INFORMAL SESSION TO BRIEF

FO/DIS/14/198
Correction 1

January 23, 2015

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Pan-African Banks—Opportunities and Challenges for Cross-Border Oversight**

Board Action:	The attached corrections to FO/DIS/14/198 (12/19/14) have been provided by the staff:
Evident Ambiguity	**Page 28**
Comment:	**Page 28**: The following has been reformulated to address an ambiguity regarding the experience of French bank subsidiaries as some subsidiaries' assets grew considerably whereas for many asset growth was subdued.
Typographical Errors	**Pages 22, 23, 54, 55, and 56**
Questions:	Mr. Mathieu, MCM (ext. 38673)

banking deposits in the respective countries. Most of the systemically important subsidiaries are concentrated in Attijariwafa, BMCE/BOA, Ecobank, and Standard Bank. In a few countries, subsidiary deposit shares account for more than half of total deposits (Table 3). For example, Standard Lesotho Bank manages 52 percent of customer deposits in Lesotho and Ecobank Centrafrique 72 percent of the deposits in the Central African Republic.

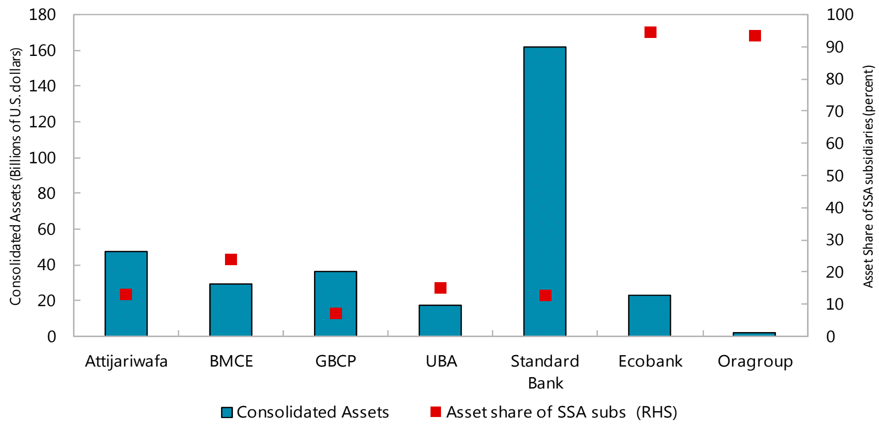
31. Similarly, around 30 percent of the operations of foreign banking groups are systemically important (Table 5 and 6). Of these subsidiaries, around 25 percent manage more than a quarter of customer deposits in their respective host countries. Similarly to African banking groups, there are examples of subsidiaries that have a deposit share exceeding 50 percent of host countries' customer deposits, including the subsidiaries of Barclays in Seychelles and of Caixa Geral de Deposits in Cape Verde. Standard Chartered, Barclays, and Société Génerale have the largest number of systemic subsidiaries among foreign banking groups with four or more systemically important operations. The other British and French banks and most Portuguese banks also have at least one systemically important subsidiary.

32. Some PABs also account for a large deposit share in their home markets. For example, the market in South Africa is very concentrated with the four largest banks (including BAGL) having almost 90 percent of total deposits. In addition, the unconsolidated assets of the four largest South African banks (including BAGL) together account for about 90 percent of South African GDP, while the consolidated assets are 114 percent of GDP. Similarly, consolidated assets of the three large Moroccan banks account for 108 percent of GDP in their home market and a large share of deposits. In contrast, the large cross-border Nigerian and Kenyan banks are smaller and together account for around 21 percent of Nigerian GDP and 28 percent of Kenyan GDP, with only one Nigerian and one Kenyan bank being systemically important in the home market based on asset size. The deposit share is also less concentrated among the large number of cross-border banks in these two countries.

33. While assets of cross-border subsidiaries account for a small part of the consolidated balance sheet of many PABs, these shares are higher in some cases implying considerable spillover risks. (Figure 5, Table 2). For the South African banks the asset share of cross-border subsidiaries in SSA is equivalent to less than 15 percent. This share is somewhat higher for Moroccan banks, in particularly for BMCE for which is reaches 24 percent. Similarly, for most Nigerian banks cross-border subsidiaries contribute less than ten percent to total assets with UBA being the exception with 15 percent. For Kenyan banks the share is somewhat larger with an average of 22 percent. However, for a number of banks incorporated in relatively small home markets, like Togo, cross-border subsidiaries represent the dominant part of these banks' balance sheets. For both ETI and Oragroup, the asset share of cross-border subsidiaries in SSA exceeds 90 percent. Thus, for some banking groups spillover risks from cross-border subsidiaries could have a material effect on the parent banks. For comparison, subsidiaries in SSA only play a minor role for foreign banks representing less than five percent of total assets (Figure 7).

Figure 5. Major PABs: Size and Share of Cross-Border Subsidiaries, 2013

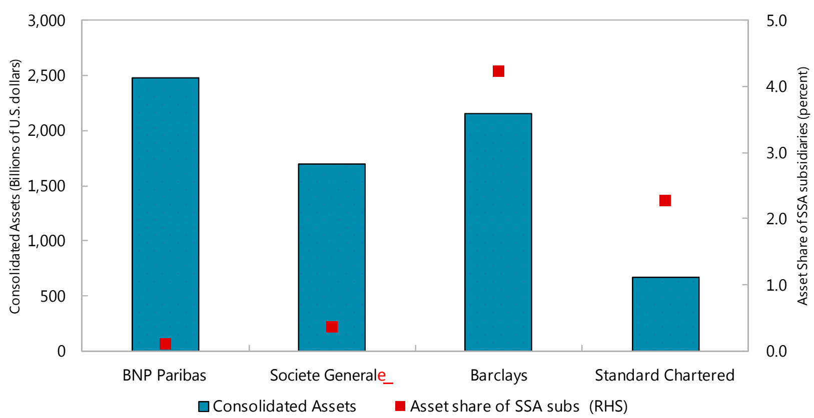
(Billions of U.S. dollars and percent)



Sources: Annual reports, Bankscope, and IMF staff calculations.

Figure 6. Selected Foreign Banks: Size and Share of Sub-Saharan African Subsidiaries, 2013

(Billions of U.S. dollars and percent)



Sources: Annual reports, Bankscope, and IMF staff calculations.

34. **Standard Bank and Ecobank dominate the large cross-border banking groups in terms of size and number of systemically important subsidiaries** (Figure 7). Standard Bank is the largest group in size measured by consolidated assets.[13] Ecobank has the most systemically important subsidiaries, but its balance sheet size is small compared to the South African or Moroccan banks. The figure also shows that the banking groups from Nigeria and Togo are much smaller in asset size compared to the South African and Moroccan banks. Similarly, the foreign banks' African business is relatively smaller as well.

[13] For the foreign banking groups included in Figure 7, only the sum of assets of the African subsidiaries are used with the exception of Barclays, for which consolidated assets for BAGL are used.

seems to have been smaller in economies where the subsidiaries have a higher deposit share. A potential reason for the low growth of the consolidated assets of Standard Bank could be the relatively low asset growth in its South African home market, which is by far its largest operation, while the sum of assets of other SSA operations has increased more strongly.

41. For subsidiaries of foreign banking groups, asset growth has been somewhat smaller and more heterogeneous across and within different groups. For example, Standard Chartered had strong asset growth in some subsidiaries, but declines in others. Almost half of Barclays' subsidiaries have seen decreasing assets, whereas asset growth has been diverse, though mainly subdued in the subsidiaries of French banks. Overall, in countries with operations of pan-African and foreign banking groups, pan-African banking groups had stronger asset growth compared to subsidiaries of foreign banking groups. Thus, it seems there has been less interest by foreign banks in certain markets; nevertheless, the share of SSA banking operations in total assets of the foreign banks has not declined strongly since 2007.

42. The pattern of loan growth has been similar to that of asset growth. Accordingly, subsidiaries of pan-African banking groups have expanded their loan book more strongly than foreign banking groups. All of pan-African banking groups had a strong expansion of their loan book from 2007 to 2013 across most of their subsidiaries. For foreign banks, on the other hand, the expansion had been much more subdued and for quite a number of subsidiaries the loan book had declined.

Financial soundness

43. Based on analysis of publicly available data, financial soundness seem to be an issue for some subsidiaries of the major groups and data gaps could be masking the true picture. The position of four pan-African banking groups, for which sufficient data is publicly available, and four foreign banking groups is analyzed using information on loan-to-deposit ratios, return on average assets (ROA), the total capital ratio, and non-performing loans (NPLs) for the consolidated groups as well as for subsidiaries over the time period 2007–13 (Tables 8 and 9).

44. On a consolidated basis, the four PABs analyzed have higher profitability (as measured by ROA) and lower loan-to-deposit ratios than the four foreign banking groups. Whereas the foreign banking groups generally have loan-deposit ratios exceeding 100 percent (except Standard Chartered), the pan-African banking groups analyzed exhibit loan-deposit ratios that are well below 100 percent. However, the loan-deposit ratio of Attijariwafa has been increasing in the last couple of years to above 100 percent. The differences between pan-African and foreign banking groups might be due to the fact that for the foreign banks consolidated data on the group level is used, which includes the foreign banks' global business and is quite different from the business of the PABs. Capital ratios and asset quality have not deteriorated markedly. Nevertheless, some issues might still exist. In particular, the capital ratio of Ecobank has been on a downward trend, and its NPL ratio has exhibited large swings since 2008.

Table 5. Selected Foreign Banks with SSA Presence: Share of Deposits by Country, 2013

(Percent)

	United Kingdom			France				Portugal						Germany		US	IN
	Standard Chartered	Barclays	HSBC	Societe Generale	BNP Paribas	BPCE	Credit Agricole	Caixa Geral de Deposits	Banco Comercial Portugues	Banco BPI	Banco Espirito Santo	Banif Financial Group	Finibanco Portugal	Procredit Holdings	Deutsche Bank	Citigroup	Bank of Baroda
Rand area																	
South Africa	x	23	x	x				x							x	x	
Lesotho																	
Namibia		RO															
Swaziland																	
Flexible exchange rates																	
Angola	x							3	3	19	8		0				
Botswana	16	19															*2*
Burundi																	
Democratic Republic of Congo														5		3	
Ethiopia																	
Gambia	*23*																
Ghana	8	7		5										1			x
Guinea				*5*	*9*												
Kenya	9	9														*2*	2
Liberia																	
Madagascar				*10*		19	22										
Malawi																	
Mauritius	10	28	28			3									*4*		*3*
Mozambique		6						31	34					1			
Nigeria	2	RO									x				x	2	
Rwanda																	
Seychelles		57															*9*
Sierra Leone	10																
United Republic of Tanzania	7	13														4	1
Uganda	16	9														4	6
Zambia	15	14														4	5
CEMAC																	
Cameroon	7			17		21										*3*	
Central African Republic																	
Chad				*9*													
Congo						*3*											
Equatorial Guinea				*16*													
Gabon					19											*2*	
WAEMU																	
Benin				10													
Burkina Faso				*7*	7												
Cote d'Ivoire	*2*			19	9											*2*	
Guinea Bissau																	
Mali					*3*												
Niger																	
Senegal				16	9											x	
Togo																	
Other fixed ER regimes																	
Cape Verde								58			x	8					
Comoros					x												
Eritrea																	
Sao Tome and Principe								*6*									
South Sudan																	
Zimbabwe	8	6															
Total number of operations	15	11	2	11	7	4	1	5	2	1	3	1	1	3	3	11	8
Total number of subsidiaries/branches	15	9	2	11	7	4	1	5	2	1	3	1	1	3	3	11	8
Number of systemically important oper.	6	6	1	5	1	2	1	2	1	1	1	1	0	0	0	0	0

Sources: Annual Reports, Bankscope, and bank websites.

Notes: Deposits data is as of 2013 if available or of 2012.

RO = Representative Office, IB = Investment Bank Branch

Italicized numbers indicate data is from Spring 2012 REO or from Bankscope for 2011 or older.

US: United States; IN: India

Subsidiaries/branches are defined as systemically important if deposits are larger than 10 percent of banking system deposits or if assets are larger than 7 percent of GDP.

Legend:
- x (red) Deposits share of total is greater than or equal to 10%.
- x (yellow) Deposits share of total is greater than or equal to 5 and less than 10%.
- x (green) Deposits share of total is less than 5%.
- x (blue) Deposits data is not available.
- x (grey) Representative Office or Investment Bank Branch

Table 6. Selected Foreign Banks with SSA Presence: Assets in Percent of GDP by Country, 2013

(Percent)

	United Kingdom			France				Portugal						Germany		US	IN
	Standard Chartered	Barclays	HSBC	Societe Generale	BNP Paribas	BPCE	Credit Agricole	Caixa Geral de Deposits	Banco Comercial Portugues	Banco BPI	Banco Espirito Santo	Banif Financial Group	Finibanco Portugal	Procredit Holdings	Deutsche Bank	Citigroup	Bank of Baroda
Rand area																	
South Africa	x	21	0	x				x							x	0	
Lesotho																	
Namibia		RO															
Swaziland																	
Flexible exchange rates																	
Angola	x							1	1	7	9		0				
Botswana	8	9															1
Burundi																	
Democratic Republic of Congo														1		0	
Ethiopia																	
Gambia	13																
Ghana	3	2		1										0			x
Guinea				1	3												
Kenya	5	4														1	1
Liberia																	
Madagascar				2		4	5										
Malawi																	
Mauritius	28	32	37			5									x		x
Mozambique		4						18	19					0			
Nigeria	1	RO									x				x	0	
Rwanda																	
Seychelles		35															x
Sierra Leone	2																
United Republic of Tanzania	3	4														1	0
Uganda	4	2														1	2
Zambia	4	4														1	1
CEMAC																	
Cameroon	1			4		5										1	
Central African Republic																	
Chad				1													
Congo						1											
Equatorial Guinea				4													
Gabon					4											1	
WAEMU																	
Benin				x													
Burkina Faso				3	3												
Cote d'Ivoire	1			6	3											1	
Guinea Bissau																	
Mali					x												
Niger																	
Senegal				9	4											x	
Togo																	
Other fixed ER regimes																	
Cape Verde								61			x	9					
Comoros					x												
Eritrea																	
Sao Tome and Principe								3									
South Sudan																	
Zimbabwe	3	2															
Total number of operations	15	11	2	11	7	4	1	5	2	1	3	1	1	3	3	11	8
Total number of subsidiaries/branches	15	9	2	11	7	4	1	5	2	1	3	1	1	3	3	11	8
Number of systemically important oper.	6	6	1	5	1	2	1	2	1	1	1	1	0	0	0	0	0

Sources: Annual Reports, Bankscope, and IMF staff calculations.
GDP data is as of 2013. Bankscope data may be outdated in some cases.
RO = Representative Office, IB = Investment Bank Branch
US: United States
IN: India

Legend:
- x Assets in percent of GDP is greater than or equal to 7%.
- x Assets in percent of GDP is greater than or equal to 3 and less than 7%.
- x Assets in percent of GDP is less than 3%.
- x Assets data is not available.
- x Representative Office or Investment Bank Branch

Subsidiaries/branches are defined as systemically important if deposits are larger than 10 percent of banking system deposits or if assets are larger than 7 percent of GDP.

Table 7. Selected PABs and Foreign Banks: Asset and Loan Growth, 2007–2012/13

	Asset Growth (in percent)								Loan growth (in percent)									
	Pan African banks				Foreign banks				Pan African banks				Foreign banks					
	Ecobank	Standard Bank	BMCE	Attijariwafa Bank	Standard Chartered	Barclays / ABSA	Societe Generale	BNP Paribas	Ecobank	Standard Bank	BMCE	Attijariwafa Bank	Standard Chartered	Barclays / ABSA	Societe Generale	BNP Paribas	average credit growth	
Consolidated Group	244	-7	111	72	104	-12	8	0	203	2	95	90	81	-3	0	27		**Consolidated Group**
Aggregated Assets for SSA subsidiaries			108	30	77	29	89	2			72	38	49	-14	98	-6		**Aggregated Loans for SSA subsidiaries**
Rand area																		**Rand area**
South Africa	RO	-6			x	-14	x		RO	13			x	-10	x		9	South Africa
Lesotho		x								x							25	Lesotho
Namibia		18				RO				35							12	Namibia
Swaziland		27								0							12	Swaziland
Flexible exchange rates																		**Flexible exchange rates**
Angola	x	x			x				x	x							42	Angola
Botswana		21			-12	-25				123			25	25			19	Botswana
Burundi	x		73						260		212						20	Burundi
Democratic Republic of Congo	x	178	x						x	35	x							Democratic Republic of Congo
Ethiopia	RO		RO						RO		RO						25	Ethiopia
Gambia	x				x				x				-52					Gambia
Ghana	210	267	85		63	-14	x		150	75	125		72	-43	x		34	Ghana
Guinea	237						x	x	92						x	x	27	Guinea
Kenya	184	260	531		76	-5			105	145	498		75	-30			21	Kenya
Liberia	205								179								32	Liberia
Madagascar			27				x				32				x		13	Madagascar
Malawi	x	81							x	80							32	Malawi
Mauritius		236			47	2				224			-8	-31			15	Mauritius
Mozambique		106				80				223				242			27	Mozambique
Nigeria	x	x			x	RO			x	x			x				27	Nigeria
Rwanda	132								532								26	Rwanda
Seychelles						x								x			17	Seychelles
Sierra Leone	x				48				x				138				29	Sierra Leone
United Republic of Tanzania	x	31	241		63	18			x	175	491		-6	2				United Republic of Tanzania
Uganda	x	65	182		51	23			x	71	178		15	-27			27	Uganda
Zambia	x	140			100	31			x	185			124	35			26	Zambia
CEMAC																		**CEMAC**
Cameroon	188			8	x		23		178			53	x		44		13	Cameroon
Central African Republic	x								165								14	Central African Republic
Chad	243						x		292						x		25	Chad
Congo	x			105					x			114						Congo
Equatorial Guinea	x						x		x						123		35	Equatorial Guinea
Gabon	x			47				3	x			37				23	15	Gabon
WAEMU																		**WAEMU**
Benin	94		59	x			x		71		15	x			x		14	Benin
Burkina Faso	273		234	x			x	7	272		161	x			36	4	16	Burkina Faso
Cote d'Ivoire	137	RO	36	106	x		54	21	110		26	104	x		13	11		Cote d'Ivoire
Guinea Bissau	x			x					x			x						Guinea Bissau
Mali	166		53	x				x	93		67	x					12	Mali
Niger	213		156	x					178		177	x					19	Niger
Senegal	182		198	-8			x	-3	130		127	14			x	5	12	Senegal
Togo	133		x	x					101		x	x					20	Togo
Other fixed ER regimes																		**Other fixed ER regimes**
Cape Verde	x								x									Cape Verde
Comoros								x								x	22	Comoros
Eritrea																	3	Eritrea
Sao Tome and Principe	x								x									Sao Tome and Principe
Zimbabwe	x	x			x	x			x	x			x	x			86	Zimbabwe
South Sudan	x	x							x	x							44	South Sudan
North Africa																		**Other fixed ER regimes**
Morocco			x	x							x	x						Morocco
Total number of operations	33	18	15	12	15	11	11	7	33	18	15	12	14	11	11	6		Total number of operations
Number of systemically important subs.	17	10	6	6	5	6	4	1	17	10	6	6	5	6	4	1		Number of systemically important subs.

Sources: Annual Reports, Bankscope, and IMF staff calculations.

Notes: Table shows asset and loan growth between 2007 and 2013. If 2013 data is not yet available, 2012 data is used.

Aggregated assets/loans for SSA subsidiaries shows the growth of the sum of assets/loans for SSA operations, where data is available, except for BMCE and Barclays.

For BMCE sonsolidated assets of Bank of Africa are used and for Barclays consolidated assets of Barclays Africa Group Limited.

Colored cells denote systemically important subsidiaries, using both the deposit and asset share criteria.

X denotes an existing operation where data is not available for the period 2007-2013.