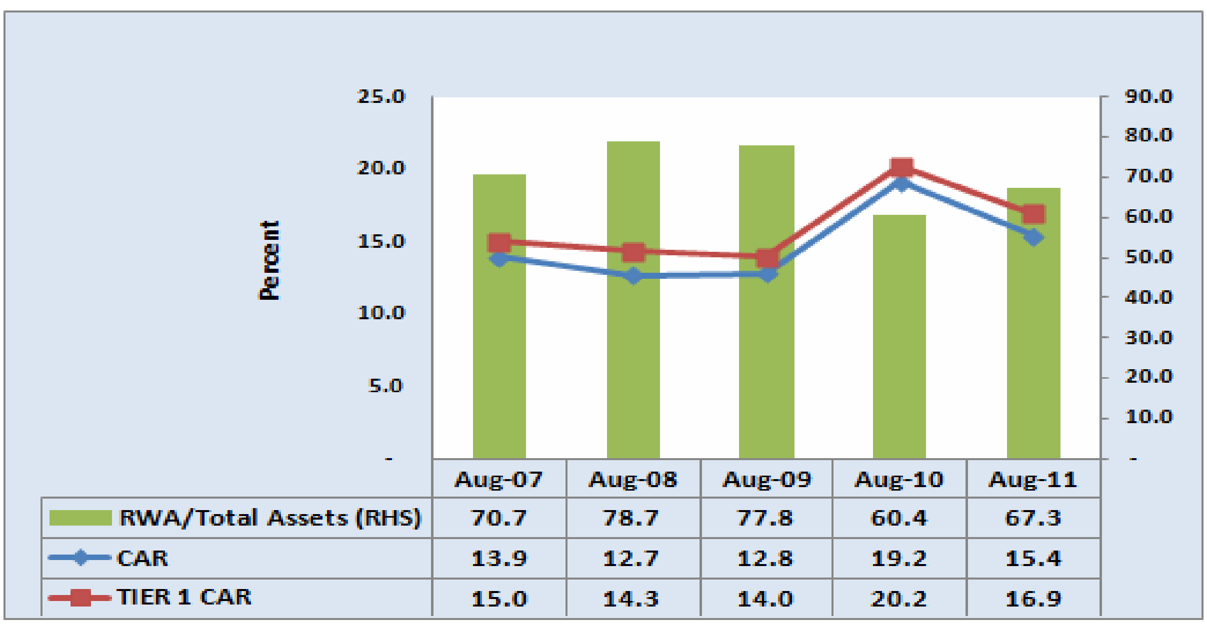
Table 7: Liquidity Ratios

	Aug-06	Aug-07	Aug-08	Aug-09	Aug-10	Aug-11
Liquid Assets (Core) - (GH¢'million)	916.7	1,638.2	2,171.1	2,820.2	3,558.0	4,884.9
Liquid Assets (Broad) -(GH¢'million)	2,089.0	3,063.0	3,454.6	4,690.0	7,305.3	10,700.9
Liquid Assets to total deposits (Core)	31.5	39.3	36.1	35.8	35.9	35.3
Liquid Assets to total deposits (Broad)	71.8	73.5	57.5	59.5	73.7	77.3
Liquid assets to total assets (Core)	21.0	23.0	23.7	24.1	23.5	25.1
Liquid assets to total assets (Broad)	47.9	43.0	37.7	40.0	48.3	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 19.2 percent in August 2010 to 15.4 percent in August 2011 (see Chart 11). The CAR was 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 show some improvement in banks' earnings performance for the eight months ended August 2011.

The banking sector's profit before tax in terms of year-on-year growth slowed down from a growth of 79.3 percent in August 2010 to 22.1 percent in August 2011. Similarly, the industry's net profit after tax also dipped from a growth of 93.2 percent in August 2010 to 21.8 percent in the corresponding period in 2011. Net fees and commission however improved from 12.3 percent to 31.0 percent over the same periods while other income also posted significant increases (see Table 8).

The banking industry's interest expenses declined by 23.4 percent in August 2011 from the 10.1 percent growth in August 2010, reflecting improved macroeconomic conditions (see Table 8.).

Table 8 DMBs Income Statement

DMBs' Income Statement Highlights	Aug-09	Aug-10	Aug-11	Aug-10	Aug-11
	(GH ¢'million)			Y-on-y Growth (%)	
Interest Income	1,160.5	1,564.1	1,389.5	34.8	(11.2)
Interest Expenses	(538.3)	(592.8)	(453.9)	10.1	(23.4)
Net Interest Income	**622.2**	**971.4**	**935.7**	56.1	(3.7)
Fees and Commissions (Net)	241.3	271.1	355.1	12.3	31.0
Other Income	202.2	131.3	199.5	(35.1)	52.0
Operating Income	**1,065.8**	**1,373.7**	**1,490.3**	28.9	8.5
Operating Expenses	**(587.5)**	**(729.3)**	**(854.3)**	24.1	17.1
Staff Cost	(233.2)	(336.2)	(380.2)	44.2	13.1
Other operating Expenses	(354.3)	(393.0)	(474.1)	10.9	20.6
Net Operating Income	**478.3**	**644.4**	**636.0**	34.7	(1.3)
Total Provision (Loan losses, Depreciation & othe	(282.9)	(291.8)	(205.4)	3.1	(29.6)
Monetary Loss	1.3	(0.0)	-	-	-
Income Before Tax	**196.7**	**352.6**	**430.6**	79.3	22.1
Tax	(68.4)	(104.8)	(128.9)	53.2	23.0
Net Income	**128.2**	**247.8**	**301.7**	93.2	21.8
Gross Income	**1,604.1**	**1,966.5**	**1,944.2**	22.6	(1.1)

5.7.2 Interest Margin and Spread

The ratio of gross income to total assets (i.e. assets utilisation) declined from 13.0 percent in August 2010 to 10.0 percent by the end of August 2011. Similarly, interest spread also narrowed over the period from 7.6 percent in August 2010 to 6.5 percent at the end of August 2011 (see Table 9).

Table 9: Profitability Indicators (%)

	Aug-06	Aug-07	Aug-08	Aug-09	Aug-10	Aug-11
Gross Yield	10.3	10.1	10.8	13.2	14.3	10.5
Int Payable	3.7	4.8	4.9	7.4	6.7	3.9
Spread	6.7	5.3	5.9	5.8	7.6	6.5
Asset Utilitisation	16.4	13.8	16.4	20.5	13.0	10.0
Interest Margin to Total Assets	5.8	4.5	4.7	5.3	6.4	4.8
Interest Margin to Gross income	53.2	48.6	42.9	38.8	49.4	48.1
Profitability Ratio	17.9	18.2	14.8	8.0	12.6	15.5
Return On Assets (%) Before tax	37.7	39.3	31.5	22.3	27.0	25.5
Return On Equity (%) after tax	3.1	3.0	2.6	1.7	2.6	2.4

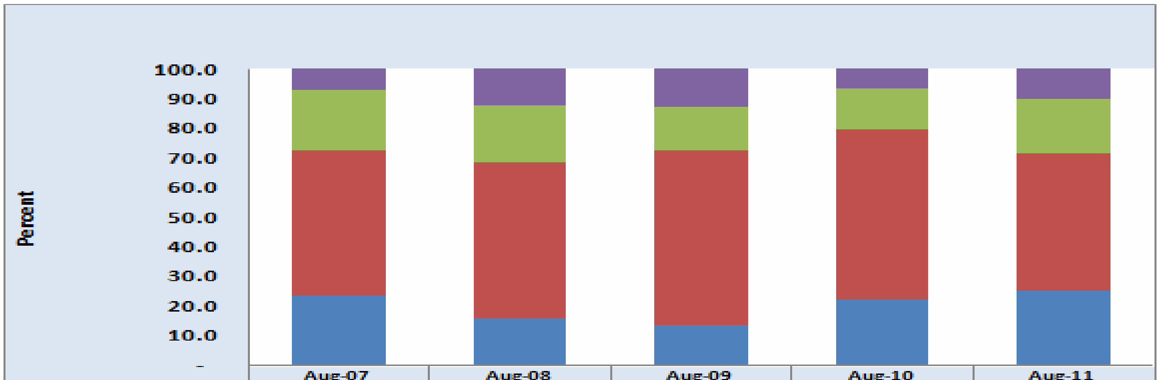
5.7.3 Return on Assets and Return on Equity

The banking industry's return on assets (ROA) declined from 27.0 percent as at end August 2010 to 25.5 percent by end August 2011. Similarly, return on equity (ROE) dipped marginally from 2.6 percent in August 2010 to 2.4 percent in August 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 46.3 percent of total income in August 2011 compared with 57.2 percent in August 2010. Investment income share of 25.2 percent of total income was an improvement over the 22.3 percent recorded in August 2010. The share of income from fees and commission improved from 13.8 percent in August 2010 to 18.3 percent in August 2011 (see Chart 12).

Chart 12: Composition of Income (%)

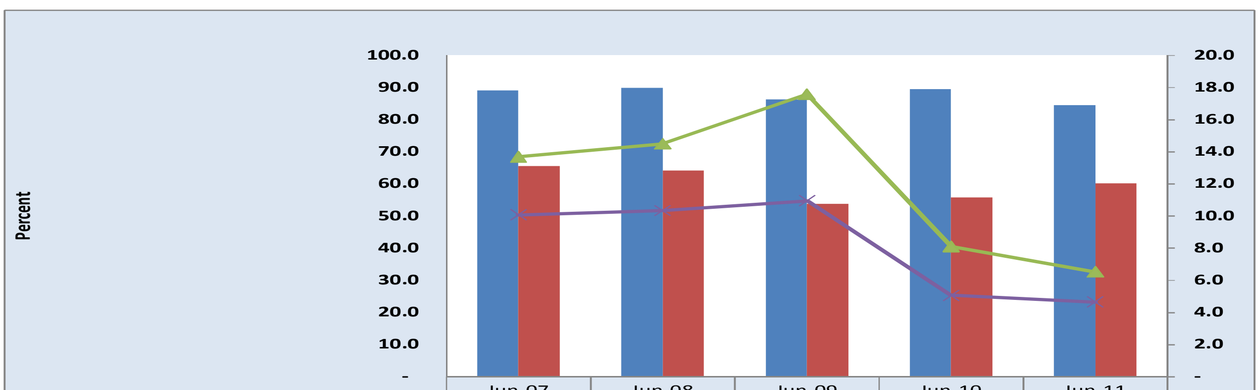


	Aug-07	Aug-08	Aug-09	Aug-10	Aug-11
Other Income	7.0	12.3	12.6	6.7	10.3
Commissions & Fees	20.3	19.1	15.0	13.8	18.3
Loans	49.2	52.5	58.8	57.2	46.3
Investments	23.5	16.0	13.6	22.3	25.2

5.8 Operational Efficiency

Indicators of operational efficiency as at August 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 89.5 percent in August 2010 to 84.5 percent in August 2011 and operational cost to total assets decreased from 5.1 percent to 4.7 percent over the same period (see Chart 13).

Chart 13: Efficiency Indicators



	Jun-07	Jun-08	Jun-09	Jun-10	Jun-11
Cost to income	89.0	90.0	86.4	89.5	84.5
Operational Cost to gross income	65.6	64.2	53.9	55.9	60.1
Cost to total assets (RHS)	13.7	14.5	17.6	8.1	6.5
Operational Cost to total assets (RHS)	10.1	10.3	11.0	5.1	4.7

5.9 Banks' Counterparty Relationships

5.9.1 Developments in Banks' Offshore balances & External Borrowing

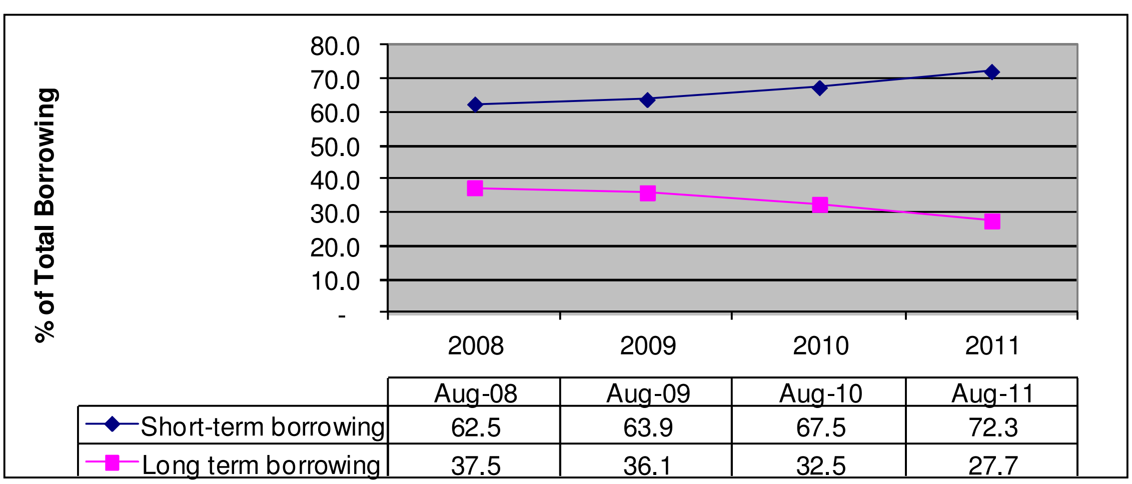
Banks' offshore balances as at August 2011 registered a growth of 50.74 percent compared with 18.98 percent in August 2010 (see Table 10).

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

	Jul-09	Aug-09	Jul-10	Aug-10	Jul-11	Aug-11
Offshore balances as % to Networth	94.82	84.37	59.74	60.88	68.77	70.60
Monthly Growth in Offshore balances (%)	11.92	(15.95)	(1.20)	2.29	4.15	4.02
Annual Growth in Offshore balances (%)	108.45	68.04	(2.24)	18.98	48.24	50.74
Growth in Industry Networth (%)	50.58	35.58	55.17	64.89	28.77	29.99

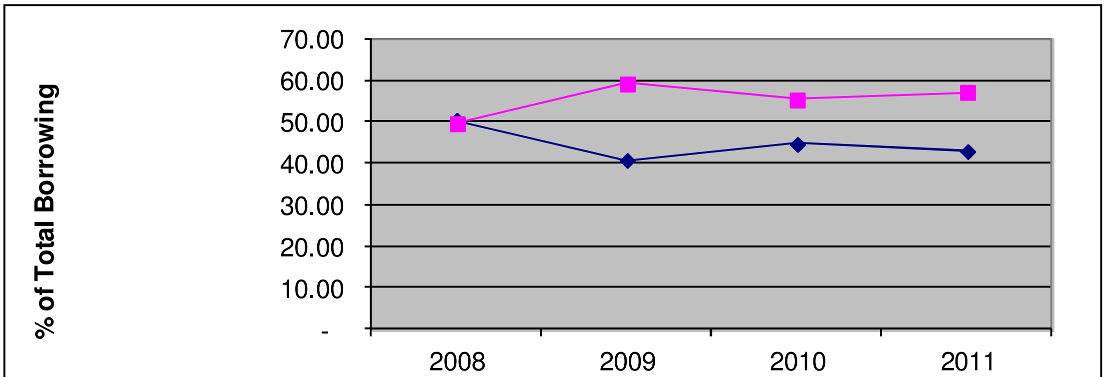
Long-term external borrowings as a proportion of total external borrowing declined from 32.5 percent in August 2010 to 27.7 percent in August 2011 while short term foreign borrowings continued its upward trend and represented the largest share of the banking industry external borrowings (see Chart 14).

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

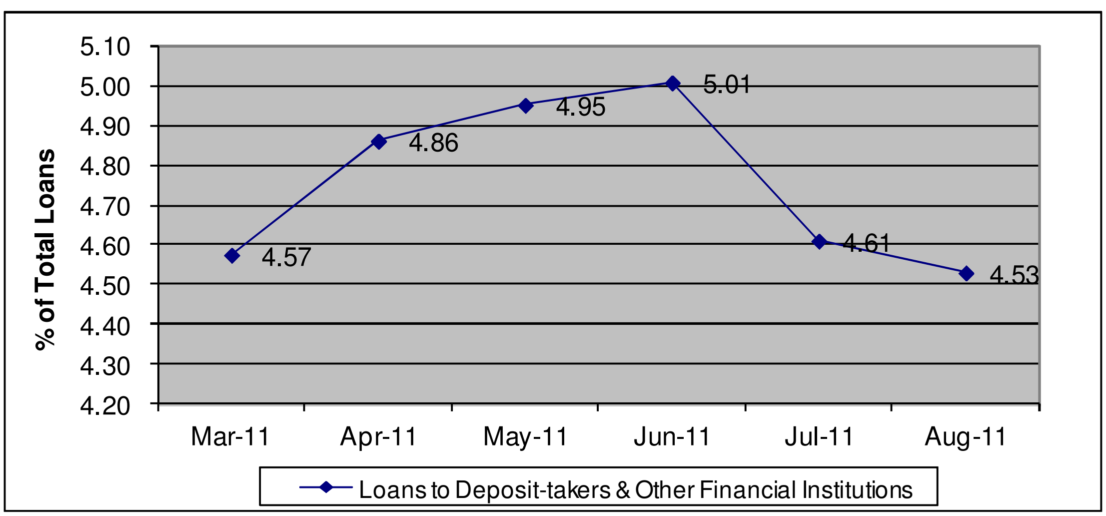


	Aug-08	Aug-09	Aug-10	Aug-11
Foreign Borrowing	50.41	40.78	44.67	42.85
Domestic Borrowing	49.59	59.22	55.33	57.15

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 declined marginally from 4.61 percent in July 2011 to 4.53 percent in June 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. Banks therefore needs 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 was 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 has been declining, and continued to be a major source of concern to banks' solvency.

APPENDIX

Appendix A1: Selected Indicators of the Banking Industry

	Aug-06	Aug-07	Aug-08	Aug-09	Aug-10	Aug-11
Market Share (Top 5 banks)	60.3	55.0	54.8	49.8	46.6	45.3
Gini Concentration Index	51.4	49.5	49.6	43.9	40.7	40.9
Herfindahl Index	933.9	834.3	795.8	695.4	623.2	596.7
Variation Coefficient (VC)	1.0	0.98	1.02	0.87	0.80	0.80
	Indicators of Financial Depth and Intermediation					
Asset to GDP	38.0	51.0	56.2	54.2	58.3	62.5
Private Sector Credi/GDP	15.0	19.2	26.3	25.9	23.8	24.0
Total Credit to GDP	18.5	25.0	31.4	30.7	27.7	25.9
Deposits to GDP	25.3	29.8	36.9	36.5	38.2	44.4
% of Revised GDP						
Asset to GDP	22.6	26.6	28.3	31.8	33.4	36.5
Private Sector Credi/GDP	9.0	11.0	13.1	15.3	13.9	13.5
Total Credit to GDP	10.6	13.0	15.7	18.4	15.9	14.5
Deposits to GDP	15.0	17.0	18.2	21.0	22.7	25.5

Appendix A2: Balance Sheet (flow data)

Balance Sheet (flow data)	Aug-10	Aug-11
Assets		
Credit	552,716.5	881,307.4
of which foreign currency	*283,759.7*	*362,882.8*
Investments	1,893,054.7	2,108,424.1
Foreign Assets	205,071.3	693,919.7
Total Assets	3,393,786.1	4,366,946.5
Share of Assets (flow)		
Credit	16.3	20.2
of which foreign currency	*8.4*	*8.3*
Investments to total Assets	55.8	48.3
Foreign Assets	6.0	15.9
Liabilities		
Deposits	2,020,860.3	3,941,033.2
of which foreign currency	*183,130.3*	*1,172,491.6*
Borrowings	150,994.7	41,259.0
Shareholders' Funds	808,902.0	617,545.7
Shareholders' Funds & Liabilities	3,393,786.1	4,366,946.5
Share of Liabilities (flow)		
Deposits	59.5	90.2
of which foreign currency	*5.4*	*26.8*
Borrowings	4.4	0.9
Shareholders' Funds	23.8	14.1