BANK OF GHANA

Monetary Policy Report

VOLUME 5 NO. 2 May 2015

Financial Stability Report

5.0 Introduction

5.0.1 The April 2015 IMF World Economic Outlook (WEO) projected global growth to pick up modestly to 3.5 percent in 2015 and further to 3.7 percent in 2016, a rise from the 3.4 percent recorded in 2014. Downside risks to the growth prospects include a sudden Fed lift-off and slower growth in major emerging economies including China.

5.0.2 The global financial stability risks have elevated since the IMF's assessment in October 2014, as a result of increased emerging market risks and declined risk appetite (IMF, April 2015 GFSR). For Sub-Saharan Africa (SSA), risks to financial stability remain tilted to the downside and could be undermined by sudden Fed lift-off and large currency depreciations in the region.

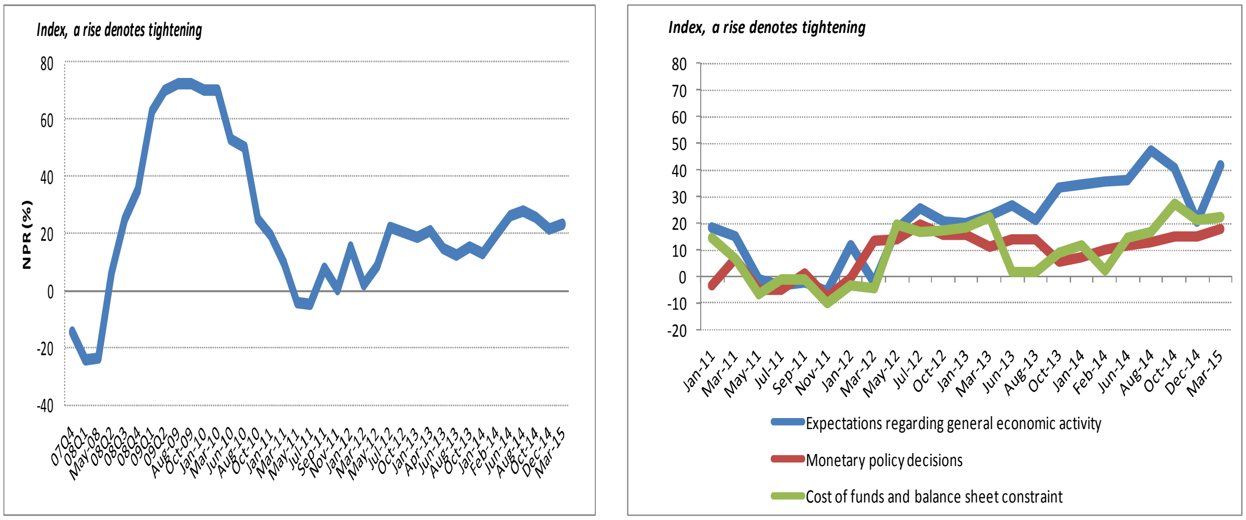
5.0.3 The domestic banking sector continued to be sound and solvent in the first quarter of 2015, as most of the key performance indicators showed improvement. However, the sector's ability to absorb losses as captured by the capital adequacy ratio (CAR) declined marginally during the period.

5.1 Credit Conditions Survey

5.1.1 Loans or credit lines to Enterprises

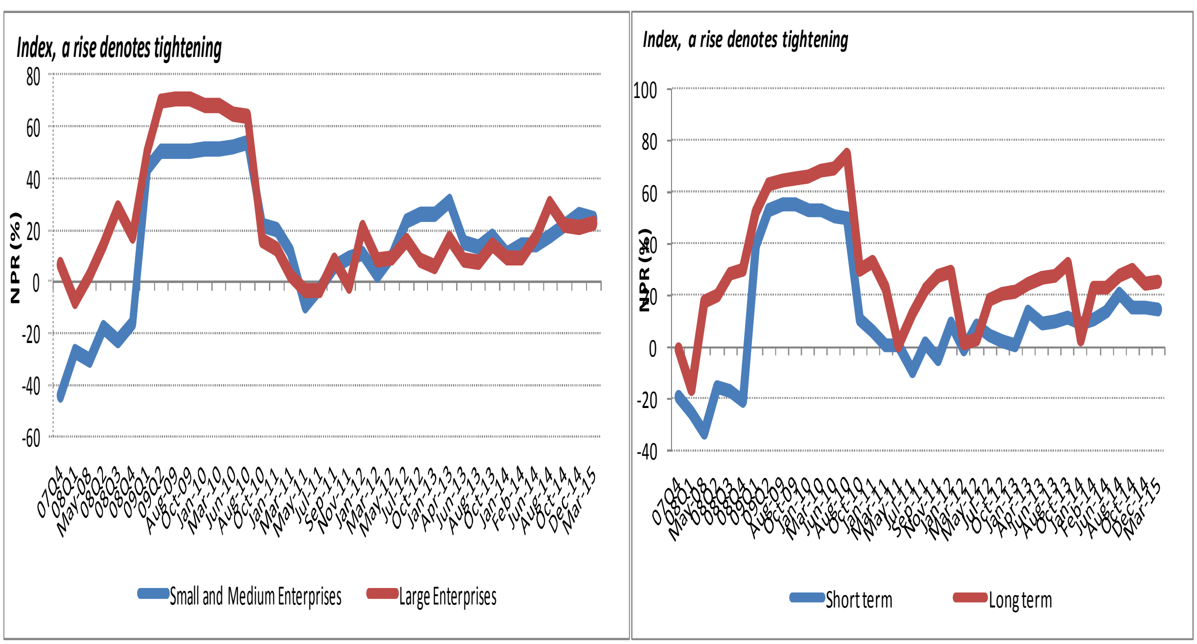
According to the April 2015 bank lending survey, the overall credit stance tightened in net terms in the first quarter of 2015 (Chart 1). Banks tightened their stance on loans to large enterprises and also on long-term loans (see Chart 2). The factors which led to the overall credit stance included lower expectations regarding economic environment, reduced access to market finance, increased costs of funds and balance sheets constraint. On the other hand, reduced margins on average loans and non-interest loan costs contributed to an easing of standards on loans to small and medium enterprises (SMEs).

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

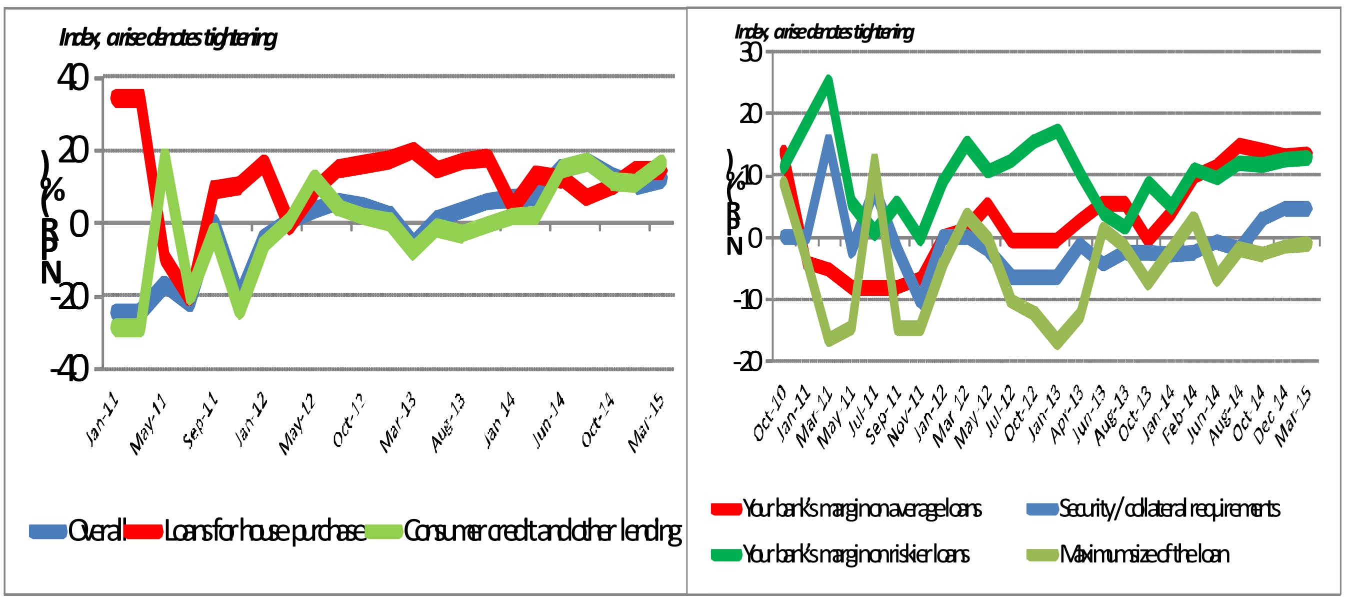
Chart 2: Enterprise Credit Stance



5.1.2 Loans or credit lines to Households

Similarly, overall credit stance on credit to households tightened in net terms, as a result of a larger tightening in consumer credit and other lending more than offsetting the marginal easing of credit for house purchases. Banks tightened their credit stance on consumer credit and other lending by increasing margin on average loans and tightening collateral requirements. On the other hand, the net easing of credit stance on loans to households for house purchase was carried through by a reduction in maximum size of loans and lower margins on average loans (see chart 3).

Chart 3: Credit Stance on Households Credit



5.2.1 Loan Demand for Enterprises

The demand for credit increased in net terms with increased demand for credit by all enterprises (see Chart 4a). The increased demand for credit reflected increases in demand for loans for inventories & working capital and debt restructuring (see Chart 4b).

Chart 4a: Enterprise Demand for Credit

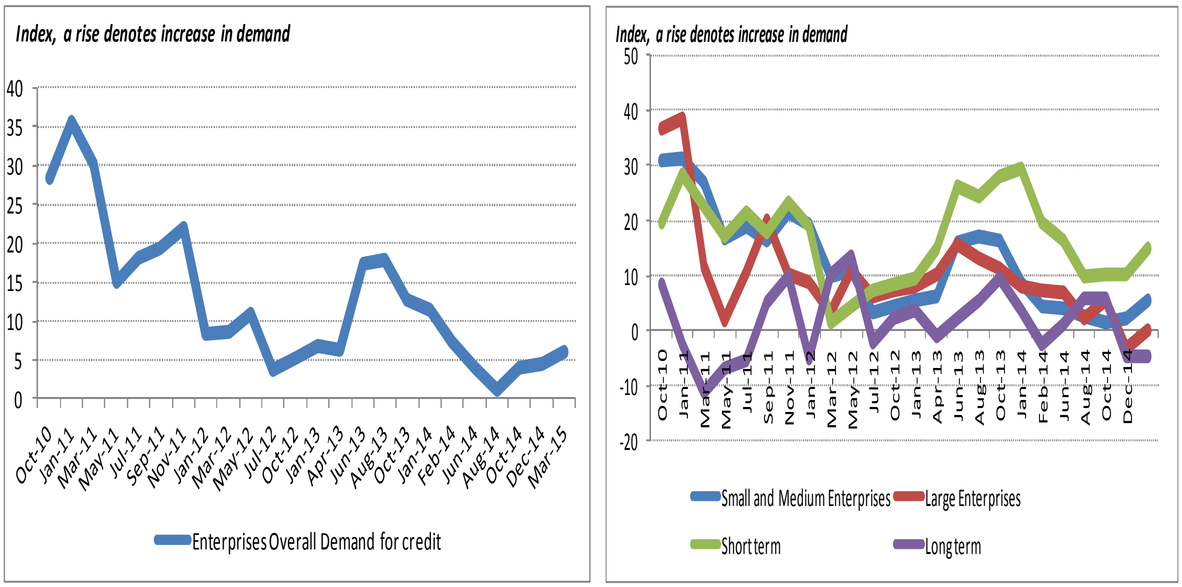
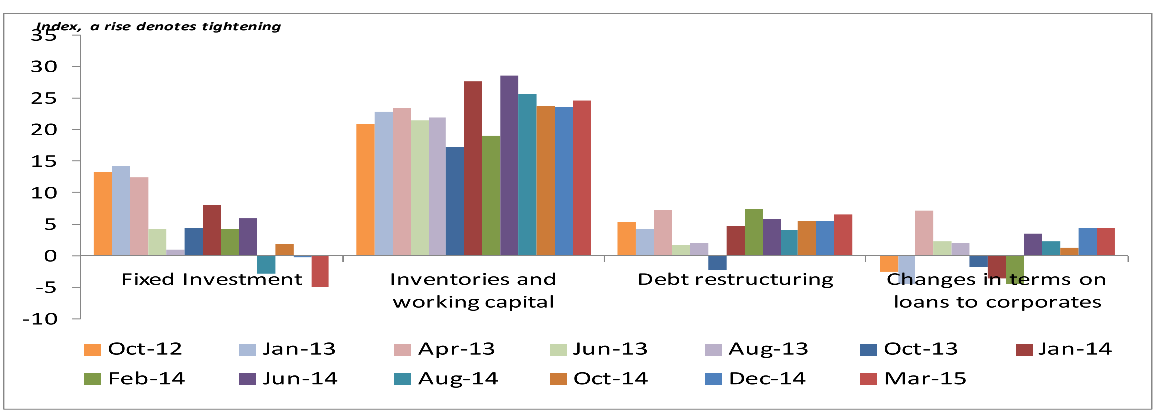


Chart 4b: Usage of credit

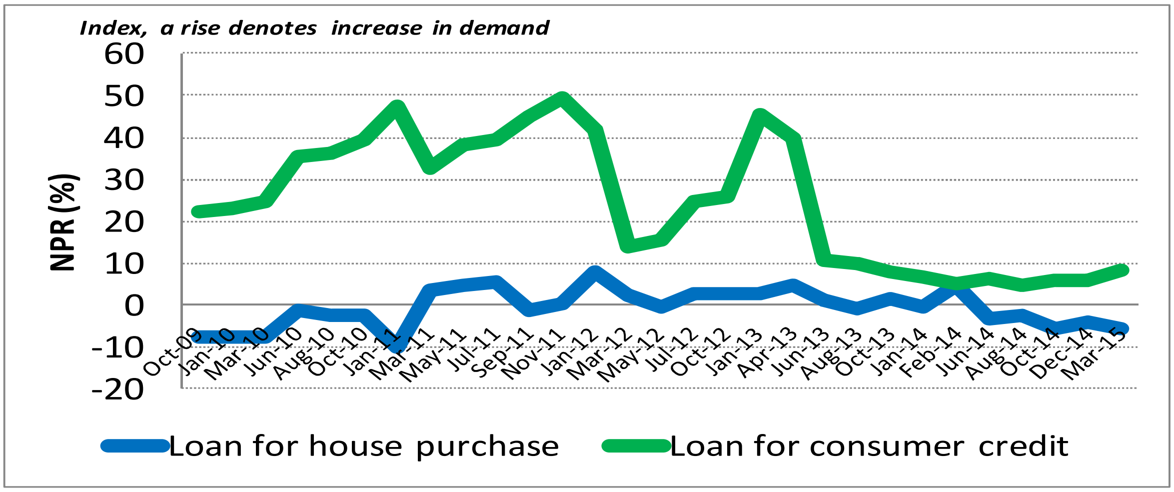


Notes: The net percentages for the questions on demand for loans are defined as the difference between the sum of the percentages for "increased considerably" and "increased somewhat" and the sum of the percentages for "decreased considerably" and "decreased somewhat".

5.2.2 Loan demand for Households

Rising net demand for loans was reported by banks in the first quarter of 2015, in particular for consumer credit (see Chart 5).

Chart 5: Demand for credit by Households



5.3 BANKING SECTOR STABILITY ANALYSIS

The overall banking sector performance improved in March 2015 compared with the performance in March 2014.

5.3 Developments in Banks' Balance Sheet

Total assets of the banking sector grew by 37.8 percent to GH¢55.09 billion as at end March 2015 compared with the 38.3 percent growth recorded in March 2014. Domestic assets component of total assets increased by 35.6 percent to GH¢49.90 billion at end of March 2015 compared with 38 percent growth recorded for the same period in 2014. Foreign assets also grew by 63.7 percent to GH¢5.19 billion at end March 2015 compared with 41.9 percent growth in the corresponding period in 2014 (see Table 1).

Net loans and advances of GH¢24.82 billion as at end March 2015 represented a stable annual growth of 41.2 percent. Banks' investment portfolio (bills and securities) increased, in year-on-year terms, by 6.2 percent to reach GH¢11.92 billion by the end of March 2015 compared with a 43.1 percent growth at the end of March 2014 (see Table 1).

The banking sector total deposits liabilities as at end March 2015 was GH¢33.97 billion and showed an annual growth of 30.8 percent compared with 28.4 percent growth in March 2014. Banks' borrowings recorded a slowdown in growth from 98.7 percent in March 2014 to 69.9 percent in March 2015. The slowdown in banks' borrowings was driven mainly by the sharp decline in banks' short term foreign borrowings (see Table 1).

Banks' paid–up capital also showed an annual growth of 12.8 percent to GH¢2.72 billion by the end of March 2015, compared with 10.3 percent growth in March 2014 (see Table 1). Shareholders' fund similarly expanded, in year-on-year terms, by 34.9 percent to GH¢8.06 billion at the end of March 2015 compared with a 35.9 percent growth recorded in the same period in 2014. The key developments in the banks' balance sheet are provided in Table 1 below:

Table 1: Key Developments in Banks' Balance Sheet

				Y-on-Y Growth (%)		Shares
	Mar-13	Mar-14	Mar-15	Mar-14	Mar-15	Mar-15
TOTAL ASSETS	28,915.7	39,977.9	55,087.2	38.3	37.8	100.0
A. Foreign Assets	2,233.9	3,170.3	5,190.9	41.9	63.7	9.4
B. Domestic Assets	26,681.8	36,807.5	49,896.3	38.0	35.6	90.6
Investments	7,838.1	11,219.7	11,916.3	43.1	6.2	21.6
i. Bills	3,726.4	6,936.3	8,734.1	86.1	25.9	15.9
ii. Securities	3,944.4	3,927.9	2,725.5	(0.4)	(30.6)	4.9
Advances (Net)	12,450.0	17,578.6	24,821.8	41.2	41.2	45.1
of which Foreign Currency	3,770.6	6,560.5	8,869.3	74.0	35.2	16.1
Gross Advances	13,803.1	19,410.9	26,886.0	40.6	38.5	48.8
Other Assets	1,058.2	1,411.4	2,460.8	33.4	74.4	4.5
Fixed Assets	693.6	1,006.9	1,567.7	45.2	55.7	2.8
TOTAL LIABILITIES AND CAPITAL	28,915.7	39,977.9	55,087.2	38.3	37.8	100.0
Total Deposits	20,229.6	25,965.7	33,967.1	28.4	30.8	61.7
of which Foreign Currency	5,369.2	7,470.4	11,279.3	39.1	51.0	20.5
Total Borrowings	2,674.1	5,313.8	9,028.3	98.7	69.9	16.4
Foreign Liabilities	1,755.4	3,721.6	4,973.7	112.0	33.6	9.0
i. Short-term borrowings	1,017.7	2,728.0	2,794.3	168.0	2.4	5.1
ii. Long-term borrowings	377.8	590.5	1,874.2	56.3	217.4	3.4
iii. Deposits of non-residents	359.9	403.2	305.2	12.0	(24.3)	0.6
Domestic Liabilities	22,753.2	30,240.7	41,901.7	32.9	38.6	76.1
i. Short-term borrowing	1,063.3	1,740.2	3,826.4	63.7	119.9	6.9
ii. Long-term Borrowings	215.3	255.2	533.4	18.5	109.0	1.0
iii. Domestic Deposits	19,869.7	25,562.5	33,661.9	28.7	31.7	61.1
Other Liabilities	1,534.3	2,726.9	3,959.2	77.7	45.2	7.2
Paid-up capital	2,186.3	2,412.4	2,720.4	10.3	12.8	4.9
Shareholders' Funds	4,393.3	5,971.4	8,057.6	35.9	34.9	14.6

5.3.1 Asset and Liability Structure of the Banking Industry

Net advances constituted 45.1 percent of banks' assets in March 2015 compared with 44 percent in March 2014. Investment share in total assets however declined to 21.6 percent as at March 2015 from the 28.1 percent recorded in the same period in 2014 (see Table 2). The decrease in the share of investments partly reflected banks' response to the increase in the cash reserve requirement from 9 percent to 11 percent in April 2014 which was later revised to 10 percent in November 2014.

Table 2: Asset and Liability Structures of the Banking Sector

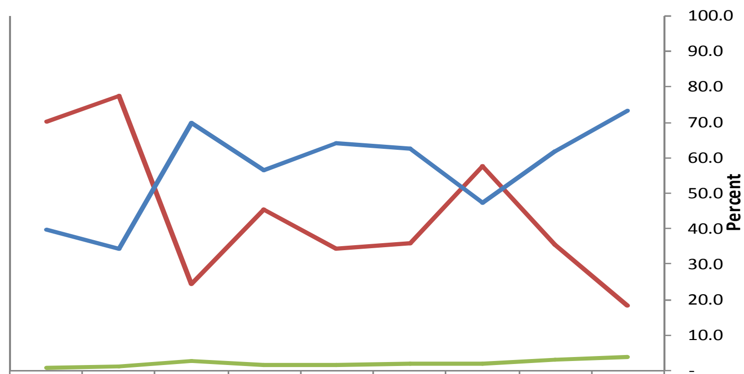
	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15
	Components of Assets (In Percent of Total)								
Cash and Due from Banks	19.4	21.9	22.6	24.6	27.0	23.8	23.7	21.8	25.9
Investments	24.6	17.4	15.1	26.2	28.2	28.0	27.1	28.1	21.6
Net Advances	46.8	51.6	54.0	40.5	36.5	41.4	43.1	44.0	45.1
Other Assets	5.9	5.8	4.9	5.3	5.3	4.0	3.7	3.5	4.5
Fixed Assets	3.2	3.3	3.2	3.3	2.8	2.6	2.4	2.5	2.8
	Components of Liabilities (In Percent of Total)								
Total Deposits	64.4	65.0	65.1	68.9	68.5	71.8	70.0	65.0	61.7
Total Borrowings	12.1	12.5	13.8	10.1	10.2	8.5	9.2	13.3	16.4
Other Liabilities	10.9	10.7	9.5	9.3	7.3	5.3	5.3	6.8	7.2
Shareholders' Funds	11.6	11.1	11.0	13.5	13.6	14.0	15.2	14.9	14.6

Total deposits' share of total liabilities of 61.7 percent at end March 2015 was lower than the 65 percent recorded in March 2014. The proportion of shareholders' funds in total liabilities also decreased marginally to 14.6 percent as at March 2015 from 14.9 percent in March 2014. The share of banks' borrowings as a proportion of total liabilities however increased to 16.4 percent as at March 2015 from 13.3 percent in March 2014 (see Table 2).

5.3.2 Share of Banks' Investments

Chart 6 shows the distribution of the banks' investment portfolio between March 2007 and March 2015.

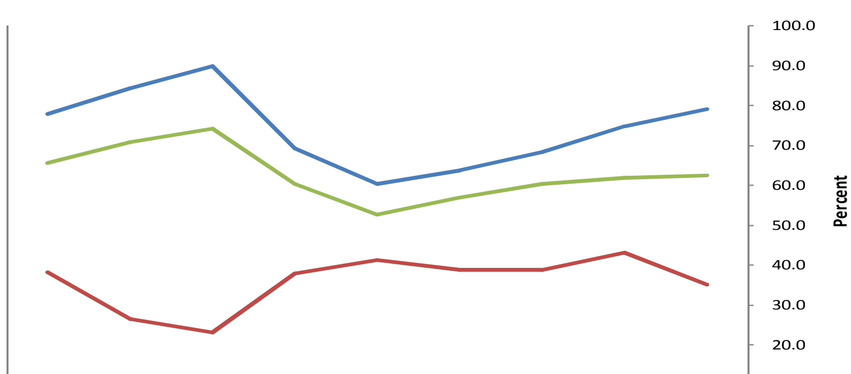
Chart 6 Banks' Investment (%)



	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15
Securities/Total Investments	59.1	64.2	27.3	41.9	34.1	35.3	50.3	35.0	22.9
Bills/Total Investments	39.9	34.3	69.8	56.5	64.1	62.8	47.5	61.8	73.3
Shares & Other Equities/Total Investments	1.0	1.4	2.9	1.6	1.8	1.9	2.1	3.2	3.8

Banks' investment in securities as a share of total investment declined to 22.9 percent in March 2015 from 35 percent in March 2014. Investment in treasury bills as a share of total investment however increased to 73.3 percent in March 2015 from 61.8 percent in March 2014. Banks' investments in shares and other equities as a share of total investment also increased to 3.8 percent as at March 2015 from 3.2 percent as at March 2014 (see Chart 6).

Chart 7: Portfolio Allocation (%)



	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15
Investments to Deposit	38.17	26.75	23.27	38.11	41.22	38.98	38.75	43.21	35.08
Credit/Deposit + Borrowings	65.61	70.75	74.14	60.33	52.61	57.14	60.27	62.06	62.53
Credit to Deposit	77.9	84.3	89.8	69.2	60.5	63.9	68.2	74.8	79.2

Credit to deposits ratio increased to 79.2 percent in March 2015 from 74.8 percent in March 2014 and credit to deposit plus borrowings ratio also increased to 62.5 percent in March 2015 from 62.1 percent in March 2014. Investments to deposit ratio also declined to 35.1 percent in March 2015 from 43.2 percent in March 2014 (see Chart 7).

5.4 Credit Risk

5.4.1 Credit Portfolio Analysis

Gross loans and advances, in real terms, of the banking industry grew, in year-on-year terms, by 18.7 percent at the end of March 2015 compared with 22.8 percent growth recorded in the same period in 2014. Credit to the private sector also grew by 16.8 percent at end of March 2015 compared with the 24.1 percent growth at the end of March 2014. Similarly, credit to households grew by 15.1 percent in March 2015 compared with 19 percent growth recorded in the same period in 2014 (see Table 3).

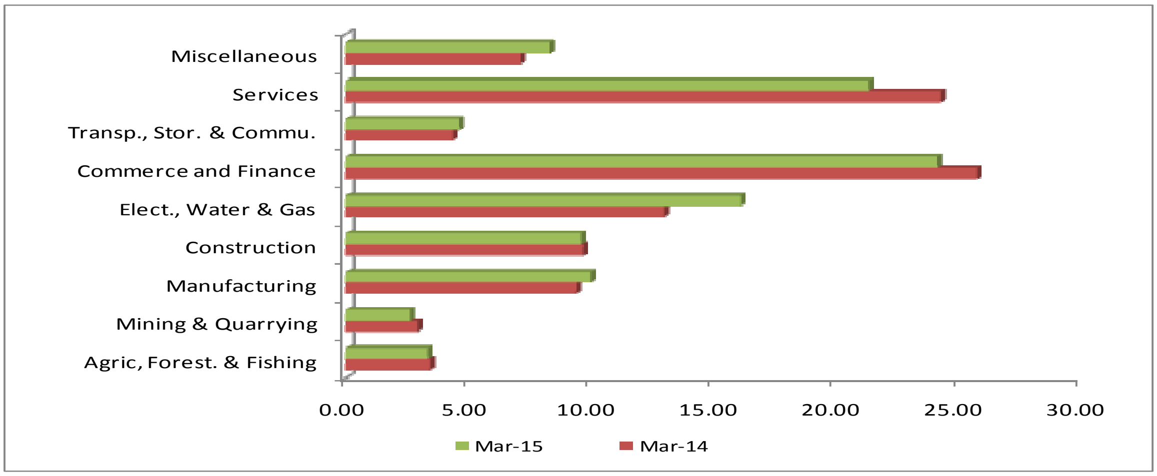
The composition of banks' credit portfolio by economic institutions showed that the proportion of banks' loans to Government and public institutions increased from 5.2 percent in March 2014 to 6 percent in March 2015; while credit to private enterprises increased marginally to 75.7 percent of gross loans in March 2015 from 75.2 percent recorded in March 2014. The share of household loans in gross loans declined marginally to 15.6 percent in March 2015 from 16.1 percent in March 2014. Credit to public enterprises accounted for 2.8 percent of gross loans and advances in March 2015, compared with 3.6 percent registered in March 2014 (see Table 3).

Table 3: Gross Loans and Real Annual Growth of Credit

	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15
Gross Loans and Advances (GH¢m)	2,823.9	4,430.2	6,569.7	6,810.61	7,556.10	10,515.03	13,803.13	19,410.94	26,886.02
Real Growth (y-o-y)	36.7	37.9	23.0	(8.5)	1.7	27.9	18.5	22.8	18.7
Private Sector Credit (GH¢m)	2,317.9	3,554.2	5,396.7	5883.10	6491.84	9,388.18	12,086.35	17,184.61	23,408.52
Real Growth (y-o-y)	44.1	34.8	18.3	(3.8)	1.1	27.5	16.2	24.1	16.8
Households Loans (GH¢)	437.6	780.9	1,174.8	1,054.2	1,113.89	1,583.33	2,286.52	3,116.47	4,185.82
Real Growth (y-o-y)	32.7	56.8	24.8	(20.8)	(3.2)	30.7	30.3	19.0	15.1
Distribution of Gross Loans by Economic Sector (percent)									
Private Enterprises	66.6	62.6	64.3	70.6	70.8	74.6	70.6	75.2	75.7
Household Loans	15.5	17.6	17.9	15.5	14.7	15.1	16.6	16.1	15.6
Govt & Public Institutions	5.6	6.4	4.4	4.4	2.8	6.3	8.1	5.2	6.0
Public enterprises	12.4	13.4	13.5	9.6	11.7	4.0	4.8	3.6	2.8

The Commerce & Finance sector received the highest amount of credit, accounting for 24.2 percent as at March 2015 compared with 25.8 percent in March 2014. The three highest recipient sectors of credit, namely Commerce & Finance, Services, and Electricity, Gas & Water, accounted for 61.6 percent of credit allocation in March 2015 compared with 63.1 percent recorded in March 2014. The share of credit allocation to other sectors including Manufacturing, Miscellaneous and Transportation, Storage & Communication improved while Mining & Quarrying, Construction, and Agriculture, Forest & Fishing declined during the review period (see Chart 8).

Chart 8: Sectoral Credit Allocation



Off-Balance Sheet Activities

Off-balance sheet items (contingent liabilities) grew, in year-on-year terms, by 33.6 percent to GH¢7.37 billion as at March 2015 compared with a growth of 40.9 percent in the corresponding period in 2014. The decrease in the growth of off–balance sheet exposures reflected some deceleration in trade finance over the period. Contingent liabilities as a percent of total liabilities, decreased marginally to 15.7 percent in March 2015 from 16.2 percent in March 2014 (see Table 4).

Table 4: Contingent Liabilities

	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15
Contingent Liabilities (GH¢)	838.8	1,315.9	1,587.1	1,531.8	2,848.2	2,861.9	3,914.1	5,514.6	7,366.7
Growth (y-o-y)	(2.7)	56.9	20.6	(3.5)	72.6	(0.8)	36.8	40.9	33.6
% of Total Liabilities	16.9	18.3	15.9	12.1	17.4	14.5	16.0	16.2	15.7

5.4.2 Asset Quality

The non–performing loans (NPLs) of the banking industry was 11.4 percent in March 2015 as against 12.4 percent in March 2014. Similarly, loan loss provision to gross loans also declined to 4.3 percent in March 2015 from 5.6 percent in March 2014. The ratio of NPL net of provisions to capital of 12.5 percent in March 2015 was however a deterioration over the March 2014 position of 9.7 percent. The adjusted NPL ratio (i.e. NPLs ratio minus the loss category) also deteriorated in March 2015 to 5.5 percent from the 4.4 percent recorded in March 2014 (see Table 5).

Table 5: Asset Quality

	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15
SUB-STD (GH¢m)	36.8	109.4	177.7	243.2	236.0	284.8	445.3	407.5	570.8
DOUBTFUL (GH¢m)	47.0	119.7	182.0	484.5	213.8	252.6	295.6	379.1	814.3
LOSS (GH¢m)	111.7	155.7	273.2	519.6	781.7	836.5	1,151.7	1,622.9	1,685.2
NPL (GH¢m)	195.5	384.7	632.9	1,247.3	1,231.4	1,373.9	1,892.6	2,409.6	3,070.2
NPL Ratio (%)	6.9	8.7	9.6	18.5	16.1	13.1	13.7	12.4	11.4
NPL Net of Provision to Capital (%)	1.08	14.02	10.79	12.03	13.81	10.84	12.28	9.67	12.48
Loan provision to Gross loan (%)	5.28	4.76	6.52	12.70	8.49	6.65	6.12	5.61	4.31
Adjusted NPL Ratio	3.1	5.4	5.7	11.7	6.6	5.6	5.9	4.4	5.5

Credit to the private sector contributed 96.8 percent of the total banking sector's non-performing loans as at March 2015 compared with 91.1 percent in March 2014. The proportion of banks' NPLs attributable to the public sector improved from 8.9 percent in March 2014 to 3.2 percent in March 2015. Even though private enterprises received only 69.8 percent of the private sector credit, they accounted for 87.7 percent of NPLs in the sector as at March 2015 compared with 70.2 percent of credit received and 81.4 percent of NPLs in the same period in 2014. The highly disproportionate level of NPLs associated with the private enterprises was driven mainly by indigenous enterprises, which received 57.8 percent of credit to private enterprises but accounted for 79.9 percent of NPLs as at March 2015. However, while foreign enterprises' share of private sector credit declined, their contribution to private sector NPLs increased marginally over the period under review. Households' share of private sector credit and contribution to NPLs increased marginally over the review period.

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

	Mar-12		Mar-13		Mar-14		Mar-15	
	Share in Total Credit	Share in NPLs	Share in Total Credit	Share in NPLs	Share in Tota Credit	Share in NPLs	Share in Total Credit	Share in NPLs
a. Public Sector	**10.1**	**8.6**	**12.0**	**12.3**	**11.5**	**8.9**	**12.9**	**3.2**
i. Government	3.2	0.1	5.1	0.3	3.0	1.8	3.1	1.6
ii. Public Institution	2.5	0.7	2.0	0.6	1.7	1.3	1.4	0.2
iii. Public Enterprise	4.4	7.8	5.0	11.4	6.8	5.8	8.5	1.4
b. Private Sector	**89.9**	**91.4**	**88.0**	**87.7**	**88.5**	**91.1**	**87.1**	**96.8**
i. Private Enterprise	72.6	83.7	69.4	80.7	70.2	81.4	69.8	87.7
o/w Foreign	13.8	2.6	10.0	5.3	13.2	7.6	12.0	7.8
Indigeneous	58.7	81.1	59.4	75.4	57.0	73.7	57.8	79.9
ii. Households	14.9	6.6	16.6	6.3	16.0	8.1	15.6	8.0
iii. Others	2.4	1.2	2.0	0.7	2.2	1.6	1.7	1.2

Commerce and finance sector continued to account for the largest amount of the banking sector NPLs followed by services, and manufacturing. The three sectors accounted for 65.5 percent of NPLs in March 2015 compared with 69.7 percent in March 2014. Electricity, Gas and Water sector accounted for the lowest amount of the industry's NPLs (see Chart 9).

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

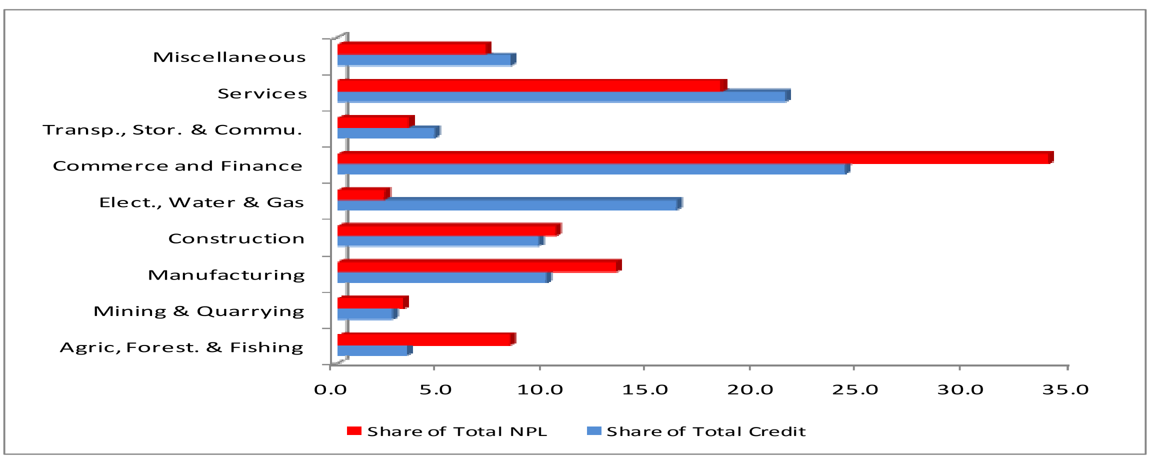
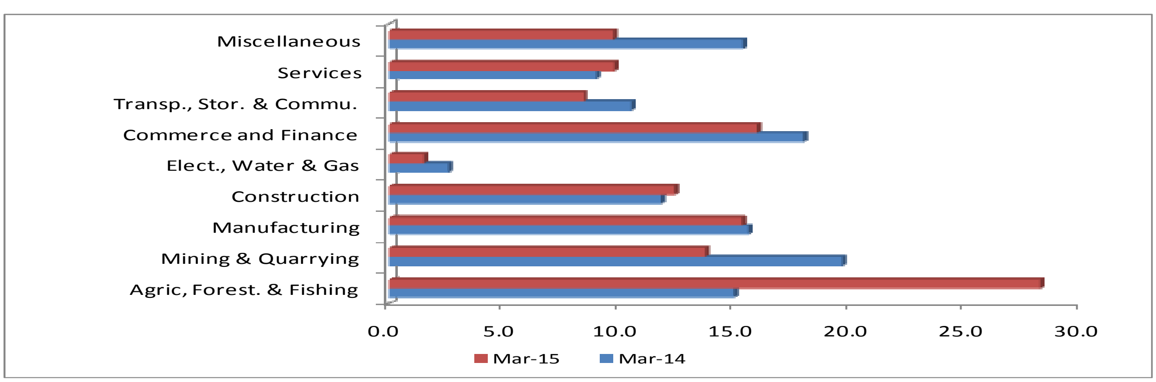


Chart 10: Proportion of Loans Impaired in Each Sector (Sectoral NPLs)



5.5 Liquidity Indicators

The liquidity conditions of the banking sector remained strong. All indicators of liquidity (core and broad) increased and generally remained within acceptable thresholds during the period under the review (see Table 7).

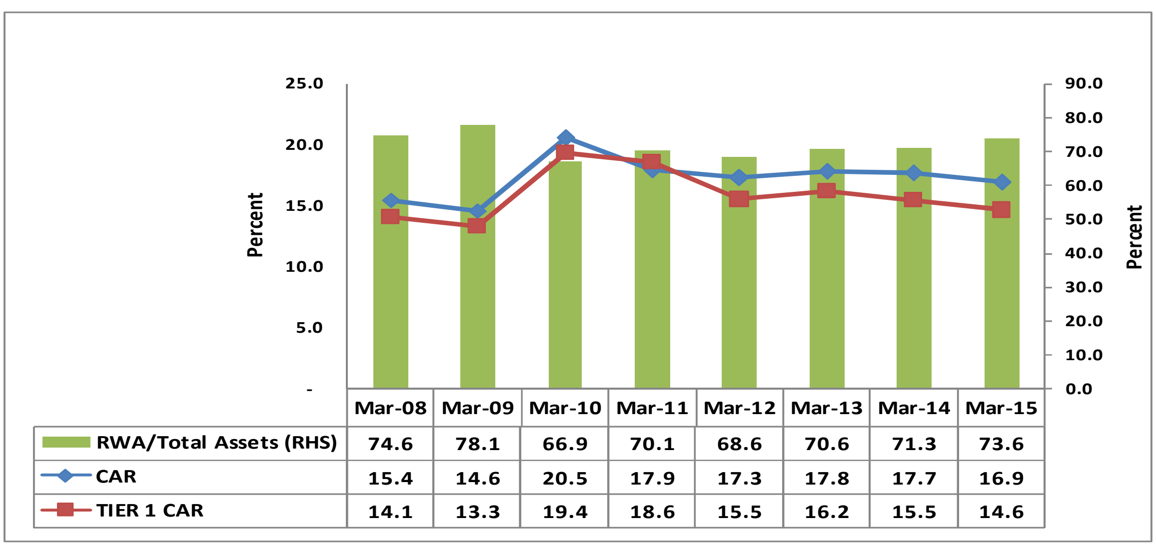
Table 7: Liquidity Ratios

	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15
Liquid Assets (Core) - (GH¢'million)	1,093.2	1,768.6	2,535.5	3,472.7	4,934.3	5,463.2	6,838.6	8,718.3	14,287.6
Liquid Assets (Broad) -(GH¢'million)	2,462.4	3,154.0	4,188.4	7,225.7	9,992.9	11,753.1	14,509.4	19,582.5	25,747.2
Liquid Assets to total deposits (Core)	30.2	33.7	34.7	36.1	39.5	33.2	33.8	33.6	42.1
Liquid Assets to total deposits (Broad)	68.0	60.0	57.3	75.1	80.0	71.4	71.7	75.4	75.8
Liquid assets to total assets (Core)	19.4	21.9	22.6	23.8	27.0	23.8	23.7	21.8	25.9
Liquid assets to total assets (Broad)	43.8	39.0	37.3	49.5	54.7	51.3	50.2	49.0	46.7

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 17.7 percent in March 2014 to 16.9 percent in March 2015 on account of the strong credit delivery and some loan write-offs during the review period (see Chart 11). Despite the decline, the industry CAR remained 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 period ended March 2015. The industry net interest income registered a growth of 37.3 percent in March 2015 compared with 5.4 percent growth registered in March 2014. The banking sector's income before tax grew, in year-on-year terms, by 31.8 percent in March 2015 compared with 12.3 percent growth in March 2014. Similarly, the industry's net profit after tax grew by 24 percent in March 2015 compared with 13.5 percent growth in March 2014 (see Table 8).

Table 8: DMBs Income Statement

	Mar-13	Mar-14	Mar-15	Mar-14	Mar-15
	(GH ¢'million)			Y-on-y Growth (%)	
Interest Income	1,330.1	1,378.1	2,034.2	*3.6*	*47.6*
Interest Expenses	(432.2)	(432.0)	(735.6)	*(0.0)*	*70.3*
Net Interest Income	**897.8**	**946.0**	**1,298.7**	***5.4***	***37.3***
Fees and Commissions (Net)	276.7	240.3	288.5	*(13.1)*	*20.0*
Other Income	148.5	227.9	201.1	*53.5*	*(11.8)*
Operating Income	**1,323.0**	**1,414.2**	**1,788.2**	***6.9***	***26.4***
Operating Expenses	**(639.3)**	**(632.4)**	**(865.6)**	***(1.1)***	***36.9***
Staff Cost	(301.6)	(308.2)	(463.4)	*2.2*	*50.4*
Other operating Expenses	(337.6)	(324.2)	(402.2)	*(4.0)*	*24.0*
Net Operating Income	**683.7**	**781.8**	**922.7**	***14.4***	***18.0***
Total Provision (Loan losses, Depreciation & others)	(156.1)	(175.3)	(140.2)	*12.3*	*(20.0)*
Monetary Loss	0.9	(12.9)	-	*(1,530.6)*	*(100.0)*
Income Before Tax	**528.5**	**593.6**	**782.5**	***12.3***	***31.8***
Tax	(138.5)	(150.9)	(233.6)	*9.0*	*54.7*
Net Income	**390.0**	**442.7**	**548.9**	***13.5***	***24.0***
Gross Income	**1,755.2**	**1,846.3**	**2,523.8**	***5.2***	***36.7***

5.7.2 Interest Margin and Spread

The ratio of gross income to total assets (i.e. assets utilisation) remained stable at 4.6 percent over the review period. Banks' interest spread however increased to 3.2 percent in March 2015 from 2.9 percent in March 2014 (see Table 9).

Table 9: Profitability Indicators (%)

	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15
Gross Yield	3.8	3.8	4.7	5.1	3.9	3.7	4.3	4.7	5.4
Int Payable	1.6	1.7	2.6	3.0	1.6	1.2	1.6	1.8	2.3
Spread	2.2	2.1	2.1	2.2	2.3	2.5	2.7	2.9	3.2
Asset Utilitisation	4.0	4.1	4.9	5.8	4.0	3.9	4.5	4.6	4.6
Interest Margin to Total Assets	2.1	1.9	1.9	2.1	1.9	1.8	2.3	2.4	2.4
Interest Margin to Gross income	51.6	45.6	37.9	35.9	46.4	47.3	50.8	51.3	51.5
Profitability Ratio	18.9	17.5	13.9	10.9	15.6	21.2	22.4	24.0	21.7
Return On Equity (%) after tax	26.9	26.2	21.6	19.2	17.8	24.2	25.9	30.7	29.3
Return On Assets (%) before tax	4.2	3.7	3.4	3.7	3.5	4.3	5.3	6.2	6.3

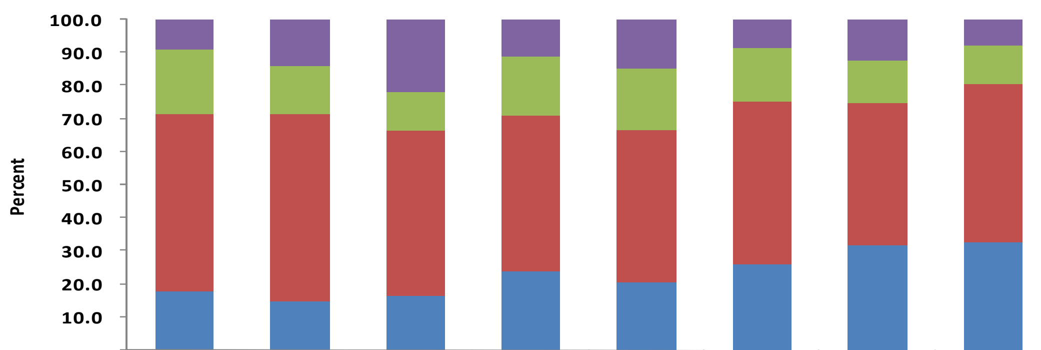
5.7.3 Return on Assets and Return on Equity

The banking industry's return on assets (ROA) increased marginally to 6.3 percent in March 2015 from 6.2 percent in March 2014. However, return on equity (ROE) decreased to 29.3 percent in March 2015 from 30.7 percent in March 2014 (see Table 9).

5.7.4 Composition of Banks' Income

Interest income from loans continued to be the main source of income for the banking industry and constituted 48 percent of total income in March 2015 compared with 43 percent in March 2014. Investment income share of 32.6 percent of total income in March 2015 was marginally above the 31.7 percent recorded in March 2014. The share of income from fees and commissions declined to 11.4 percent in March 2015 from 12.3 percent in March 2014 (see Chart 12).

Chart 12: Composition of Income (%)

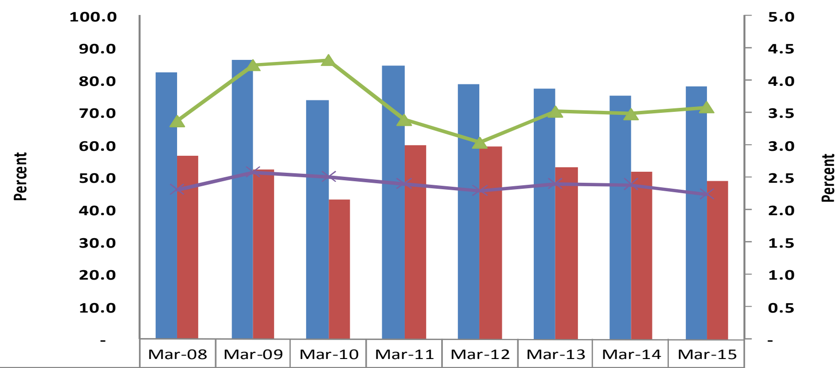


	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15
Other Income	9.0	13.9	22.0	11.3	15.0	8.6	12.3	8.0
Commissions & Fees	19.7	14.5	11.4	17.7	18.4	16.0	13.0	11.4
Loans	53.6	56.6	50.0	46.9	45.8	49.4	43.0	48.0
Investments	17.7	14.9	16.6	24.1	20.8	26.0	31.7	32.6

5.8 Operational Efficiency

Indicators of operational efficiency as at March 2015 showed mixed performance. Cost to income ratio increased to 78.3 percent in March 2015 from 75.3 percent in March 2014 and cost to total assets ratio increased marginally to 3.6 percent in March 2015 from 3.5 percent in March 2014. However, operational cost to gross income declined to 49.1 percent in March 2015 from 51.9 percent in March 2014 while operational cost to total assets also decreased marginally to 2.2 percent in March 2015 from 2.4 percent in March 2014 (see Chart 13).

Chart 13: Efficiency Indicators



	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15
Cost to income	82.6	86.3	74.0	84.5	78.9	77.6	75.3	78.3
Operational Cost to gross income	56.9	52.7	43.2	59.9	59.6	53.1	51.9	49.1
Cost to total assets (RHS)	3.4	4.2	4.3	3.4	3.0	3.5	3.5	3.6
Operational Cost to total assets (RHS)	2.3	2.6	2.5	2.4	2.3	2.4	2.4	2.2

5.9 Banks' Counterparty Relationships

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

5.9.1 Developments in Banks' Offshore balances & External Borrowing

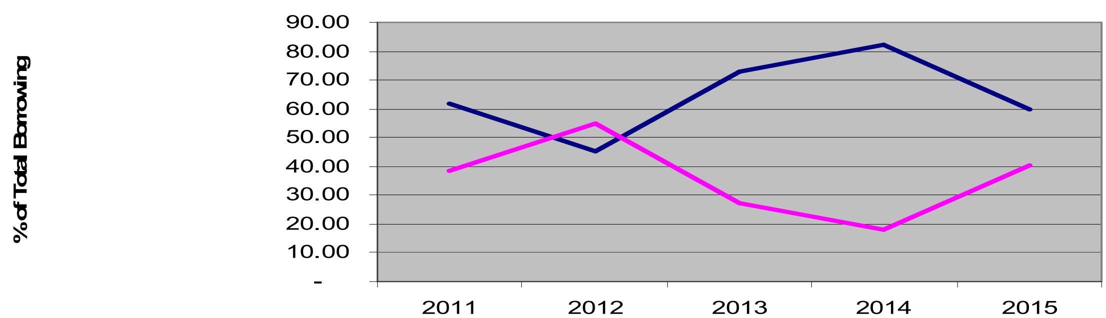
Banks' increased their offshore balances by about 60 percent in March 2015 compared with the 48 percent increase in March 2014 (see Table 10). The increase in the build-up of offshore balances was on account of the 108 percent and 53.3 percent increase in placements and nostro balances respectively in the current year, compared with the 3 percent and 74 percent increase in same period last year. These offshore funds were largely used to finance customers' offshore transactions, especially Letters of Credit (LCs) and also for short-term investments.

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

	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15
Offshore balances as % to Networth	64.92	66.40	45.05	48.01	59.78
Annual Growth in Offshore balances (%)	32.95	32.25	(7.39)	44.83	68.03
Annual Growth in Nostro Balances (%)	0.14	52.75	(5.44)	74.08	53.34
Annual Growth in Placement (%)	100.23	9.78	(9.69)	3.01	108.00

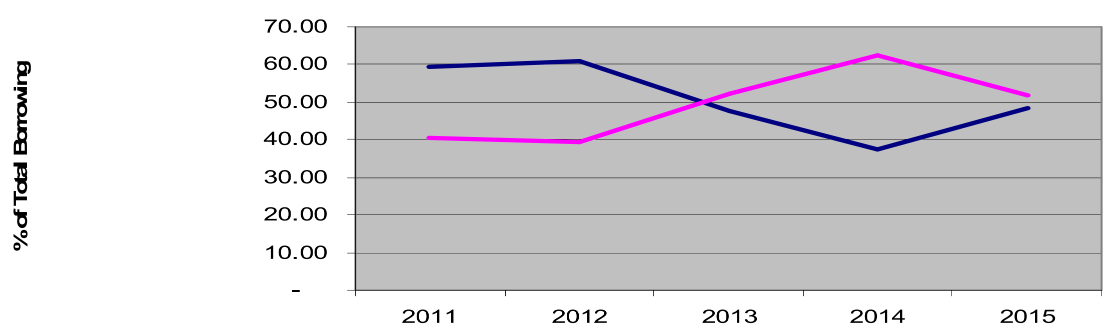
Banks’ demand for long term external financing increased relative to short term options and this was reflected by an increase in the proportion of long term foreign borrowing from 17.8 percent in March 2014 to 40.2 percent in March 2015 as compared to a decline in short term foreign borrowing (see Chart 14). Banks also continued to rely more on domestic sources of borrowing, largely the domestic interbank market, relative to foreign sources of borrowing (see Chart 15).

Chart 14: Composition of Banks’ External Borrowing



	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15
Short-term borrowings	61.80	45.19	72.93	82.21	59.85
Long term borrowings	38.20	54.81	27.07	17.79	40.15

Chart 15: Classification of Banks’ Borrowing by Source



	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15
Domestic Borrowing	59.49	60.78	47.81	37.55	48.29
Foreign Borrowing	40.51	39.22	52.19	62.45	51.71

6.1 Conclusion and Outlook

The banking sector continued to post a strong performance in the first quarter of 2015 despite the energy crisis and the weakened performance of key macroeconomic variables, namely inflation, exchange rate and the fiscal balance. The macro-financial linkage between the macroeconomy and the financial sector therefore leaves the banking sector exposed to the downswings in the macroeconomy. The onus therefore lies with banks to step up their efficiency practices in order to minimize losses and maximize their incomes or profitability. This will stabilize the banking sector to enable it enhance the stability of the financial system which is an important precondition for sustainable economic growth and development.

Appendix

	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15
Indicators of Concentration and Competition									
Market Share (Top 5 banks)	56.3	55.6	51.8	48.9	46.1	45.3	46.7	44.3	39.0
Gini Concentration Index	50.9	48.4	46.7	44.4	40.5	40.4	41.5	43.7	44.0
Herfindahl Index	848.4	838.0	749.5	673.7	622.3	609.7	627.1	595.0	541.6
Indicators of Financial Depth and Intermediation									
	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15
Asset to GDP	26.8	30.7	30.7	31.1	30.5	30.6	30.9	34.8	40.8
Private Sector Credi/GDP	11.8	14.7	14.7	12.7	10.8	12.6	12.9	15.4	18.2
Total Credit to GDP	14.7	18.0	18.0	14.8	12.6	14.0	14.8	16.9	19.9
Deposits to GDP	17.4	20.0	20.0	21.4	20.9	22.0	21.6	22.6	25.2

Balance Sheet (flow data)	Mar-14	Mar-15
Assets		
Credit	5,607.8	7,475.1
of which foreign currency	*2,789.9*	*2,308.7*
Investments	3,381.6	696.6
Foreign Assets	936.5	2,020.5
Total Assets	11,062.2	15,109.3
Share of Assets (flow)		
Credit	50.7	49.5
of which foreign currency	*25.2*	*15.3*
Investments to total Assets	30.6	4.6
Foreign Assets	8.5	13.4
Liabilities		
Deposits	5,736.1	8,001.4
of which foreign currency	*2,101.2*	*3,808.9*
Borrowings	2,639.7	3,714.5
Shareholders' Funds	1,578.0	2,086.2
Shareholders' Funds & Liabilities	11,062.2	15,109.3
Share of Liabilities (flow)		
Deposits	51.9	53.0
of which foreign currency	*19.0*	*25.2*
Borrowings	23.9	24.6
Shareholders' Funds	14.3	13.8