CENTRAL BANK OF THE REPUBLIC OF GUINEA

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GENERAL INSPECTORATE

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BANK DEPARTMENT

RECENT DEVELOPMENTS IN BANKING SUPERVISION IN GUINEA

15th Assembly of the Committee of Banking Supervisors of West and Central Africa (CBSWCA)

(Yaounde, from 5 to 7 August 2010)

July 2010

I- KEY TRENDS IN THE BANKING ENVIRONMENT

1- Composition of the banking environment

The Guinean banking environment comprises nine (9) active credit establishments as of 31 December 2009, namely:

- Banque Internationale pour le Commerce et l'Industrie de Guinée (BICIGUI),
- Banque Islamique de Guinée (BIG),
- Banque Populaire Maroco-Guinéenne (BPMG),
- Société Générale de Banques en Guinée (SGBG),
- Ecobank-Guinea,
- Union Internationale de Banques en Guinée (UIBG),
- International Commercial Bank (ICB),
- First International Bank of Guinea (Fibank-Guinea),
- Banque Sahélo-Saharienne pour l'Investissement et le Commerce de Guinée (BSIC-Guinea).

To these nine operational banks, should be added three new banks that recently obtained their authorisation in 2008 and are now open to the public in 2010.

These are:

- Skye Bank-Guinée (SBG),
- United Bank For Africa-Guinée (UBA-Guinea),
- Banque Africaine pour Développement Agricole et Minier (BADAM).

With respect to networks, the banking system has grown with eight (8) new automatic teller machines (ATM).

In this regard, the number of ATMs has evolved from 56 in 2008 to 64 in 2009. This expansion of the network is attributable to the new branches opened by ECOBANK-GUINEE, FIBANK, BPMG, BSIC-GUINEE and UIBG.

With the expansion of the network, the banking staff also rose from 1 174 in 2008 to 1 201 in 2009, up by 2.30%.

These new establishments focus their activities mostly on trade, investment and agricultural and mining development.

2- *Situation of the du banking system in 2009*

In terms of activities, concurrently with building the network, the mass balance sheet of the Guinean banking system has increased to settle at GNF 4 804 000 million in 2009 as compared to GNF 4 023 000 million in 2008. This constitutes an increase of GNF 781 000 million (19%).

As in the past years, the Guinean banking system is still relatively concentrated, in terms of the volume of deposits collected as well as that of credits distributed.

As compared to the balance sheet, the market share of the country's three largest banks dropped by three (3) points to stabilise at 77%.

Meanwhile, their total balance sheet progressed from GNF 2 178 000 million in 2008 to GNF 3 681 000 million in 2009, up by GNF 1 503 000 million (69%).

The two banks considered as average possess 10% of the market share with regard to the total balance sheet, down by three points as against 2008.

The total accrued balance sheet of these two establishments thus decreased, falling from GNF 592 000 million in 2008 to GNF 455 000 million in 2009, down by GNF 137 000 million (23%).

The four other banks "termed minor" show an upturn of about GNF 314 000 million in their mass balance sheet, representing 89%.

At the level of resources, the market situation evolved most favourably for banks considered "minor".

Deposits in these four credit establishments levelled at 13% of the market in 2009.

Outstanding deposits in these four banks increased by GNF 271 000 million (113%), shifting from GNF 239 000 million in 2008 to GNF 510 000 million in 2009.

All the same, most of the savings collected by the banking system is still in the possession of the three largest banks.

These establishments owned more than 77% deposits in 2009 against 76% deposits in 2008, up by one point.

The outstanding deposits of these three banks stabilised at GNF 3 069 000 million in 2009 against GNF 2 458 000 million in 2008, up by GNF 611 000 million (25%).

As for the two intermediary banks, their market share in terms of customer deposits dropped by 6 points, to settle at 10% in 2009.

This situation was reflected by a considerable decrease, in terms of the volume of deposits. As a matter of fact, outstanding deposits at the level of these banks fell by GNF 526 000 million in 2008 to GNF 408 000 million in 2009. Representing a collapse of GNF 118 000 million (22%) customer deposits in these two banks.

3- Trend of resources and banking transactions

The trend of the mass balance sheet of the Guinean banking system was translated by an increase in all the key items of the balance sheet.

With regard to liabilities, non-cash resources representing 99% of the resources of the banking system evolved from GNF 3 867 000 million in 2008 to GNF 4 738 000 million in 2009, up by GNF 871 000 million (23%). This upturn is due to the 24% increase in deposits, 5% in other short term resources and 28% in equity accounts.

As concerns the cash resources of banks, they remain low, with barely 1.4% of their global resources.

Actually, from a global amount of GNF 66 000 million in 2009 against GNF 156 000 million in 2008, these cash resources dropped heavily by GNF 90 000 million (58%) and stemmed mostly from loans worth GNF 46 000 million contracted from foreign counterparts.

This lowness in cash resources confirms the inexistence of a genuine inter-banking market from which banks can borrow liquidity to meet their cash needs; and the absence of rediscount transactions at BCRG.

As regards assets, cash transactions constituting 72% of transactions within the banking system, progressed by GNF 636 000 million (22%) to settle at GNF 3 477 000 million in 2009 against GNF 2 841 000 million in 2008.

By evolving from GNF 1 182 000 million in 2008 to GNF 1 327 000 million in 2009, non-cash transactions recorded an increase of GNF 145 000 million (12%).

Globally, close to 28% of transactions within the banking system are made in foreign currencies. These transactions in foreign currencies concern 60% of investment by foreign counterparts, 22% assistance and 18% cash in hand or current accounts at BCRG.

4- Analysis of the credit portfolio of banks

In 2009, the credit portfolio quality of banks dwindled slightly. Actually, gross outstanding doubtful and disputed debts increased by GNF 20 000 million to stabilize at GNF 109 000 million in 2009 against GNF 89 000 million in 2008.

Meanwhile, outstanding sound debts evolved from GNF 886 000 million in 2008 to GNF 1 023 000 million in 2009, recording an increase of GNF 137 000 million (15%).

However, the potential loss ratio slightly deteriorated, rising by 9% in 2008 to 9.8% in 2009, up by one point.

The provisions constituted on these doubtful debts augmented by GNF 15 000 million in levelling at GNF 95 000 million in 2009 against GNF 80 000 million in 2008.

In this regard, in net value, doubtful and disputed debts accrued by GNF 5 400 million, rising from GNF 8 400 million in 2008 to GNF 13 700 million in 2009. This increase in doubtful debts can be equated to the sharp fall in debts from GNF 3 936 million in 2008 to GNF 0.42 million in 2009.

This sharp fall in non-performing debts mainly concern one bank whose pending (non-performing) commitment dropped from GNF 3 053 000 million to GNF 38 million.

In terms of ratio, the delinquency rate stabilised at 9.8%.

The claims coverage rate practically declined by 3.1 points, to stabilize at 87.4% in 2009 against 90.5% in 2008.

5- Income statement of Banks

The performance of Guinean banks still depends on their BDT short term investment activities and foreign currency transactions.

Bank operating income (turnover) evolved from GNF 689 000 million in 2008 to GNF 608 000 million in 2009, recording a GNF 81 000 million (12%) decrease.

This situation is due to the decline in:

- interests collected GNF 91 000 million (19%), which stabilised at GNF 393 000 million in 2009 against GNF 484 000 million in 2008;

- revival in depreciation and provisions GNF 10 000 million (50%), which shifted from GNF 20 000 million in 2008 to GNF 10 000 million in 2009.

Interests collected constitute 41% of interests on customer credits, 36% on cash transactions (a greater share of which stems from interests collected on BDT subscriptions) and 23% interests on other transactions (exchange operations).

At the level of resource costs, interests paid on customer deposits recorded a drop of GNF 23 000 million (24%) from GNF 74 000 million in 2009 against GNF 97 000 million in 2008.

In this way, **the interest margin on customer credit transactions** increased, evolving from GNF 51 000 million in 2008 to GNF 67 000 million in 2009, up by GNF 16 000 million (31.4%).

This increase in interest margin on customer credit transactions and commissions, induced an upturn in the **Net Banking Income** from GNF 9 000 million (2%) against the past year. In this regard, it evolved from GNF 484 000 million in 2008 to GNF 492 000 million in 2009.

This increase is related to a sharp reduction in "other bank charges" that dropped from GNF 115 000 million in 2008 to GNF 43 million in 2008, down GNF 72 000 million (63%).

Operating income recorded a GNF 44 000 million (21%) downturn, dropping from GNF 207 000 million in 2008 to GNF 163 000 million in 2009.

All said and done**, the net income** generated by the banking system dwindled in the same magnitude as the operating income, rising to GNF 104 000 million in 2009 against GNF 142 000 million in 2008. This represents a decrease of GNF 38 000 million (27%).

6- Trends of some banking activity and output ratios

The operating ratio (operating charges/GNP) of the banking system improved, rising to 70% in 2009 against 77% in 2008. This increase can be explained by the decline in other banking charges worth 63% and the 2% increase in GNP.

The share of commissions in the GNP composite closed at 42%. This constitutes an increase of 2 points as compared to 2008.

The margin rate of the banking system defined by the relation between GNP and the total balance sheet remained at 10% in 2009.

In terms of output, return on assets (ROA) defined in relation to the net income on the total balance sheet stabilises at 2%.

At this level, the economic output of Guinean banks is highly above the minimal professional standard of 0.6%.

Return on equity (ROE) defined as Income/Equity fell by 19 points, shifting from 44% in 2008 to 25% in 2009, one of the highest in the sub-region

Compared to the average financial output of major international banks that varies between 10% and 15%, Guinean credit establishments generate enough output.

II- SUPERVISION OF CREDIT ESTABLISHMENTS AND EVOLUTION OF REGULATIONS

1- Banking Supervision

Within 2009, the Bank Department continued to accomplish its mission of supervising credit establishments in conformity with its attributions defined by Decision No 243/09 relating to the attributions and organisation the said Department.

This mission of supervising credit establishments by the Central Bank comprises two aspects.

The first aspect centre on controlling documents and the second on spot controls.

The document control mission consists in verifying and processing financial statements for the purpose of mostly ensuring, respect of prudential rules and standards by banks.

The spot control mission enables to ensure the reliability of information transmitted to the Central Bank and to pass judgement on the organisation and management of banks, internal and external control systems, the portfolio quality and risk management.

The prudential control of banks for fiscal year 2009 presented below, show that banks respected prudential rules and standards differently.

i) Representation of the minimum capital

Representation of the minimum capital, by Decision No D/2008/005/CAM of the Authorisation Committee and by Instruction No 09 of 26 November 2008, the minimum capital of credit establishments stands at GNF 50 000 million as from 1 December 2008 and in conformity with the following calendar released:

- GNF 25 000 million at 31 March 2009;
- GNF 35 000 million at 31 March 2010;
- GNF 50 000 million at 31 March 2011.

At 31 December 2009, eight (8) banks out of nine (9) respect the norm of representation of the minimum capital of GNF 25 000 million.

Solvency Ratio

On the basis of declarative statements at 31 December 2009, all banks respect the statutory norm of 10%. Besides, four banks show ratios highly above the statutory norm.

Liquidity Ratio

At the end of December 2009, with the exception of two banks showing ratios in foreign currencies below 100%, all banks respect the minimal norm of 100% per currency and in all currencies.

The average liquidity ratios of the banking system at 31 December 2009 stands at 237.95% with levels rising from 163.07% for minimum to 310.74% for maximum.

ii) Plus five years transformation ratio

This prudential regulation elaborated in 2004, compels banks to cover their assets to the tune of 60% within more than five years with fixed and long term resources.

Since most of the banking system's transactions are short term, all banks show transformation ratio levels higher than 100% at 31 December 2009.

iii) Division and concentration of risks

Four banks out of nine do not respect the risks division norm, which restricts commitments on the same beneficiary to 25% of the net equity capital of the bank.

Violations on three major banks are linked to funding of the importation of oil products.

Meanwhile, considering its strategic position, the oil sector benefits from a waiver granted by the Central Bank.

Non-oil sector, two banks have committed violations.

On the contrary, the norm on risks concentration is respected by banks.

iv) Limitation of exchange-related risks

At 31 December 2009, four banks out of eight do not respect this regulation.

In application of the banking regulation, sanctions were applied on defaulting banks. These sanctions consisted in deducting penalties on their current accounts at the Central Bank.

v) Assistance granted to shareholders, administrators, executives and similar ranking parties

This regulation defines the conditions under which assistance to individuals and corporate bodies entertaining direct or indirect capital ties with the establishment, or participating in the accomplishment of the social mission, or running the management of law or fact, or assuring auditing, should be granted.

These forms of assistance, like any other credit, should only be granted after analysing the solvency of the borrower and under market conditions. They should not exceed 5% of net equity capital for each borrower. Similarly, for shareholders, they are limited to 20% of their share capital. Globally, the total amount of this assistance should not exceed 10% of the bank's net equity capital.

Thus, an examination of the declaration statements show that a bank can find itself in violation of this norm due to a credit granted to a shareholder.

2- Activities of the du Authorisation Committee

The Authorisation Committee is a body responsible for:

- Granting authorisations to credit establishments, their executives and Auditors;
- Withdrawing the authorisation from credit establishments, their executives and Auditors;
- Establishing regulations on the minimum capital of establishments as well as conditions for transactions that these establishments can carry out;

- Issuing prior authorisations for some operations such as transfer of shares, acquisition of shares (Articles 19 and 20 of the Banking Law).

The Autorisation Committee authorised **BIAO-GUINEE** within 2010, thereby making it the 14th bank approved in Guinea.

For fiscal year 2009, the Authorisation Committee approved four General Bank Managers. The banks notified the Authorisation Committee upon opening of 8 branches or automatic tellers.

Meanwhile, it should be noted that during 2008, the Authorisation Committee raised the level of minimum capital of banks to GNF 50 000 million, following Decision No D/2008/005/CAM of 26 November 2008.

This Decision was prompted on the one hand by recurrent violations of the prudential ratios due to the level of equity capital of banks that clearly seemed insufficient in relation to their volume of activities and on the other hand, due to the fact that comparatively to countries of the sub-region with similar economies, Guinea possesses the lowest equity capital.

Banks under creation should start-off with a minimum capital of GNF 50 000 million and those in activity should conform to the following timing chart:

- ✓ GNF 25 000 million at 31 March 2009;
- ✓ GNF 35 000 million at 31 March 2010;
- ✓ GNF 50 000 million at 31 March 2011.

3- Evolution of the Statutory Framework

Banking regulation work consisted in putting in place a legislative and statutory mechanism in conformity with the evolution of the banking activity and the core principles of the Basel Committee.

In this way, regarding the statutory mechanism, key changes occurred in 2009, centred on finalising the following instructions:

- **Instruction No 010/DGSIF/DSB/2009 relating to the accounting statements and notes of banks;**

This new Instruction introduces an innovation to Article 1 for it sets the date for transmitting accounting statements and bank notes for the 15th of the month following the date of closure of accounts.

This interval is provided to enable banks having a more extensive network to consolidate accounts with their branches. In this way, the date of 10 seems shorter especially as the closure date falls on a non-working day.

The other innovation concerns the introduction of four other new annexes, namely the annex relating to the foreign exchange position, that on the more than five years transformation ratio for credit establishments, that on assistance granted to administrators, shareholders, executives and similar ranking staff and that on information on auditors.

- **Instruction No 011/DGISF/DSB/2009 relating to conditions for carrying out auditing activities within credit establishments approved under the category "Bank or Financial establishment"**

This Instruction takes into account core principles regarding an effective banking control advocated by the Basel Committee, in order to better exert self-control of our supervision system.

The said Instruction includes in its provisions for financial establishments. It enumerates on the one hand four aspects covered by the certification work namely:

- Functioning of social and internal control bodies;
- Opinion on accounts;
- Respect of the prudential regulation and;
- Other specific verifications and information.

And obligation to designate an Auditor on the other hand.

Two other key innovations relating to the date of transmission of certified statements and sanctions facing auditors in case of violation of the provisions of this Instruction.

Actually, since the ratification of the OHADA Laws by Guinea, the deadline for submission of tax returns was set for 30 April, to conform to the certified income declared on the date of transmission of the certified statements was extended from 15 April to 30 April.

As for sanctions facing credit establishments and auditors, in case of violation of the provsions contained in Instruction No 011/DGSIF/DSB/2009, they vary from a fine of GNF10 million per day of delay for some and withdrawal of authorisations for a period ranging from three (3) to six (6) years for others.

- **Instruction No 012/DGSIF/DSB/2009 relating to the list of documents involved in the application file for the authorisation of credit establishments of the "Bank or financial establishment", executives and auditors of credit establishments approved under the category "Bank or Credit Establishments".**

This new Instruction also includes in its provisions financial establishments, which are new financial institutions considered under the new banking law.

For executives other that documents to be submitted, any applicant should fill a sample questionnaire and a sample declaration to be attached thereto.