



FINAFRIQUE RESEARCH

BANKING PERFORMANCE IN CEMAC & UEMOA ZONES



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ERREUR ! SIGNET NON DEFINI.

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FOREWORD

In this document we compare the performance of the banking sector in the CEMAC and UEMOA zones since 2006.

While banking penetration is more significant in the WAEMU zone, the banking sector is more profitable in the CEMAC zone. The good performance of CEMAC compared to WAEMU is mainly due to better margins on assets and better cost control. But generally speaking, we note an improvement in the quality of assets which is accompanied by a trend decrease in the cost of risk.

In our opinion, the pursuit of profitable development of the banking sector in both areas necessarily involves :

- ▲ **The continuation of financing the economy, particularly SMEs.** Indeed, by increasing the weight of credit on their balance sheets, banks will, in our opinion, improve the gross return per asset.
- ▲ **An optimization of operating expenses.** It is clearly a question of reducing the cost/income ratio which still evolves at too high levels.
- ▲ **Improve asset quality and consequently reduce the cost of risk.** African and European banks have embarked in recent years on a process of balance sheet consolidation to reduce the potential for loss. While work seems to be generally done in Europe, the potential remains significant in Africa, still penalized by an infrastructure deficit. We believe in particular that the establishment of credit information offices could be a major asset in improving asset quality.
- ▲ **Continue to open bank branches.** Despite the breakthrough in mobile banking, in our opinion, customer acquisition still involves the continued opening of branches to improve geographical coverage. But this requires the construction of infrastructure (roads) to promote the opening up of rural areas and facilitate communication.



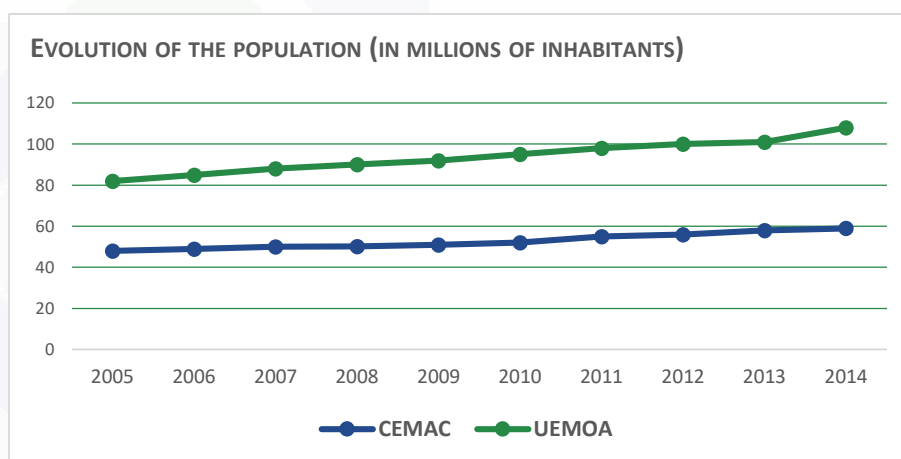
ECONOMIC & DEMOGRAPHIC GROWTH: THE WORLD OF SIMILARITIES

CEMAC and UEMOA are two economic zones in Sub-Saharan Africa. The first includes six countries, with Cameroon, Gabon and Equatorial Guinea as main economic locomotives. The second includes 8 countries with as economic spearheads Ivory Coast and Senegal.

AVERAGE DEMOGRAPHIC GROWTH OF 3% PER YEAR

With 103 million inhabitants at the end of 2013, the population of WAEMU represents on average 1.8 times that of CEMAC. This proportion has generally remained unchanged since 2005, which implies that the average growth rate (2.8%) of the population over the period 2005/2014 is similar in both areas. For comparison, the population growth over the same period in the Euro zone was 0.4%.

THIS STRONG POPULATION GROWTH, COMBINED WITH ECONOMIC GROWTH AND UNDERBANKED BANKING, MAKES THESE TWO MARKET AREAS WITH HIGH POTENTIAL.

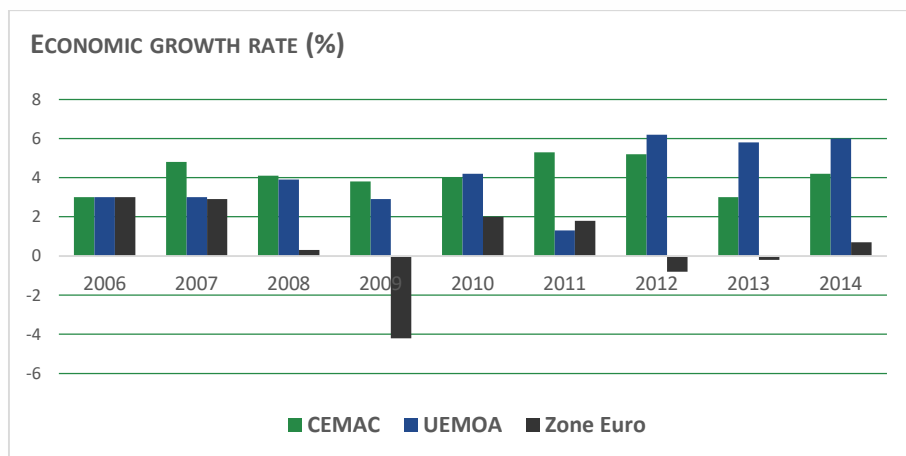


Source : World Bank, FinAfrique

ECONOMIC GROWTH: RETURN IN GRACE OF THE UEMOA

The economic dynamics of CEMAC were higher than those of WAEMU in 2006/11 thanks in particular to the exploitation of oil resources. Over the same period, WAEMU suffered from political instability in Côte d'Ivoire, resulting in a certain paralysis of economic activity (contraction of GDP by 4.4% in 2011). But in 2012, the economic rebound in this country (+9.8%) allows WAEMU's GDP growth to reach 6.4% compared to 5.1% for CEMAC. Since then, the economic dynamics of West Africa has been superior to that of Central Africa.

BUT GENERALLY BETWEEN 2012 AND 2014, THE AVERAGE GROWTH RATE OF THE ECONOMY OF THESE TWO AREAS IS 5% COMPARED TO A CONTRACTION OF THE ECONOMY OF 0.2% FOR THE EURO AREA



Source : FMI, BCE, FinAfrique

In the end, economic growth should remain well oriented in the CEMAC and WAEMU zones given the exploitation of raw materials, the influx of foreign capital attracted by economic dynamics, and the emergence of a middle class, which should logically support the development of banking activities.

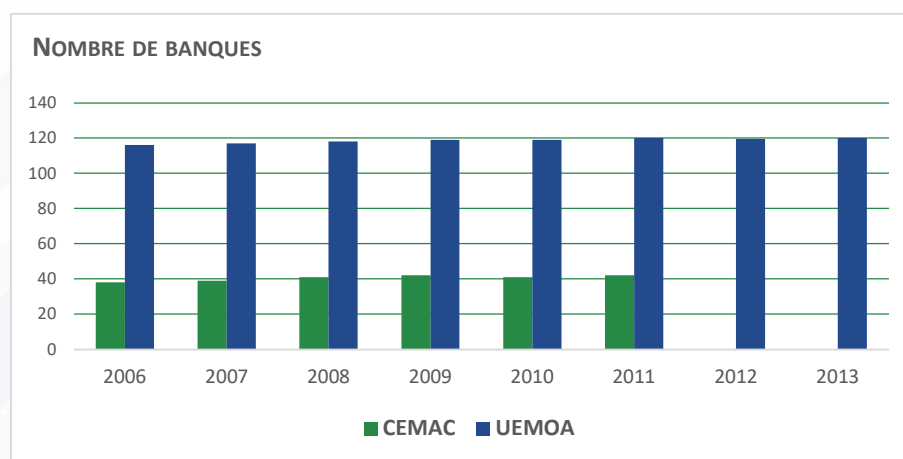


BANKING: THE WAEMU IS AHEAD

THE WAEMU HAS A DENSER BANKING NETWORK ...

THE DEVELOPMENT OF THE BANKING SECTOR IN THE WAEMU SEEMS MORE ADVANCED. INDEED, AT THE END OF 2011, THIS ZONE HAS 2.8 TIMES MORE BANKS THAN THE CEMAC ZONE.

Cet This discrepancy can be explained mainly by the difference in the number of countries making up the two zones (8 countries for WAEMU against 6 for CEMAC) and the size of the population (103 million for WAEMU against 57.5 million for CEMAC). Based on the size of the population, there are 0.11 banks per 100,000 inhabitants in WAEMU compared to 0.08 in CEMAC.



Source : BCEAO, BEAC, FinAfrique

THIS REALITY IS FOUND AT THE LEVEL OF THE DENSITY OF THE BANKING NETWORK. INDEED, THE WAEMU HAS 5 TIMES MORE BANK COUNTERS THAN CEMAC, SO THAT AT THE END OF 2011 THE WAEMU HAS 1.8 AGENCY PER 100,000 INHABITANTS TO COMPARE WITH 0.64 FOR CEMAC.

In conclusion, we believe that the banking infrastructure is far from optimal in the perspective of banking access for both areas. For comparison, the European Union has 1.5 banks and 44 bank branches per 100,000 inhabitants. It is not necessarily a question of reaching this level, other than to reduce the gap. Certainly, the prevailing optimism is that technological evolution will make mobile banking the main banking access point in Africa tomorrow. At this stage, the deployment of mobile banking like in Kenya holds promise, however such advanced initiatives remain too isolated.

WITH A FEW EXCEPTIONS, THE BANKING OF THE TWO AREAS INVOLVES CONTINUING TO OPEN AGENCIES AND PROMOTING PRODUCTS RESPONDING TO LOCAL DEMAND.

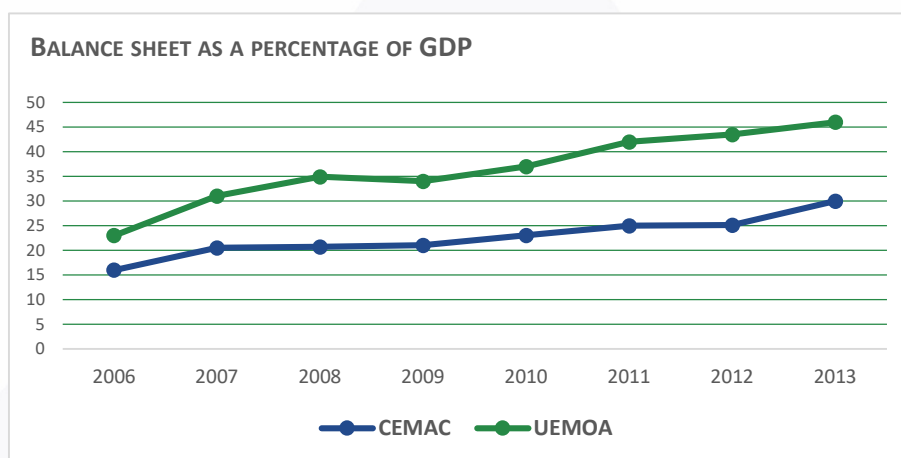
To achieve this objective, the authorities must continue to focus on building infrastructures that will open up rural areas and facilitate communication.

... BUT THE BANKS OF THE CEMAC FINANCE MORE THE ECONOMY

AT THE END OF 2013, THE BANKING SECTOR ACCOUNTED FOR 46% OF GDP IN UEMOA AGAINST 30% IN CEMAC PIB.



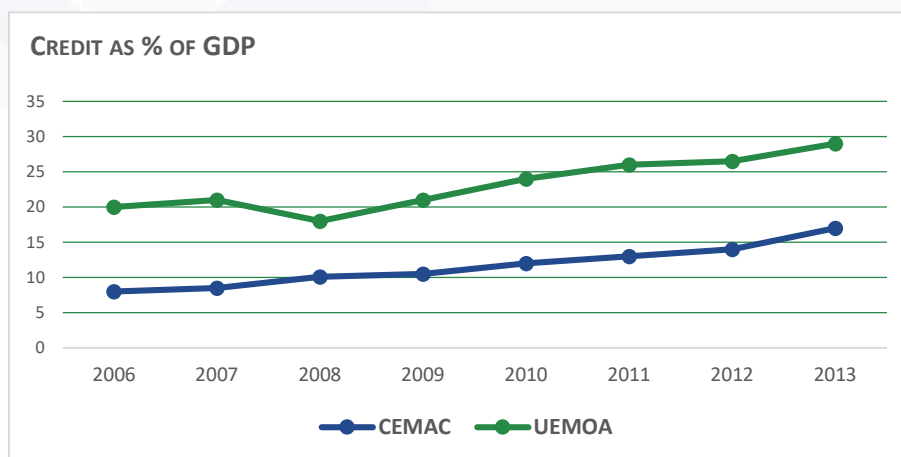
Between 2006 and 2013, the weight of the banking sector in relation to GDP increased by 18 percentage points in WAEMU compared with only 13 for CEMAC. At first glance, this gap reflects a stronger banking dynamic in the WAEMU.



Source : BCEAO, BEAC, FinAfrique

THIS REALITY IS FOUND AT THE LEVEL OF ECONOMIC FINANCING SINCE AT THE END OF 2013, THE OUTSTANDING BANK CREDITS REPRESENT 28% OF THE GDP OF WAEMU AGAINST ONLY 17% FOR THE CEMAC.

On the other hand, the difference in terms of the increase in the weight of bank loans as a percentage of GDP between 2006 and 2013 is less glaring since it is 8.4 percentage points for WAEMU compared to 9.3 for the CEMAC.



Source : BCEAO, BEAC, FinAfrique



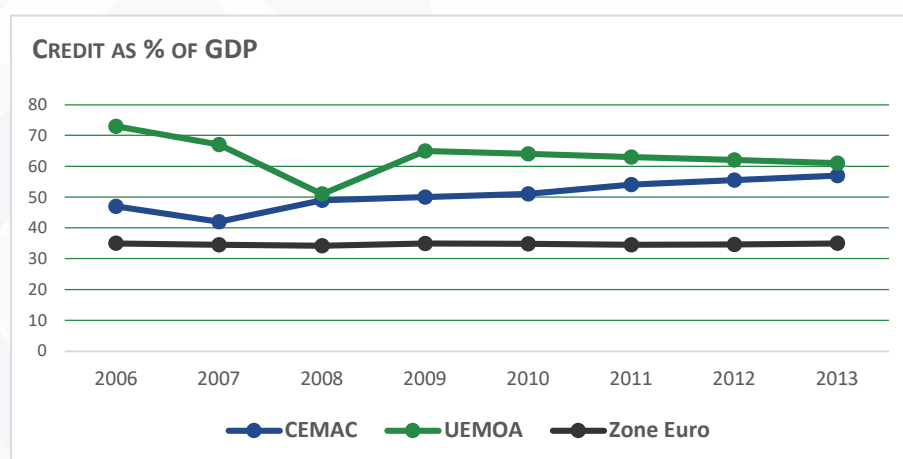
This gap between the increase in the weight of the balance sheet as a percentage of GDP and that of the weight of outstanding loans is due to a certain divergence in the asset structure, which in our opinion also partly explains the profitability gap between the banking sector of the WAEMU and the CEMAC.

2013, AT THE END OF 2013, OUTSTANDING GROSS LOANS REPRESENTED 61% OF WAEMU BANKS' BALANCE SHEETS, A DECREASE OF 11 PERCENTAGE POINTS COMPARED TO THE END OF 2006.

This evolution is the result of a restructuring of banks, aimed at making them viable, particularly in Ivory Coast.

ON THE OTHER HAND, OUTSTANDING LOANS INCREASED FROM 48% OF THE BALANCE SHEETS OF BANKS IN THE CEMAC ZONE IN 2006 TO 57% IN 2013, A RISE OF 10 PERCENTAGE POINTS.

In other words, the banks of the CEMAC zone seem to have prioritized the financing of the economy at the expense of holding public debts and other financial instruments while the banks of the WAEMU have achieved the opposite path. These choices have an impact on the overall margin since outstanding loans to the private sector show better returns than those offered by public debt.



Source : BCEAO, BEAC, BCE, FinAfrique

In the euro area, outstanding loans to the private sector remained broadly stable at 35% of the balance sheet between 2006 and 2013. However, the weight of loans in banks' balance sheets is expected to decrease over the coming years in the wake of new regulations, which are pushing towards greater bank disintermediation. African banks are not yet at this stage, but will have to prepare for it sooner or later given the regulatory changes. Disintermediation is only possible in Europe due to extensive access to financial markets for financing, which is far from being the case in Africa.



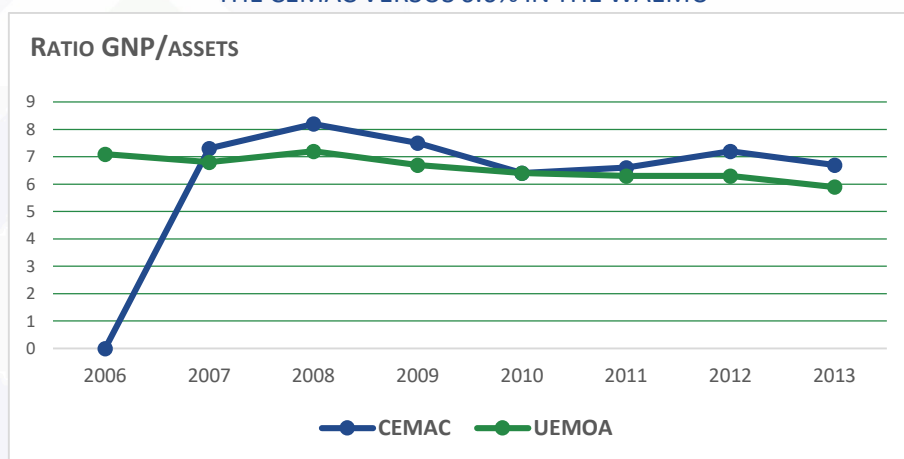
BANKING PERFORMANCE: CEMAC IS MORE PROFITABLE

WE COMPARE IN THIS PART THE OPERATIONAL PERFORMANCE OF BANKS FROM UEMOA AND THOSE OF CEMAC. WE COME TO THE CONCLUSION THAT THE BANKS OF THE CEMAC ZONE ARE MORE PROFITABLE, NOTABLY DUE TO BETTER GROSS MARGINS AND OF A BETTER CONTROL OF COSTS.

THE CEMAC POSTS A BETTER GROSS RETURN PER ASSET...

Structurally, the CEMAC banks have a better gross return on assets. Although we have not identified all the factors that could explain this difference, it should be noted that the CEMAC banks' decision to prioritise financing the economy over holding public debt appears to be a positive factor.

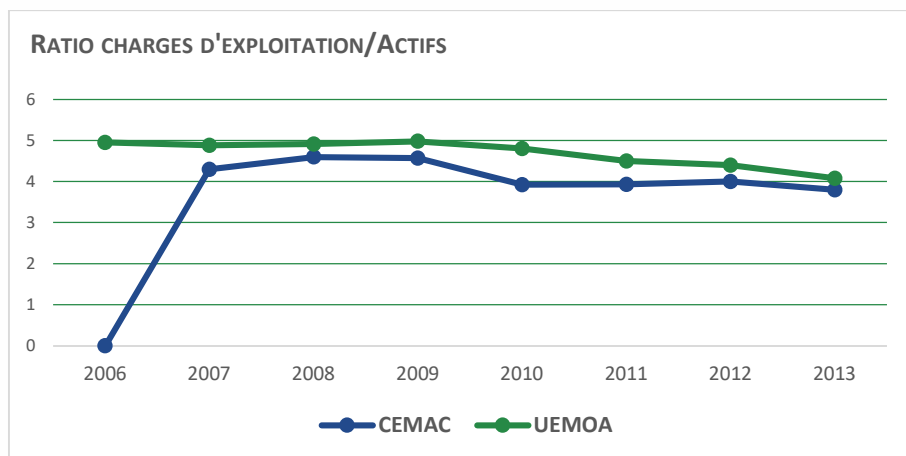
IN ANY CASE, BETWEEN 2007 AND 2013, A BANKING ASSET SHOWS AN AVERAGE GROSS RETURN OF 7.1% IN THE CEMAC VERSUS 6.6% IN THE WAEMU



Source : BCEAO, BEAC, FinAfrique

... A BETTER EXPLOITATION COEFFICIENT ...

In the same dynamic, it is interesting to note that the acquisition cost of an asset stands on average at 4.2% in CEMAC compared to 4.7% in WAEMU. However, it must be noted that the latter follows a sustained downward trend in the WAEMU, reflecting to some extent better cost management. Clearly, the cost of acquiring an asset follows a downward trend, which is good news given the pressures that GNP should undergo in the context of free banking services to promote financial inclusion.



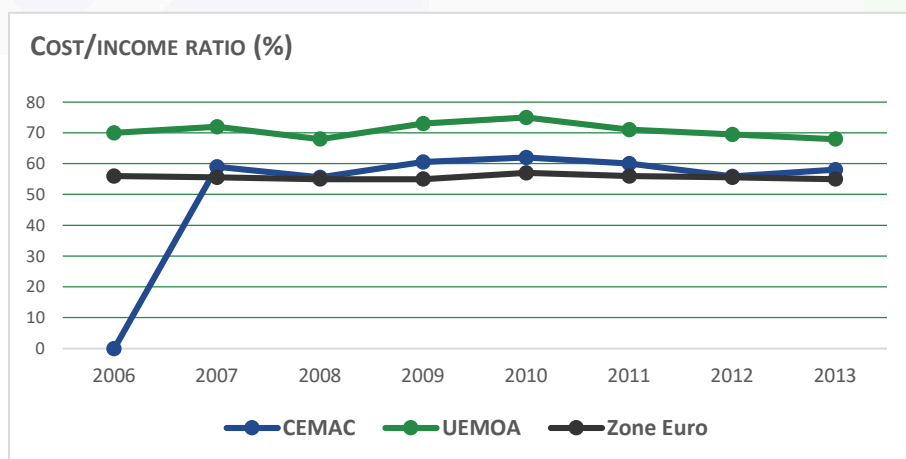
Source : BCEAO, BEAC, FinAfrique

But the financial community gives a greater interest to the cost/income ratio, the ratio between operating expenses and revenues. This ratio measures the share of GNP absorbed by operating expenses: **the weaker it is, the more efficient the bank is.**

The good level of gross yield of CEMAC banks is accompanied by a lower cost factor than in the WAEMU zone.

INDEED, THIS STANDS OUT ON AVERAGE AT 59% OVER THE 2007/13 PERIOD IN CEMAC, AGAINST 71% IN UEMOA AND 56% IN THE EURO AREA.

The difference between CEMAC and WAEMU mainly comes from staff costs, which represent on average 27% of GNP in WAEMU compared to only 22% for CEMAC. As regards overheads and other depreciations and amortizations, the difference is less significant since these charges represent on average 44% of GNP in WAEMU against 37% for CEMAC.



Source : BCEAO, BEAC, BCE, FinAfrique

Compared to the Eurozone, African banks can still optimize their structure and the level of costs. This will certainly involve greater automation of agencies, better harmonization of IT systems within the different subsidiaries of large banks and an improvement in gross return.

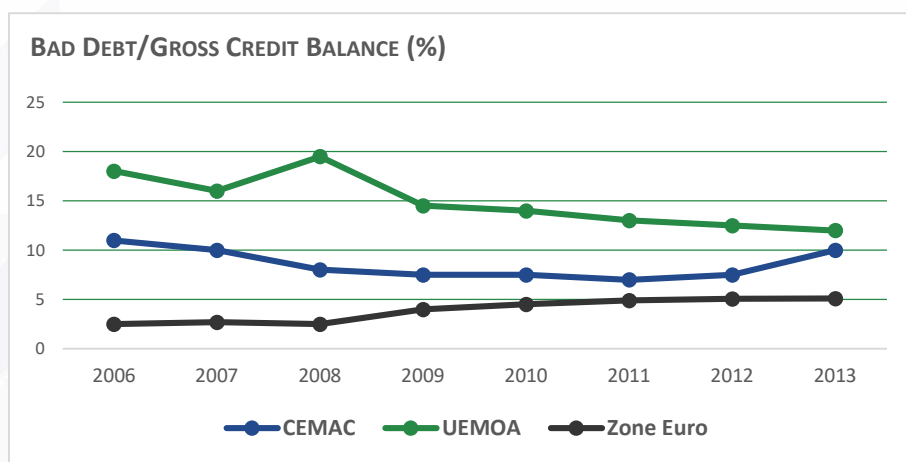
... AND A BETTER QUALITY OF ASSETS

The quality of assets is improving tendentially in both areas, however it is better in CEMAC.

INDEED, THE RATE OF DOUBTFUL DEBTS DECREASED REGULARLY TO REACH A LOW 7% IN 2011 AGAINST 11% IN 2006 IN CEMAC ZONE. BUT SINCE THEN IT HAS DETERIORATED AGAIN TO REACH 10% AT THE END OF 2013.

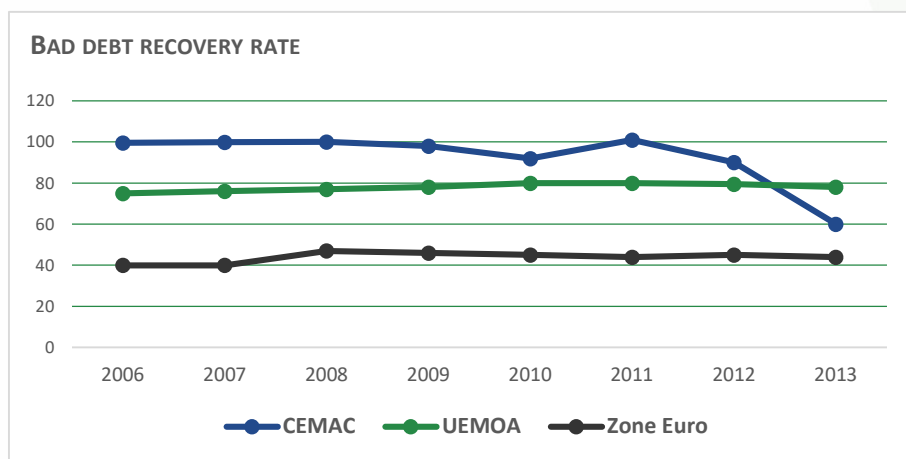
IN THE UEMOA ZONE, THE RATE OF DOUBTFUL DEBTS ROSE FROM 18% IN 2006 TO 11.5% END 2013.

By comparison, the rate of bad loans in the Eurozone stood at 4.5% at the end of 2011 compared to 2.5% at the end of 2006. This increase is the result of the financial crisis that began in 2007. In any case, CEMAC and UEMOA must continue to clean up their balance sheet. But to enter into a lasting phase of reduction in doubtful debts, it is necessary to equip oneself with credit information offices in order to have a better follow-up of the clients.



Source : BCEAO, BEAC, BCE, FinAfrique

Given the recent deterioration in asset quality, the coverage rate of doubtful debts by the stock of provisions is now higher in WAEMU. The sharp decline in the CEMAC zone seems worrying to us because banks might not be in a position to deal with the deterioration in asset quality. On the other hand, it is noted that in the WAEMU the rate of doubtful debts has dropped sharply while the coverage rate has remained almost stable, which reflects a certain caution regarding the management of the risk of loss on outstanding loans.

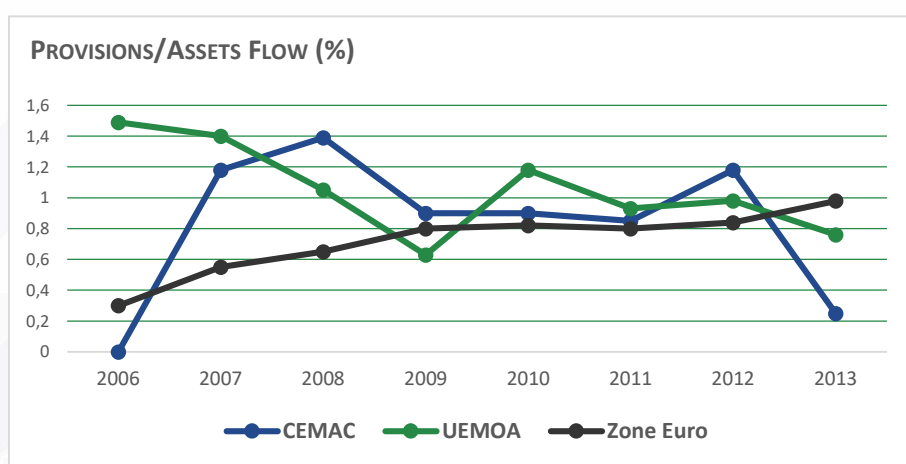


Source : BCEAO, BEAC, BCE, FinAfrique



THE IMPROVEMENT OF THE QUALITY OF ASSETS IS ULTIMATELY SEEN IN THE EVOLUTION OF THE COST OF RISK (RATIO BETWEEN THE PROVISIONS RECORDED BY BANKS TO FACE POTENTIAL LOSSES AND THE TOTAL BALANCE SHEET) SINCE THE LATTER IS GENERALLY ORIENTED DOWNWARDS.

We believe that this trend should continue over the next few years due to economic growth and the improvement in asset quality. It should be noted that in the Eurozone, the increase in the cost of risk is primarily the result of the financial crisis. But the cleanup of balance sheets, combined with accommodative monetary policies, should allow for a reversal of the trend in the coming years



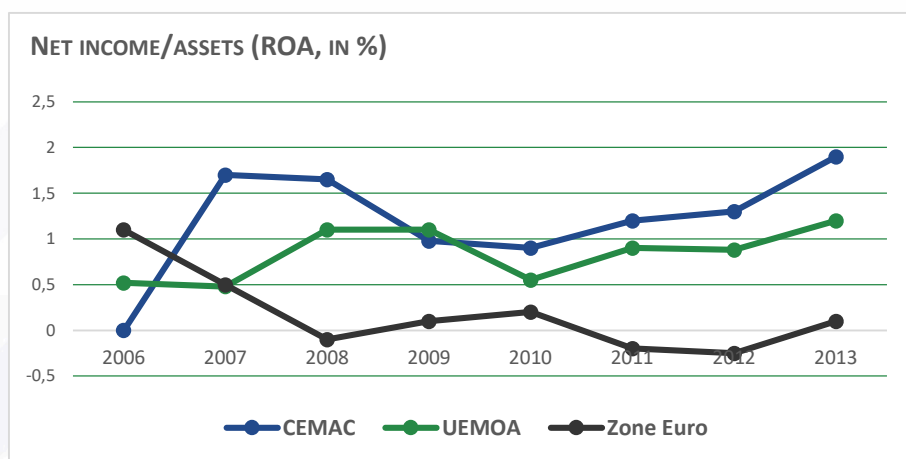
Source : BCEAO, BEAC, BCE, FinAfrique



IN THE END, CEMAC DISPLAYS A BETTER ROA

LA THE CONJUNCTION OF A BETTER GROSS YIELD, A BETTER EXPLOITATION COEFFICIENT
AND A DECLINING COST OF RISK, TRANSLATES INTO AN AVERAGE NET ASSET RETURN (ROA)
OF 1.4%
BETWEEN 2006 AND 2013 FOR CEMAC.

That of the WAEMU stands at 0.8%, penalized notably by a low gross asset yield and a high exploitation coefficient. But we anticipate an improvement in ROA as a result of the reduction in the operating ratio (cost control) and the decrease in the cost of risk.



Source : BCEAO, BEAC, BCE, FinAfrique

The gap at the ROA level is reflected in the ROE, since the average ROE of banks in the CEMAC zone stands at 19% compared to 15% for the WAEMU. Over the same period, the average ROE of banks in the Eurozone reached 6.9%.



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