

GUERNSEY FINANCIAL SERVICES COMMISSION

SECOND QUARTER 2002 BANKING SECTOR ACTIVITY

20 August 2002

Total deposits held with Guernsey banks at the end of June 2002 decreased in sterling terms by £3,038mn from the end of the March 2002 level of £77,273mn to £74,235mn. It should be noted that while this decrease is significant, the level of deposits in June 2002 was still higher than in June 2001. Total assets and total liabilities decreased in the second quarter in sterling terms by £2,986mn to £78,047mn.

The 3.9% decrease in deposits in sterling terms reflects several factors at work and reflects diverse movements in the underlying currencies. There were modest increases in sterling and euro deposits, but there was also a noticeable decrease in US dollar deposits. Part of the reduction in deposits when expressed in sterling was a result of exchange rate movements during the quarter, and this accounted for roughly £1bn of the decrease. Underlying volume decreases accounted for another £1bn reduction. A further £800mn was transferred away from the jurisdiction principally by four banks who are restructuring their operations and who will, in due course, surrender their licences. One North American bank, Fleet Financial Boston, is winding down its operations after its parent decided to exit private banking in Europe; Barclays Private Bank & Trust Limited has closed its Guernsey branch and transferred the business to its existing Jersey head office. Bank Hofmann (Guernsey) Limited is in the process of going into voluntary liquidation and is transferring its business back to Switzerland; a fourth bank is transferring its deposits to another group bank in Jersey as part of a rationalisation of its international operations. We would expect some further transfers from three of those banks in the next two quarters, but there may be offsetting inflows from the newly authorised bank, Banque Cantonale Vaudoise Guernsey Branch which was granted a banking licence in July. Barclays Private Bank & Trust Limited surrendered its licence on 19 August.

The currency breakdown shows the proportion in sterling up a little at 31.0% with 69.0% in other currency deposits. The largest single currency type within total deposits remains the US dollar at 44.5% with the euro accounting for 18.9% of deposits at the end of June 2002 slightly above the previous highest proportion of 18.2% at end-December 2001. When looking at the underlying business in euros over the last year, the value of euros on deposit has risen from €17.0bn at 30 June 2001 to €21.5bn as at 30 June 2002. Local inter-bank activity was down by £86mn to £1,031mn. The table below shows the level of the deposits and the number of licensed institutions since 1980.

Philip Marr, Director of Banking commented "this decrease in deposits is a result of three principal factors occurring over the same period. There was an exchange rate effect as a result of the pound strengthening against the US dollar which had a downward effect on our figures; during the same period the pound weakened against the euro and the Swiss franc and this had an inflating effect on our figures, but the depressing effect on US dollars was dominant. At the same time there was an underlying reduction in the amount of US dollar deposits, principally in Swiss fiduciary deposits. Lastly, restructuring at four banks meant that deposits and assets were transferred out of the jurisdiction as a result of decisions either to wind down operations here or to migrate business to their operations in Jersey.

The intentions of these banks to restructure has been known for some time, but the impact has only just been reflected in the figures. Restructurings have been a feature of the global banking scene for some time and are likely to continue throughout this year with a consequent effect upon the number of licensed banks."

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Deposits with licensed deposit-takers

End Period		No. of licensed Institutions	Deposits £Mn	Quarterly Variation %	Yearly Variation %
1980		43	1,800		68.2
1981		42	2,691		49.5
1982		41	3,307		22.9
1983		41	4,243		28.3
1984		45	5,838		37.6
1985		47	7,209		16.7
1986		52	9,508		31.9
1987		54	8,838		-7.0
1988		56	10,168		15.0
1989		58	12,992		27.8
1990	Mar	66	13,387	3.0	
	June	68	13,469	0.6	
	Sept	70	14,522	7.8	
	Dec	72	15,476	6.6	19.1
1991	Mar	72	16,203	4.7	
	Jun	72	16,829	3.9	
	Sept	71	16,156	-4.0	
	Dec	72	16,250	0.6	5.0
1992	Mar	73	17,849	9.8	
	June	72	17,673	-1.0	
	Sept	73	21,226	20.1	
	Dec	76	27,442	29.3	68.9
1993	Mar	73	30,299	10.4	
	June	74	32,605	7.6	
	Sept	75	37,595	15.3	
	Dec	75	37,482	-0.3	36.6
1994	Mar	74	37,773	0.8	
	June	73	40,320	6.7	
	Sept	73	41,439	2.8	
	Dec	73	42,191	1.8	12.6
1995	Mar	72	43,018	2.0	
	June	73	45,207	5.1	
	Sept	73	44,437	-1.7	
	Dec	73	46,855	5.4	11.1
1996	Mar	75	45,897	-2.0	
	June	76	44,917	-2.1	
	Sept	75	43,832	-2.4	
	Dec	72	43,324	-1.2	-7.5
1997	Mar	73	45,652	5.4	
	June	75	45,973	0.7	
	Sept	79	47,786	3.9	
	Dec	78	49,357	3.3	13.9
1998	Mar	76	48,658	-1.4	
	June	76	49,792	2.3	
	Sept	78	50,434	1.3	
	Dec	78	52,922	4.9	7.2
1999	Mar	78	54,040	2.1	

	June	79	56,581	4.7	
	Sept	79	55,703	-1.6	
	Dec	79	57,059	2.4	7.8
2000	Mar	78	59,729	4.7	
	Jun	78	61,086	2.3	
	Sep	79	65,678	7.5	
	Dec	77	68,474	4.3	20
2001	Mar	76	72,323	5.6	
	Jun	75	73,911	2.2	
	Sept	76	76,162	3.0	
	Dec	72	77,211	1.4	12.8
2002	Mar	71	77,273	0.1	
2002	Jun	71	74,235*	-3.9	
	* of which £1,031 million constitutes local interbank deposits				