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Haiti: Financial System Stability Assessment, including a Report on the Observance of Standards and Codes on Banking Supervision

This Financial System Stability Assessment on Haiti was prepared by a staff team of the International Monetary Fund and the World Bank as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on February 5, 2008. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the Government of Haiti or the Executive Board of the IMF.

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HAITI

Financial System Stability Assessment

Prepared by the Monetary and Capital Markets and Western Hemisphere Departments

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February 5, 2008

This report presents the conclusions of the IMF-World Bank FSAP mission that visited Haiti in June and September 2007. The mission comprised Messrs./Mmes. Almansi (head, World Bank), Blancher (deputy head, IMF), Klueh, Kunzel, and Sacasa (all MCM); Fortin, Fajnzylber, Zekri, and Watson (all World Bank), Bell (formerly with the Office of the Superintendent of Financial Institutions, Canada), Beuve (European Central Bank) and Tardif (law firm of McCarthy Tétrault, Canada). The assessment of Haiti's AML/CFT framework was conducted by a separate World Bank team in October 2007.

The mission held discussions with the President's Advisor on Economic Policies, the Governor of the Banque de la République d'Haïti (BRH), the Minister of Finance, senior BRH and government officials, and financial sector representatives. Its conclusions were discussed with the authorities during the 2nd PRGF review mission in November 2007. The mission received excellent cooperation and support from the authorities. Its main findings are as follows:

- Indicators of bank soundness and performance are relatively favorable, but the credit culture is weak, and loan portfolios are heavily concentrated and vulnerable to shocks.
- Monetary policy effectiveness has been hampered by dollarization, underdeveloped money markets and, until recently, uncompetitive BRH bond auctions.
- Past fiscal dominance and stabilization efforts have eroded the BRH's capital base and a comprehensive action plan to safeguard BRH's financial independence is needed.
- If enacted, the new draft banking law would significantly strengthen banking supervision.
- Regulatory and supervisory frameworks for credit unions, non-cooperative microfinance institutions, insurance companies and pension funds should be introduced.
- Weaknesses in the legal and institutional frameworks and various other factors weigh on the financial sector's ability to support growth.

FSAPs are designed to assess the stability of the financial system as a whole and not that of individual institutions. They have been developed to help countries identify and remedy weaknesses in their financial sector structure, thereby enhancing their resilience to macroeconomic shocks and cross-border contagion. FSAPs do not cover risks that are specific to individual institutions such as asset quality, operational or legal risks, or fraud.

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Glossary

AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
BNC	*Banque Nationale de Crédit*
BRH	*Banque de la République d'Haïti* (Central Bank of Haiti)
CAR	Capital adequacy ratio
DBS	Department of Banking Supervision
ECCU	Eastern Caribbean Currency Union
FSAP	Financial Sector Assessment Program
FX	Foreign exchange
IFRS	International Financial Reporting Standards
ISA	International Standards on Auditing
MFIs	Microfinance institutions
MOF	Ministry of Finance
NIR	Net international reserves
NPL	Nonperforming loan
OCPAH	*Ordre des Comptables Professionnels Agréés d'Haïti* (Haiti's accountancy association)
OHADA	*Organisation pour l'Harmonisation du Droit des Affaires en Afrique*
ONA	*Office National d'Assurance-Vieillesse* (Haiti's social security program)
ROE	Return on equity
RTGS	Real time gross settlement system
SMEs	Small- and medium-sized enterprises

EXECUTIVE SUMMARY—KEY RECOMMENDATIONS

Haiti's financial system plays a limited role in supporting economic growth. This reflects a broad range of development challenges, including significant weaknesses in the legal and institutional frameworks, the fragile security situation, limited competition between banks, poor governance, high reserve requirement ratios, the absence of a functioning credit registry, and crowding out by BRH bond holdings. The result has been low credit growth, high intermediation spreads and limited access to credit.

The FSAP team assessed that financial sector data are generally adequate, although the unavailability of some statistics has weakened the analysis. Key concerns relate to the underlying reporting and auditing infrastructure; data processing in the BRH; and, the lack of clarity regarding which accounting standards are applied. Greater selectivity in banking sector data collection and upgraded IT infrastructure would free resources for a more risk-oriented supervisory approach and the production of statistics that are currently unavailable.

Reported banking soundness indicators are currently favorable, but financial stability is subject to macroeconomic and other risks, particularly given credit concentration. Stress tests suggest that the banking system is resilient to a range of single-risk factor shocks, but would be vulnerable to a deterioration in credit quality. This vulnerability is exacerbated by high financial dollarization, concentrated lending portfolios, and in some cases relatively underdeveloped credit risk management practices and weak governance. The recent failure of Socabank has provided an example of these weaknesses, and in this context, the largest public bank's management of Socabank's largely nonperforming loan portfolio requires careful monitoring.

The new draft banking law that was submitted to Parliament in June 2007 addresses the major weaknesses in banking supervision, and its enactment is critically important. The legislation would provide a stronger framework for bank licensing, prompt corrective action, and bank resolution. Implementing it will however require concomitant steps to upgrade prudential regulations and enhance the BRH's independence. Further improvements will also be needed in risk management and internal control practices by banks, and in enforcing credit concentration limits.

Basic regulatory and supervisory frameworks for nonbank financial institutions need to be introduced. For credit unions, further expert review of a specific draft law may be needed before submitting it to parliament, and should also cover the prudential regulations recently prepared by the BRH. For MFIs not organized as cooperatives, a specific regulatory framework should be established, including basic transparency requirements and incentives for well performing MFIs to broaden the set of financial services they offer. For insurance companies, a simple shell law should provide a basic legal framework, and supervisory responsibilities could initially be located at the BRH. For pension plans, priorities are to conduct actuarial evaluations of all defined-benefit schemes and to introduce basic governance and transparency requirements.

The conduct of monetary policy has been hampered by dollarization, underdeveloped money markets, and uncompetitive BRH bond auctions. Monetary policy implementation should benefit from further efforts to set BRH bond auction volumes more directly in line with money supply targets; allow the interest rate to be determined by the market; and, open up auction participation to nonbank institutions. Another priority should be to introduce a framework for forecasting autonomous factors that drive systemic liquidity.

Past fiscal dominance and stabilization efforts have eroded BRH's capital, weakening its capacity to exercise monetary policy and respond to macroeconomic shocks. In the short term, the government should increase its transfers to the BRH to cover BRH bond costs. However, steps also need to be taken to develop a comprehensive action plan to safeguard BRH's financial independence over the long term. Key elements of such a plan, which would include developing a treasury securities market, were discussed with the authorities and in the context of a follow up technical assistance mission.

Building on the authorities' PRSP objectives to modernize and strengthen the financial sector, this FSAP has identified the following key priorities:

- **Insolvency and creditor rights.** Bankruptcy laws are never used in practice, hampering access to credit and increasing its cost. Key priorities are to implement a centralized public registry of security interests, enact comprehensive insolvency legislation, and strengthen the judicial system.
- **Accounting and auditing.** The regulatory framework in this area is incomplete and loosely enforced, and there is a critical need to introduce greater competition in the audit sector, train local accountants, and adopt a simple, easily enforceable accounting system.
- **Payment systems.** These systems are underdeveloped, and a comprehensive reform strategy is needed to modernize settlement, enhance oversight, and reduce the current risk exposures of the BRH.

Building on recent progress in macroeconomic stabilization, considerable progress could be made in the coming years, including in tackling the key structural impediments to credit growth and financial sector development mentioned above. The FSAP has identified a set of reform priorities in order for the financial sector to better support growth (Box 1). Overall, the authorities welcomed the proposed recommendations, which in their view usefully highlight weaknesses and gaps in Haiti's financial system and help to identify reform priorities going forward. They also stressed that, in several areas, such as accounting and auditing, public debt management and nonbank supervision, there will be a need to proceed gradually with reforms given existing capacity constraints in Haiti.

Box 1. Key Recommendations

Prioritization		Short-term (2007–08)	Medium-term (2008–10)
Prioritization	Top priorities	- BRH’s financial sustainability: prepare for recapitalization and increase government transfers (¶9)	- Strengthen BRH’s independence through recapitalization and legal reform (¶8-10,22) - Develop treasury securities market (¶9)
		- Enhance competition in BRH bond auction system (¶7)	- Complete transition of BRH accounting toward IFRS and commission BRH audit by new audit firm (¶10)
		- Adopt and implement new banking law, and upgrade regulations (¶20-21)	- Strengthen judicial capacity for contract enforcement (¶35)
		- Conduct special inspections of three largest banks, and prepare BNC restructuring strategy (¶15, Box 3)	- Implement BNC restructuring strategy (¶15, Box 3)
		- Broaden scope and set up centralized public registry of personal property collateral (¶32)	- Reduce cost of establishing collateral (¶32) - Increase competition in audit sector (¶38)
	Additional key priorities	- Improve framework for systemic liquidity forecasting (¶6-7)	- Upgrade IT infrastructure and increase risk focus of banking supervision (¶21-22)
		- Improve regulation and supervision of credit unions (¶27-28)	- Support orderly expansion of microfinance sector (¶29)
		- Establish basic transparency requirements and regulation for other nonbank financial institutions (¶29-31)	- Conduct actuarial assessments of all defined benefit pension schemes (¶19,31)
		- Set up working group to assess options for deposit insurance scheme (¶26)	- Facilitate establishment of a private credit bureau (Box 2)
		- Take stock of bank accounting practices against medium-term objective of IFRS compliance (¶37)	- Modernize insolvency legislation (¶34) - Prepare comprehensive reform of National Payment System (¶39-41)
		- Require full publication of banks’ annual accounts (¶37)	- Develop strategy for the transition of bank accounting toward IFRS (¶37)
			- Adopt simple and easily enforceable accounting system for private enterprises, consistent with long-term objective of IFRS compliance (¶36)
			- Adopt strategic approach and clarify roles and objectives of each actor of the AML regime (¶42-44)

I. RISK FACTORS

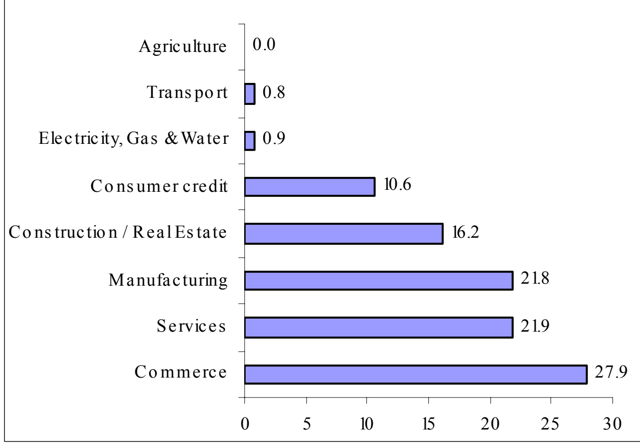
A. Macroeconomic and Business Environment

1. **Political and economic stability has been restored, but the business environment remains unsupportive of strong and sustained growth.** Since 2004, prudent fiscal and monetary policies have helped reduce inflation from almost 40 to 8 percent. While real per capita GDP has begun to recover (it grew by ¾ point in FY05/06), sustained growth will require the promotion of private sector investment, increased productivity, overcoming structural bottlenecks (e.g., weak infrastructure), and strengthening public financial management. The security situation is still fragile, and many basic government functions and public services still need to be restored.

2. **Banking soundness indicators are currently favorable, but governance problems have been serious.** Recent bank insolvencies have brought to light the involvement of bank senior management in fraud, deficient connected lending standards, and the risk of political interferences in bank resolution. In addition, weak governance within the judicial system is a concern. Since taking office in early 2006, President Préval has actively supported efforts to improve governance and fight corruption.

3. **The banking sector needs to play a more effective role in supporting growth.** The sector is highly concentrated, with close to 80 percent of bank assets being held by the three largest banks (Appendix Tables 1 and 4), and 10 percent of individual borrowers receiving approximately 80 percent of total loans.[1] Roughly half of total credit is extended to commerce and services activities, whereas agriculture and transport receive less than 1 percent (Figure 1), and mortgage lending is constrained by problems of enforcement of foreclosure and repossession of collateral. Furthermore, credit as a share of GDP (11 percent) is well below other countries in the region, and its growth has averaged less than 10 percent over the past three years, despite high bank liquidity and the ongoing economic recovery. The difficult security situation has certainly

Figure 1. Credit by Economic Activity 2006
(% of total)



[1] Two foreign banks have branches in Haiti, and accounted for 7.5 percent of assets of the banking sector at end-2006 (against an average of 23 percent in Caribbean countries).

been a factor constraining bank credit, but deeper structural constraints are also at play (Box 2).

Box 2. Impediments to Credit Growth

The ratio of bank credit to GDP has declined from 13 to 10 percent between 2002 and 2006, and is significantly below that in other Caribbean countries (Figure 2). Several factors appear to constrain credit growth in Haiti:

• ***High business costs and adverse risk/return conditions.*** A number of structural and institutional factors contribute to the high cost or risk of lending and operating in Haiti. They include: political instability, chronic insecurity, high reserve requirements and transactions costs (e.g., associated with establishing guarantees), the absence of a credit bureau,[1/] weak rule of law (e.g., regarding enforcement of foreclosure and repossession of collateral), judicial corruption, limited market development and transparency, and inadequate infrastructure.[2/]

• ***Crowding out by BRH bonds.*** High returns on BRH paper have likely limited credit extension in recent years. Indeed**,** the share of credit in total bank assets has fallen by over 6 percentage points between 2002 and 2006, while that of BRH bonds was increasing, reaching over 10 percent in 2006 (Table 1).

Table 1. Share of Credit and BRH Bonds in Bank Assets
(In percent)

	2002	2003	2004	2005	2006
Net credit / assets	34.5	31.9	30.5	29.9	28.2
BRH bonds / assets	9.0	7.5	6.3	8.4	10.6

Source: BRH and Fund Staff estimates

• ***Weak competition among banks.*** This has enabled banks to keep both deposit interest rates low and intermediation margins wide, and possibly to obtain higher, risk-free yields on BRH bonds (Figure 3).

Figure 2. Credit to GDP
(In percent)

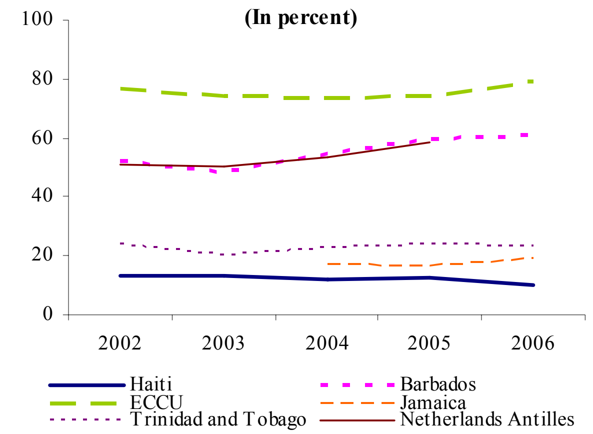
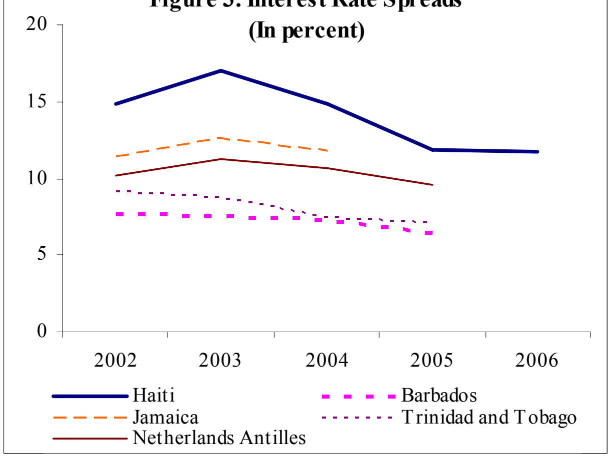


Figure 3. Interest Rate Spreads
(In percent)



[1/] Progress has been made toward establishing a credit bureau recently and a draft law has been circulated to various stakeholders, prior to its submission to Parliament.
[2/] See J. Crowley, "Interest Rate Spreads in English-Speaking African Countries," IMF Working Paper, WP/07/101, 2007.

4. **On the external front, considerable real exchange rate appreciation has resulted from substantial capital inflows in the form of private and public transfers.** Haiti's exchange rate regime is a managed float with no predetermined path, and the exchange system has been free of restrictions for current account transactions. The current account has remained relatively balanced, including due to very large remittances and foreign aid inflows—which reached about 20 percent and 10 percent of GDP, respectively, in 2006.

5. **The banking system is highly dollarized, reflecting historically high inflation and exchange rate volatility.**[2] The share of foreign exchange deposits to total deposits in the banking system exceeds 50 percent, significantly above that of other countries in the region. At the same time, relatively cheap dollar financing in recent years has enticed borrowers to take on dollar-denominated loans, which currently account for two-thirds of total loans in the system (Figures 4–6).

6. **Although the authorities have been successful thus far in maintaining low inflation, monetary policy suffers a number of weaknesses.** The current monetary policy framework is eclectic, combining monetary and inflation targeting, and the BRH seeks to achieve its monetary targets by issuing BRH bonds. However, the absence of a well-functioning interbank money market means that the conventional monetary transmission mechanisms do not operate effectively.[3] Moreover, until recently, the quantity of issued BRH bonds has not been set in line with money supply targets, partly owing to weaknesses in liquidity forecasting.

7. **Additional measures are needed to improve monetary policy implementation.** The authorities recently took initial steps toward setting volumes of auctioned BRH bonds in line with base money supply targets; opening up auction participation to nonbank financial institutions; and, letting the interest rate be market-determined through multiple rate auctions. In addition, the FSAP team recommended improvements in the framework for BRH's liquidity forecasting, including through effective communication between the BRH and the MOF with respect to the financing needs of the government.

B. **The BRH's Balance Sheet Situation**

8. **The BRH's finances have severely deteriorated over the past years, primarily as a result of the need to finance and sterilize government deficits.** The BRH has issued large amounts of short-term bonds at high interest cost, while earning a low remuneration on its credits to the government and NIR. Consequently, BRH losses during 2000–06 summed

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[2] Episodes of gourde depreciation have been quite severe in the recent past: between early 2002 and 2003, the gourde depreciated by 70 percent against the U.S. dollar.

[3] The interbank market has been inactive due to the strong liquidity position of banks, but its development will need to be considered in due course.

to 3.1 percent of 2006 GDP, causing the BRH's capital and reserves to fall to 1.2 percent of GDP at end-2006. Based on projections under the PRGF-supported program, the BRH's capital position would turn negative by the end of FY2008.

9. **A recapitalization of the BRH is necessary to allow for more effective monetary policy and preserve the BRH's long-term financial independence.** The BRH's low capital base may increasingly inhibit the central bank from raising interest rates and leaves it poorly placed to respond to shocks, raise NIR, or reduce reserve requirements (which are very high by international standards). A recapitalization plan should involve replacing the BRH's credit claims on the central government with marketable debt bearing a market-related interest rate, which would allow the gradual retirement of BRH bonds.[4] However, the timetable for such a step would need to take account of the impact on both the financial and public sectors.

10. **In addition, steps are needed to strengthen the audit of the BRH and to move toward full application of IFRS.** Currently, the BRH's external auditor is the same firm that audits virtually all Haitian commercial banks and, as such, is placed under the supervisory powers of the BRH. This arrangement, and the fact that the auditor validates financial statements that it has *de facto* largely contributed to prepare, may create conflicts of interest. In addition, moving the BRH's accounting framework toward full adoption of IFRS is an objective that will require progress in addressing the BRH's balance sheet situation.

C. Dollarization

11. **Prudential regulations are in place to help contain direct foreign exchange exposures and related vulnerabilities.** Banks cannot extend foreign currency loans beyond 50 percent of their foreign currency deposits. Their net open FX position cannot exceed 8 percent of equity, and are generally below this limit. However, the requirement that 30 percent of reserve requirements on foreign currency deposits be held in gourdes could be reconsidered, since it unnecessarily complicates FX risk management.

12. **Banks' potential exposures to indirect FX risk require closer oversight**. There are no specific regulations to curb foreign currency lending to unhedged borrowers (i.e., those without offsetting FX assets or revenues), and the lack of information and oversight on such lending practices remains a matter of concern.[5] However, the high level of dollarization and

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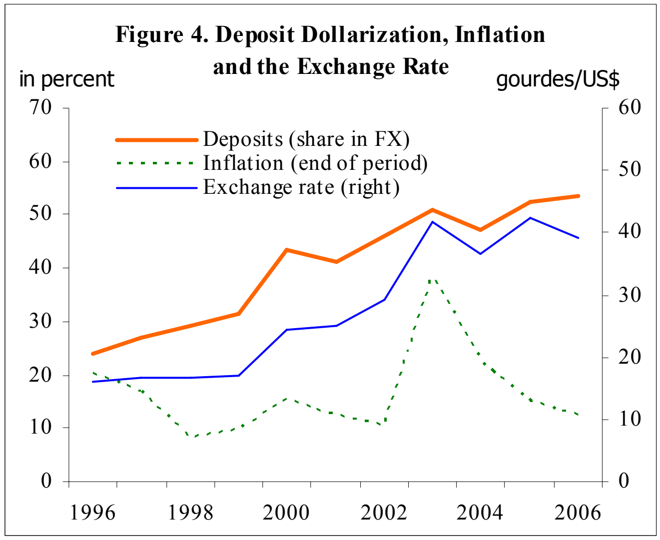
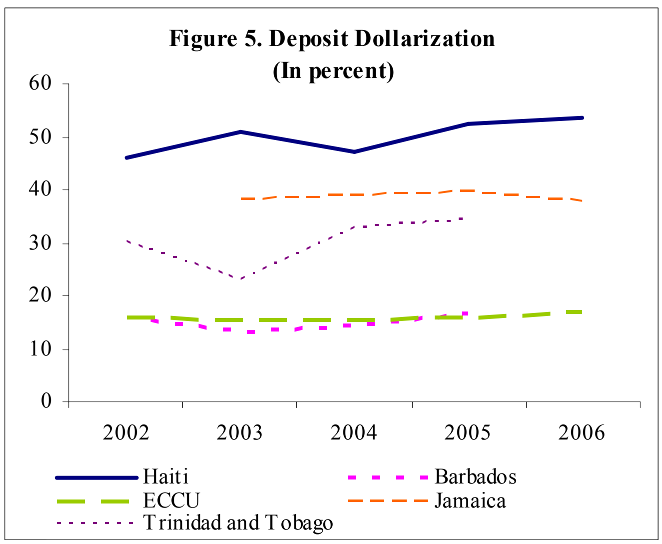
[4] Technical assistance was recently provided by the Fund in order to define the precise modalities of a recapitalization plan, including the design of the new treasury securities and related market development.

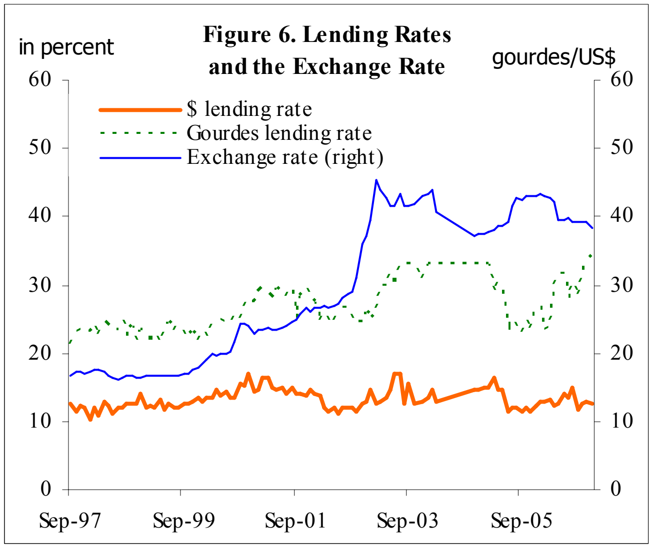
[5] For instance, risk management standards could require that related risks be adequately measured, controlled and mitigated.

the exceptionally large levels of private transfer inflows (remittances) tend to mitigate such concerns.[6]





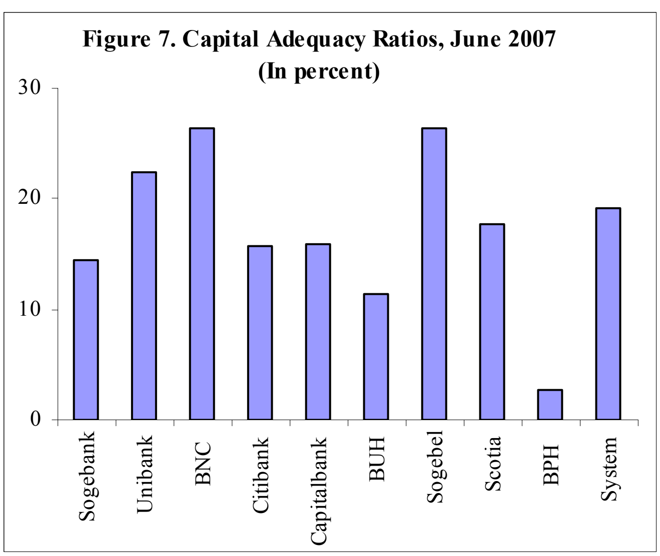
[6] Inflows of foreign currency in the form of remittances, foreign aid, and export revenues total about 45 percent of GDP overall.



II. Financial Sector Vulnerabilities

A. Bank Soundness

13. **Most banks report high solvency positions, improving profitability, and strong liquidity, including the systemically important ones.** Seven out of nine banks, accounting for 94 percent of bank assets, reported CARs well above the 12 percent regulatory minimum, with a system average of 19.1 percent as of June 2007 (Figure 7). Reflecting the economic recovery, aggregate returns both on assets and on equity have strengthened over the past few years (Appendix Table 3) (Figure 8). Moreover, the ratio of liquid assets to total assets averaged 45 percent for the system as a whole, well above that of other countries in the region (Table 2).



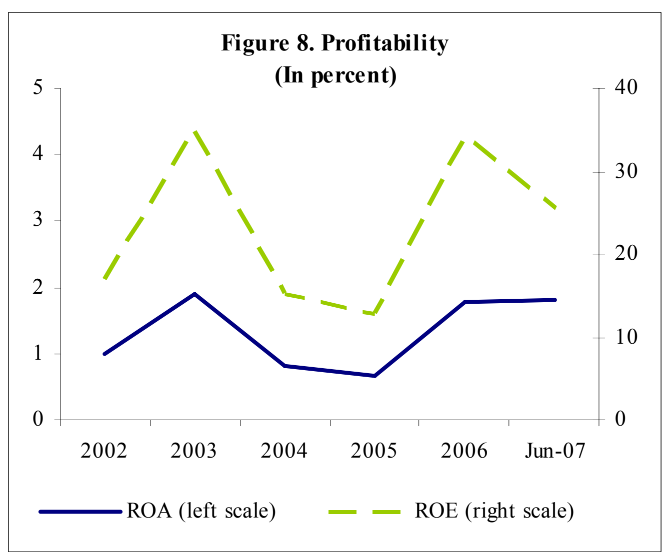


Table 2. Liquidity Ratios, 2002–2006
(liquid assets to total assets, in percent)

	2002	2003	2004	2005	2006
Haiti	47.4	45.0	46.5	43.6	45.3
Barbados	10.9	15.3	13.3	9.0	...
ECCU	...	...	...	...	27.7
Trinidad and Tobago	16.1	15.9	14.8	15.8	...

14. **However, the share of NPLs in the system is high, and credit risk management practices need to be upgraded.** NPLs represented about 12 percent of total bank assets by end-June 2007, noticeably higher than in neighboring countries (Figures 9–10). However, a few problem banks were largely responsible for the increase in NPLs in recent years.[7] Similarly, provisioning levels are high in most large banks, but low for the BNC (following the recent acquisition of Socabank) and some of the smaller banks (Figures 11 and 12). The high concentration of bank portfolios is a source of vulnerability, with established limits on concentration exposures to individual (or groups of) borrowers being frequently breached, especially by smaller banks (Figures 13 and 14). Thus far, CAR levels have partly reflected the large share of low risk assets (including BRH bonds) in bank portfolios, and the system appears vulnerable to a decline in interest rates.[8] Significant upgrades in credit risk management capacity would be necessary if banks are to support private sector investment without a deterioration in credit quality.

15. **The impact of the recent absorption of Socabank on the BNC will need to be closely monitored (Box 3).** The operation, which entailed a full takeover of all assets and liabilities of Socabank, led to a sharp drop in BNC's capital ratios and provisioning levels. Under the terms of the agreement on the absorption, the BNC will benefit from (i) a BRH guarantee on a portion of the NPLs received from Socabank, such that the resulting reversion of provisions amounts to 50 percent of Socabank's negative equity as of end-September 2006; and (ii) a waiver on meeting prudential requirements pertaining to credit and foreign exchange risks. Care will be needed to ensure that BNC's financial position and/or risk management are not adversely affected as a result of the absorption of Socabank.

[7] The increase in NPLs in recent years largely reflects the effect of Socabank, whose NPLs rose from single digits in 2004 to over 50 percent in 2005.

[8] BRH bonds represent 11 percent of total bank assets, but 28 percent of overall bank revenues.

Figure 9. NPLs to Gross Loans
(In percent)

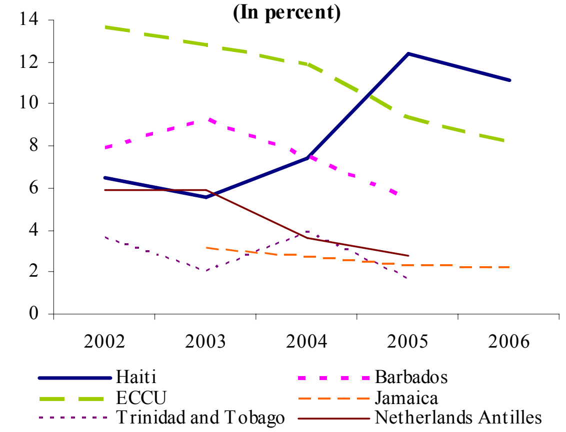


Figure 10. NPLs to Gross Loans, June 2007
(In percent)

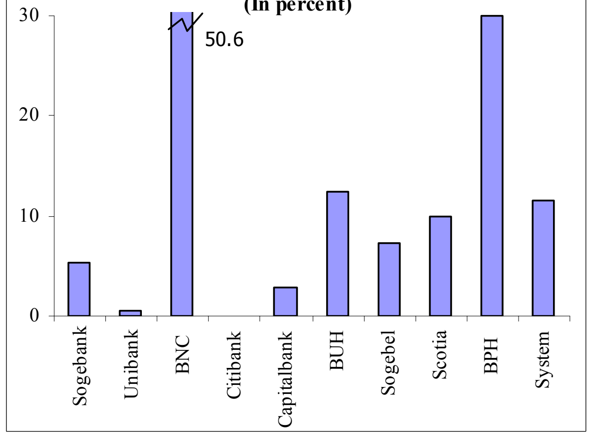


Figure 11. Provisions to NPLs
(In percent)

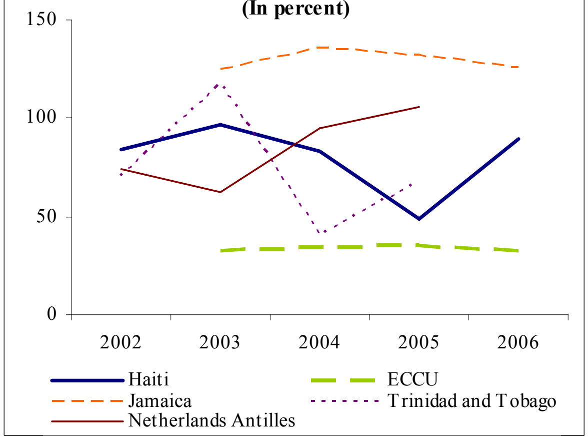


Figure 12. Provisions to NPLs, June 2007
(In percent)

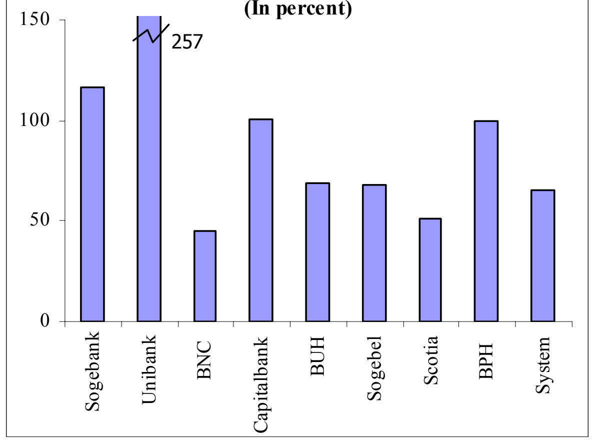


Figure 13. Loans over Concentration Limit for Non-Affiliated Lending, Dec. 2006–Jun. 2007
(in percent)

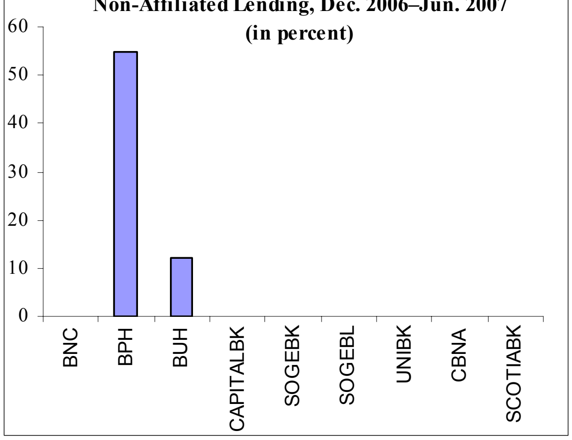
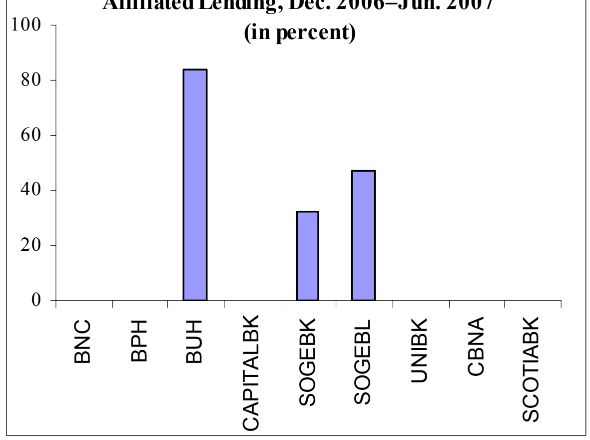


Figure 14. Loans over Concentration Limit for Affiliated Lending, Dec. 2006–Jun. 2007
(in percent)



Box 3. BNC and Socabank

In March 2007, BNC acquired the assets and liabilities of Socabank, with major impact on its balance sheet and profitability (Table 3)**.** Socabank, Haiti's fourth-largest bank, had undergone a prolonged period of financial distress, provoking a significant run on deposits. To protect depositors and avoid systemic risk the BRH took majority control of the bank in May 2006, and injected about US$50 million in capital, but it was not until BNC's acquisition of Socabank that deposits stabilized.

Table 3. Effect of Merger on BNC

(In percent; unless otherwise stated)

	Dec 2006	Jun 2007
Asset volume (in US$ millions)	212.1	333.8
BRH Bonds to assets	39.4	21.9
Loans (net) to assets	13.8	34.6
NPLs to gross loans	4.9	50.6
Provisions to gross NPLs	139.0	44.7
Regulatory capital to risk-weighted assets	57.8	26.3
Capital (net worth) to assets	12.6	9.3
Liquid assets to deposits	74.2	55.9
ROA 1/	5.4	2.1

Source: Based on statistics published by the Banque de la Republique d'Haiti.
1/ For the period Oct-Dec 2006 and Apr-Jun 2007, respectively.

In the near term, BNC's will face a number of new challenges. The BNC changed radically from a bank mainly investing in BRH bonds to one intermediating credit to the private sector. The substantially increased loan portfolio with a large NPL component will require major adjustments in the organizational structure and internal processes. Adherence to prudential requirements on loan loss provisioning would entail a further reduction in the CAR to 16.9 percent. Stress tests suggest that, while a reduction in interest income on BRH bonds would be partly cushioned by other sources of revenue, a further deterioration in BNC credit portfolio could spell trouble: all three credit risk shocks would push BNC's CAR (adjusted for under-provisioning) below the regulatory minimum.

An important step ahead is the assessment, with international expert assistance, of BNC's recapitalization and restructuring needs after the acquisition. Under the PRGF commitments, any recapitalization needs and required financial and operational restructuring of BNC after the acquisition of Socabank's assets and liabilities should be independently assessed. The authorities intend to conclude this assessment by end-March 2008.

16. **Several stress tests were conducted to assess the banking system's resilience to both individual macro-shocks and broader macro scenarios**. Stress tests for credit, interest rate and exchange rate risk were calibrated with reference to observed parameters during past episodes of distress, while an additional set of tests reflected risk identified during the FSAP consultations, including the impact of the failure of each bank's largest borrower (concentration risk), and that of a shift of bank portfolios from low-risk BRH bonds to loans. Scenarios were designed to reflect two key macroeconomic challenges in Haiti, namely the evolution of credit quality in a credit boom environment and dollarization-related risks, building on the above single risk factor shocks.

17. **Stress test results confirm the vulnerability of the banking system (Appendix I).** The system appears able to withstand most single risk factor shocks (including isolated

shocks to the exchange rate, interest rate, and credit quality), but credit risks associated with portfolio concentration and indirect FX exposure constitute significant sources of vulnerability. In addition, more comprehensive scenario analysis identified vulnerabilities stemming from (i) financial dollarization and funding liquidity risks, and (ii) a possible resurgence in credit demand associated with a “normalization” of financial conditions. These scenarios illustrate the need for banks to ramp up their credit risk management capacities and capital buffers.

B. Nonbank Financial Institutions

18. **Microcredit has thrived in recent years, but many credit unions are poorly managed.** There were 222 regulated credit unions and about 25 non-regulated non-cooperative microfinance institutions in 2005. In 2006, microcredit portfolios grew by 59 percent in U.S. dollars (39 percent in gourdes) and amounted to about 15 percent of total bank credit by the end of the year. Starting in 1997, five out of the nine domestic banks have also entered the microcredit sector directly or indirectly. Overall, microcredit consists largely in the provision of working capital for micro-entrepreneurs engaged in retail trade, with more limited financing of fixed capital or productive activities. As such, its impact on economic growth may remain modest, although its expansion has positive effects on employment and income generation among the poor. While some credit unions have performed well, many have been poorly managed. Indeed, the supervisor is currently finalizing more detailed prudential regulations for the sector, and estimates that at least 20 institutions would not be able to comply.

19. **The lack of information on the insurance and pension sectors means their importance to financial stability cannot be properly assessed.** It is impossible to assess the insurance sector’s capacity to absorb major shocks (e.g., natural catastrophes) and the potentially systemic credit risk implications for the banking system. Similarly, the management of Haiti’s pension funds (public and private) raises serious concern, and audits and actuarial assessments of all defined benefit funds are urgent priorities. In particular, Haiti’s social security program (ONA) faces a number of challenges, including inadequate governance, weak oversight, and inappropriate asset management.

III. Financial Sector Policy Framework

A. Prudential Regulation and Supervision of Banks [9]

20. **New banking legislation was submitted to parliament in June 2007, and once implemented would achieve an important strengthening of the supervisory framework**. Since it already reflects extensive technical assistance by the IMF, no further

[9] This section builds on the Assessment of Compliance with the Basel Core Principles for Effective Banking Supervision (Annex).

recommendations are included in this assessment (see BCP assessment in the Annex). Nonetheless, additional regulations will be needed to support a risk-based approach to supervision. For example, while the current minimum CAR of 12 percent seems adequate for Haiti's particular circumstances, regulations requiring higher CARs from individual banks depending on their risk profile, as well as specific capital charges to deal with specific risks (as appropriate to Haiti's context) will be needed.

21. **Stronger regulations on connected lending and enforcement of credit concentration limits are required, coupled with regulations on minimum risk management standards.** Although existing regulatory limits on individual exposures are adequate, the aggregate limit on exposures to related parties (200 percent of capital) is excessively high, and the responsibility of senior management to monitor compliance with such limits is not clearly defined. BRH regulations should require banks to have in place comprehensive risk management processes (including Board and senior management oversight) to (i) identify, evaluate, monitor, and control or mitigate all material risks (including concentration risks), and (ii) assess their overall capital adequacy in relation to their risk profile. Such processes should be commensurate with banks' size and complexity.

22. **Supervisory procedures appear largely adequate, but the capacity of the supervisory function should be improved.** Its operational autonomy can be strengthened in the context of greater central bank independence. The current staffing of the DBS seems insufficient, and its budget needs to be increased in a sustained manner, while supervisory staff skills should be upgraded through training focused on banking and risk management. Supervisory procedures appear largely adequate, but could be streamlined and better targeted, and more focused on key risks. This requires an upgraded IT infrastructure allowing for automated data collection and the production of key risk-focused statistics, which are currently unavailable (e.g., on deposit concentration, loan collateralization, asset recovery rates, or maturity mismatches).

23. **Rules for consolidated supervision should be improved.** The current regulations on consolidated supervision define banking groups too narrowly, and mainly focus on consolidated financial statements. The new draft banking law gives the BRH ample powers to determine the consolidation perimeter and to apply prudential standards to a group as a whole.

24. **Cross-border issues are currently of little relevance.** No Haitian bank has cross-border branches or subsidiaries (except for remittance services), only one small bank has significant foreign ownership, and local branches of foreign banks are supervised by the home supervisors of their parent banks. However, in the case of the above small bank (and any other similar case in the future), memorandums of understanding should be signed with the home supervisory authorities to expedite the exchange of information when needed.

B. Crisis Management

25. **The current legal powers of the supervisory authority during a bank's intervention are very limited, but the new draft banking law provides for substantial improvements in prompt corrective action and bank insolvency procedures**. Such improvements include: (i) the definition of supervisory actions according to different degrees of capital deficiency; (ii) mandatory shareholders' meeting in case a capital shortfall cannot be corrected within a defined time frame; (iii) BRH power to order an independent assessment of a bank's financial situation; (iv) BRH power to appoint a provisional administrator to replace the bank's board of directors and management; (v) conditional BRH power to recapitalize a bank or changing its management without closing it or making the intervention public; (vi) upon a stricter set of circumstances, conditional BRH power to take over and close a bank, with full powers to restructure or sell the bank or some or all of its assets; and (vii) BRH power to order and manage the liquidation of the bank's residual balance sheet.

26. **Evaluating options with respect to deposit insurance should be a priority.** The new draft banking legislation left the issue of formal deposit insurance to a later stage. However, the deposit insurance framework could be an important complement to bank insolvency procedures, since it would typically involve a framework for resolving weak banks in a quick and orderly way, thereby minimizing systemic risk. Nonetheless, careful consideration is still needed of the nature and scope of the deposit insurance system, including with regard to coverage, funding, treatment of credit cooperatives, and governance arrangements. Resolving these issues may require outside expertise, and the authorities are encouraged to quickly establish a working group to identify resource and technical assistance needs.

C. Other Regulatory/Supervisory Issues

Credit unions

27. **The supervision of credit unions is currently assigned to the BRH, and a restructuring of the sector and its legal environment is being considered.** Given their number, the effective supervision of a large number of credit unions is impossible at a level of intensity approaching that devoted to banks. Accounting and auditing standards are very low, and substantial weaknesses in asset quality and solvency may be latent.

28. **It is recommended that new legislation governing credit union regulation and supervision be prepared and implemented.** This legislation should: (i) limit supervisory responsibilities to a level that is commensurate with systemic risk; (ii) require strengthened governance, transparency and self-regulation; (iii) uphold members' responsibility to monitor and (where necessary) change their management; and (iv) avoid an undue responsibility for the supervisor to directly assume control of troubled credit unions. Specialized technical

assistance to improve prudential regulations and supervisory practices for credit unions may be needed.

Microfinance institutions

29. **A specific regulatory framework for the microfinance sector is critical to support its orderly expansion, and prudential supervision should be envisaged once sufficient financial information on MFIs is available.** Currently, non-cooperative MFIs are not subject to supervision and not obliged to register officially and produce financial statements.[10] With a few exceptions, MFIs do not have the technical capacity to produce reliable and timely financial information, which limits their ability to obtain external financing and grow. Minimum standards for MFI financial reporting should be introduced, and the government should support efforts to assist MFIs in this respect. Better financial information will allow the establishment of an MFI-specific prudential regime covering capital adequacy requirements, unsecured lending, loan-loss provision, and loan documentation and collateral.[11] Strong and appropriate supervision will improve the stability of the sector and help encourage greater access by the poor to deposit, credit, and other MFI financial services.

Insurance companies

30. **A minimum legal and regulatory framework should be introduced for the insurance sector, and the BRH could have supervisory responsibility at least initially.** Insurance companies operate under very limited regulation and no effective supervision. While the Ministry of Commerce has supervisory responsibility and the Ministry of Finance is involved in the licensing process, the sector is in practice largely self-regulated. At least as an interim step, a simple shell law could provide a reasonable initial legal basis for the insurance market and allow a minimum of supervision. Such a framework would be expanded as needed through secondary regulation. BRH resources could be used to help build supervisory capacity and take advantage of synergies, as banking groups are involved in insurance activities. A separate supervisor could be established at a later stage.

Pension funds

31. **Immediate steps can be implemented to improve the governance and regulation of public pension plans, and a basic legal framework is needed for voluntary corporate pension plans.** For the ONA, a governing body should be appointed (as provided for in the

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[10] However, some of them reportedly collect savings from the public, and the BRH has informally allowed at least one non-cooperative MFI to take deposits.

[11] See Christen, Lyman and Rosenberg, 2003, *Microfinance Consensus Guidelines: Guiding Principles on Regulation and Supervision of Microfinance*, World Bank, Washington D.C.

law), and impose increased transparency in fund management, administrative reforms, independent actuarial evaluations, and the publication of audited financial statements. Actuarial evaluations of the defined-benefit plans of all public enterprises should also be conducted, including where privatizations are envisaged. At present, voluntary corporate pension schemes cannot be registered as separate entities from sponsor companies and are not adequately protected (e.g., in case of bankruptcy of the sponsor company). Specific legislation should address this gap; provide tax exemption for contribution and investment income; allow only for defined-contribution plans without guarantees; establish conservative investment rules; and determine minimum governance, auditing, and transparency standards. Supervisory interventions should be limited to cases of fraud or abuse, and possibly conducted by the banking supervision unit.

IV. Structural and Development Issues

A. Insolvency and Creditor Rights

32. **The legal framework for the establishment and enforcement of securities available to creditors needs to be improved, and a centralized registry for the publication of securities should be set up.** A number of limitations on the categories of movable assets that firms can offer as security constrain their access to credit, and it is recommended to broaden the scope of movable assets on which security interests may be granted.[12] Creditors with security interests in movable assets must also pursue judicial proceedings to enforce them, which increases the costs of realizing securities (and that of credit). Mortgages must be authenticated and published through a process that can take up to six months, and associated fees (up to 7.5 percent of the mortgage value) are excessive and should be reduced. For security interests in movable assets, publication is ineffective as there is no institution to administer or record all such assets. The inability to confirm that a specified asset is free of other security interests increases the risks for existing and potential secured creditors, and it is recommended that a centralized registry is put in place.

33. **The protection of unsecured creditor rights is insufficient**. Unsecured creditors must take legal proceedings to recover unpaid debts, but obtaining an enforceable decision often takes more than a year. During this period, only a partial seizure of the debtor's assets is allowed, and not the seizure of assets in possession of the debtor even if the property is in jeopardy. More broadly, the unpredictability and inconsistency of the legal system makes the recovery of debts uncertain for all unsecured creditors.

34. **Corporate rehabilitation is almost impossible under Haitian laws on insolvency, except for financial institutions.** The laws governing corporate insolvency are never used in practice, reflecting a combination of: lack of knowledge of these laws; inefficiency and

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[12] Bills currently in discussion would address some of these issues.

unpredictability of the judicial system; and, the fact that the system is directed more at punishing fraud than obtaining the best outcome for creditors. Indeed, as soon as a debtor ceases payments, its assets are seized and seals are affixed, and the legislation does not distinguish between viable and non-viable businesses. Without any suspension of the recourses of secured creditors against the debtor's assets, the debtor loses control over its assets and possibilities for successful corporate restructuring (e.g., asset value maximization) are reduced. Insolvency laws should be modernized in order to better balance liquidation and restructuring objectives. Regarding financial institutions, insolvency is governed by a specific *Décret*, which could be improved, but has allowed the intervention of the BRH in two important Haitian banks in recent years.

35. **More broadly, deficiencies in the judicial, quasi-judicial and administrative systems have important implications for insolvency and creditor rights**. Under-financing has led to deficiencies in the organization and supervision of courts, with adverse consequences on the perception of the integrity of the judicial system. The inefficiency of judicial, quasi-judicial and administrative structures raises the level of risk assumed by creditors and the cost of credit. A reform of the judicial system and the provision of resources needed for the success of such reform are essential to improve the enforcement of creditor rights and the governing of insolvency proceedings.

B. Accounting and Auditing

36. **The overall quality of financial reporting is low, and its strengthening will require the adoption of an accounting system that is both simple and easily enforceable.** The 1980 law establishing a national accounting system has not been implemented in practice, as very few Haitian companies issue financial statements and the availability of qualified accountants is limited. While substantial training efforts are required for local accountants to achieve even a basic level of practice, an accounting system adapted to the country and consistent with the long-term objective of IFRS compliance is also necessary.[13] A 2005 tax decree required a significant number of companies to have their financial statements audited starting in FY07. While this should help to improve the quality of accounting information in the corporate sector, many companies will face severe difficulties in complying.

37. **Banks' accounting practices need to be improved, including against the medium-term objective of full IFRS compliance.** While banks' financial statements indicate that they comply with IFRS, this is inaccurate and there is clear evidence that banks have

[13] A practical solution may be to adopt, with some amendments, a model used in other Francophone countries. The OHADA system used in 16 countries of Western and Central Africa, for example, provides for a modular structure with three levels of requirements depending on the size of the company.

insufficient capacity to apply IFRS on their own.[14] The BRH should develop a medium-term strategy for the transition of bank accounting toward IFRS. During the transition, banks could be required to use a standard, BRH-approved form to present their annual financial statements, and their managements should certify to the BRH that such statements are prepared according to applicable accounting standards and do not contain false information. The publication of financial statements should also be modernized: banks are currently only required to make a hard copy publicly available at their head office; a better approach would be for either the BRH or banks to post financial statements on their websites.

38. **While external auditing practices and standards applied to banks appear adequate, measures to strengthen competition in the audit sector are a priority**. Current audit practices compare favorably to those used in countries of similar development level. However, efforts to improve capacity in this sector are needed, as few local firms are able to carry out audits according to international standards.[15] Importantly, one local firm is virtually the only supplier of audit services for large entities in Haiti, including almost all banks, and there is evidence that, in practice, financial statements are to a large extent prepared by auditors, not the companies themselves. This not only constitutes a significant impediment to the independence of auditors, but also makes banks dependent from their auditors, and amplifies the dominant position of the current leading firm. Improvements in external audit requirements for banks are provided in the new draft banking law, and the three largest banks (including BNC) are scheduled to be examined with the assistance of independent foreign experts in 2007–08. More broadly, and even though this might be expensive, the BRH could require banks to invite foreign firms to tender for their audits at least every four years, and multi-year (e.g., four-year) audit engagements could be granted to attract such firms. The BRH should also introduce a substantive accreditation process for bank auditors to ensure that they are properly qualified.

C. Payment Systems

39. **There is no explicit law governing payment systems, and the legal framework covering specific settlement issues seems to present important shortfalls**. Obligations are discharged mainly in cash (both in gourdes and U.S. dollars), but checks and card-based transfers also exist. The only systemically important payment system is the check clearinghouse. Other large-value payments are currently settled manually at the end of each business day through transfers between participants' accounts at the BRH. Against this

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[14] A review of banks' financial statements and audit reports for FY2005-06 evidenced significant departures from IFRS in terms of presentation, valuation of loan loss provisioning and securities, and disclosure of related-party transactions.

[15] The OCPAH should aim to eventually adopt International Standards on Auditing (ISA), put in place a mechanism to monitor the quality of audits carried out by its members, and ensure that licensed practitioners meet minimum criteria of professional competence.

background, a comprehensive reform of the National Payment System appears essential and should aim to achieve: (i) a sound and reliable legal framework for settlement, (ii) modern payment and securities settlement systems, (iii) safe foreign exchange transaction mechanisms, and (iv) a stronger foundation for the payment system oversight functions.

40. **A new Real-Time Gross-Settlement (RTGS) system is to be put into service shortly, but its design does not guarantee observance of some core principles.** The new RTGS system aims to reduce risk, lessen the use of cash, and speed up settlement. However, it does not yet have explicit rules for the queuing of transactions, and the granting of credit is to be determined on a case-by-case basis. Stated pricing policies would not necessarily cover the operating and infrastructure investment costs. Yet, the reduction in the risk exposure of the central bank and the enhanced stability and efficiency of the payment system as a whole might justify a partial recovery, at least for the short term.

41. **The check clearinghouse does not seem to fully observe most core principles for systemically important payment systems,** and its operational rules are not expected to change with the introduction of the RTGS system. Net positions will be entered into the RTGS system manually. If a bank cannot cover its debit balance at clearing, the BRH will advance a credit to the bank in the amount required, but no collateral will be required, and the bank will have 48 hours to repay the credit before fines are levied. In all cases, interest will be charged, determined on a case-by-case basis. These arrangements impose a significant risk on the BRH which should work proactively to remove all large-value items from the check clearinghouse and process them within the RTGS system.

D. AML/CFT[16]

42. **In 2001, Haiti enacted an AML Law encompassing the fundamental elements of the fight against money laundering, but has not yet adopted a legal framework to counter the financing of terrorism**. The AML framework sets out a money laundering offense, seizure and confiscation mechanisms, prevention and detection requirements and the basis for international cooperation (limited to mutual legal assistance and the Financial Intelligence Unit). It presents however several significant weaknesses with regard to the international standard (dealing inter alia with the scope of the predicate offenses, the coverage of designated non financial businesses and professions, the transparency of legal entities and of non-profit organizations, the restrictions to the lifting of banking secrecy).

43. **The implementation of the existing regime is insufficient, ineffective and weakly coordinated, and is not up to the money laundering and terrorism financing risks facing the country**. The key institutions necessary to the proper functioning of the legislative

[16] The AML/CFT ROSC for Haiti will be finalized and circulated to the Board for information shortly after being adopted at the Caribbean Financial Action Task Force plenary meeting, in May 2008.

framework are in place but have not yet sufficiently used the tools provided for by the 2001 AML Law. No money laundering prosecution has been completed thus far; the number of suspicious transactions reports, which were filed only by the banking sector, remains very small; the compliance by the financial sector with its AML obligations is not properly supervised.

44. **Haiti should adopt a more strategic approach and clarify the roles and objectives of each of the actors of the AML regime, by focusing first on the implementation of the AML regime currently in place**. The efforts should deal with the strengthening of the capacity of these various players, their refocusing on core missions (notably the financial intelligence unit), and the deepening of cooperation and coordination between them. Haiti should adopt a Law on countering the financing of terrorism, defining a terrorism financing offense, and setting up a terrorist asset freezing regime, and should launch a substantial training effort, tailored to the specific mandates of each institution of the AML framework.

ANNEX—OBSERVANCE OF FINANCIAL SECTOR STANDARDS AND CODES—SUMMARY ASSESSMENT OF COMPLIANCE WITH THE BASEL CORE PRINCIPLES[1]

Introduction[2]

1. **The assessment was based on the Essential Criteria contained in the Core Principles Methodology of October 2006**. The DBS conducted its first BCP self-assessment ahead of the mission, and provided to the team additional information in response to a detailed questionnaire including, for each essential criterion under each BCP, details on (i) existing legal and regulatory provisions that implement the criterion, and (ii) evidence of practices and procedures that effectively implement or seek to implement such legal or regulatory provisions. The team reviewed the legal and regulatory framework (mainly the Law on Banking, the Law on the Banque de la République d'Haïti, the Law on Prevention of Money Laundering and Terrorism Financing), and the prudential regulations issued by the BRH. Further evidence of supervisory practices and enforcement was obtained from a review of the on-site examination handbook, other supervisory guidelines, and sample on-site and off-site reports, as well as discussions with senior DBS staff. Discussions were also held with commercial banks, the Bankers Association of Haiti, and a leading bank audit firm.

2. **A new draft banking law was extensively discussed with the DBS and commented on as part of the assessment, but all ratings are based on current legislation and practices**. The latest draft of the new banking law, which benefited from extensive Fund technical assistance, would substantially improve the legal framework for bank supervision, especially with regard to prompt corrective action and bank insolvency procedures.

3. **The BRH is the sole financial supervisor in Haiti.** Its supervisory mandate extends to commercial banks, business banks (*banques d'affaires*, with deposit taking restricted to medium- and long-term deposits; none is in operation as of this date), savings banks, and credit unions (*caisses populaires*). The supervisory function is carried out for the first three types of banks by the DBS (*Direction de la Supervision*), and for credit unions by a separate department (*Direction de l'Inspection Générale des Caisses Populaires*).

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[1] This assessment was conducted in May and September 2007 by Keith Bell (formerly with the Office of the Superintendent of Financial Institutions, Canada) and Noel Sacasa (IMF, former head of Nicaragua's Superintendency of Banks and Other Financial Institutions). The assessment team enjoyed full cooperation from the Department of Banking Supervision (DBS) at the Banque de la République d'Haïti (BRH), and the authorities had several opportunities to review and comment on the mission's findings.

[2] The institutional and macroeconomic setting and market structure are presented in the main text of the FSSA.

Preconditions for effective banking supervision

4. **Soundness and sustainability of macroeconomic policies.** Although inflation is currently single digit thanks to sound macroeconomic management, growth remains slow. Economic stability is subject to political uncertainty, and fiscal and external vulnerabilities are significant. The BRH is seriously and increasingly undercapitalized, and its operations have been until recently subject to political interference.

5. **Public infrastructure.** Institutional development is very weak, and corruption is widespread in the public sector, including the judiciary system. Creditor rights are difficult to enforce. Only one audit firm appears credible enough to audit banks, and it is not clear which accounting standards are applied. The insurance sector is little developed and non-transparent, and there is no stock exchange or active securities market.

6. **Market discipline.** Competition among banks and from other financing sources is limited, and banks could have colluded to depress deposit interest rates and obtain high yields on bonds issued by the BRH. The two existing foreign bank branches play only a small role and exert little competitive pressure.

7. **Mechanisms providing systemic protection.** The lack of a formal deposit insurance or guarantee scheme, and insufficient powers to resolve weak banks quickly and in an orderly way, increase potential systemic risks in case of bank failures. The new draft banking law substantially improves bank insolvency procedures, but the issue of deposit insurance has been left to a later stage.

Main findings

8. In addition to the following summary of the main findings, Table 1 provides a summary of compliance assessments.

Objectives, independence, powers, transparency, and cooperation (CP1)

9. **The current legal and institutional framework does not support strong, transparent supervision, but a significantly improved banking law was submitted to Parliament in July.** Broad but unspecific supervisory powers, combined with political interference and a judicial system subject to corruption, have in the past encouraged forbearance and weakened transparency. The new draft law provides more precise rules for supervisory intervention, with a strong framework for prompt corrective action and bank insolvency procedures, as well as improved specific provisions for legal protection of the BRH and its agents. However, the draft law still leaves most minimum prudential standards to BRH regulation, which stresses the importance of continued efforts at ensuring an adequate regulatory framework.

10. **The operational autonomy of the supervisory function can be improved in the context of greater central bank independence.** As responsible for banking supervision, the BRH and the DBS should benefit from operational independence, transparent processes, sound governance and adequate resources, and be accountable for the discharge of their respective duties.

11. **In order to allow for the recruitment of the appropriate quantity and quality of staff, the DBS budget needs to be increased in a sustainable way.** The DBS is operating significantly below its authorized staffing level, and even supervised bankers indicate that current staffing is insufficient. An immediate priority is to fill existing vacant positions.

Licensing and ownership structure (CPs 2–5)

12. **Current licensing criteria and procedures are not well defined, and there is no provision for supervisory approval of significant transfers of bank ownership.** The draft law significantly improves the framework for bank licensing and fit-and-proper testing of both initial and new shareholders. However, it leaves the determination of fit-and-proper criteria for BRH regulation. Also, provisions that regulate bank acquisitions and investments in the current banking law are being eliminated, and will have to be replaced by similar or improved BRH regulations as soon as the new law is put into effect.

Prudential regulation and requirements (CPs 6–18)

13. **Capital adequacy requirements are largely Basel I compliant.** The current minimum CAR of 12 percent seems adequate for Haiti's particular circumstances. The new draft law allows the BRH to require higher CARs from individual banks depending on their risk profile, as well as specific capital charges to deal with different risks.

14. **Regulations on connected lending and the enforcement of credit concentration limits should be strengthened.** Although existing regulatory limits on individual large exposures are adequate, the aggregate limit on exposures to related parties (200 percent of capital) is excessively high. Moreover, the responsibility of senior management to monitor compliance with such limits is not clearly defined or supervised. Violations of limits appear to be frequent, especially among smaller banks. It has been recommended that the new banking law expressly give the BRH authority to exercise discretionary judgment when determining a bank's related parties and enforcing limits on related lending.

15. **Except for credit risk, there are currently no specific regulations on minimum standards for risk management beyond traditional internal control principles.** Current regulations on asset classification and provisioning are adequate. However, there is no evidence that on-site examinations verify the existence of adequate credit risk management systems and procedures, or of Board and senior management active involvement in ensuring their establishment, effective application and periodic review. The same applies, even more, to other types of risk. It has been strongly recommended that the new banking law expressly

determines the basic responsibilities of banks' Boards in ensuring adequate risk management. To implement this, BRH regulations should require banks to: (i) have in place a comprehensive risk management process (including Board and senior management oversight); and (ii) assess their overall capital adequacy in relation to their risk profile, in a way commensurate with their size and complexity. Some minimum standards with regard to the fulfillment of this obligation should also be set out.

16. **A preliminary assessment of regulations and practices to prevent abuse of financial sector services suggests the need to strengthen the BRH's role.** It has been recommended that the new banking law clarifies the BRH's authority to issue regulations in this area for the institutions under its supervision. A more in-depth assessment will be finalized by a specific expert team later in 2007.

Methods of ongoing banking supervision (CPs 19–21)

17. **Supervisory staff skills need to be upgraded, including a strengthened risk-focused training.** The current supervisory staff have mostly an auditing/accounting professional background, with little hands-on experience or training in banking or risk management. Market sources noted that they tend to focus excessively on detailed compliance verification, rather than on the more important risks. Adequate staffing and staff training strategies should aim at improving supervisory capacities with respect to bank risk analysis and management.

18. **On-site and off-site supervisory procedures appear largely adequate but could be streamlined and better targeted.** Overall, supervisory staff appears overloaded, due in part to excessively detailed reporting. Reports and reviewing activities for on-site examinations could be briefer and more focused on key risks, especially in the planning phase. Off-site supervision would benefit from the production of key statistics, which are currently not available, such as on deposit concentration, loan collateralization, asset recovery rates, or maturity mismatches.

19. **There is a shortage of specialized software.** Off-site control is only partially automated and inefficient: the transmission of documents and prudential data that have to be submitted regularly to the BRH is done in paper format or on diskette, which must be checked manually and then transposed into Excel format. The acquisition and implementation of specialized software and complementary hardware is an immediate priority, while automated data collection from banks could be a medium-term objective.

Accounting and disclosure (CP 22)

20. **Accounting and external auditing practices and standards applied to most banks appear relatively strong, but the auditors' independence is questionable**. Such practices compare favorably to those typically used in countries of similar development level**.** The firm that audits all but one of the banks (including the three largest) reports that they do all bank

audits according to IFRS and ISA, and that they are accredited and subject to staff quality control on IFRS by one of the big four international auditing firms. However, significant departures from IFRS exist in banks' financial statements, and there is clear evidence that banks have insufficient capacity to apply IFRS on their own. In this context, the external auditors become directly involved in preparing accounting reports, which conflicts with their required independence. Improvements in external audit requirements for banks are addressed in the new draft banking law. The availability of more external auditing options of adequate level of expertise through a higher participation of top-level foreign auditing firms would be desirable.

Corrective and remedial powers of supervisors (CP 23)

21. **The present regime lacks flexibility and breadth in dealing with supervisory concerns.** The precise circumstances under which the BRH may issue orders for action remain largely unspecified and the types of orders permitted are extremely restricted in ambit. Prompt corrective action triggered by breach of quantifiable thresholds (e.g., in terms of capital ratios) is absent from the present regime. Express capacity to bar individuals from banking or to effect their replacement is lacking.

22. **The legal powers of the supervisory authority during a bank's intervention are very limited.** The act of intervention has to be made public. Any decision to liquidate or reorganize the bank has to be approved by a court, which in practice can take a long time. During intervention, the supervisory authority does not have powers to: (i) act in place of the shareholder's meeting; (ii) reduce the value of the shareholders' capital; (iii) carry out a purchase-and-assumption (P&A) transaction; (iv) sell all or part of the bank's shares; or (v) negotiate a merger with another bank.

23. **The new draft banking law provides for substantial improvements in prompt corrective action and bank insolvency procedures.** This framework includes: (i) the definition of supervisory actions according to different degrees of capital deficiency; (ii) mandatory shareholders' meeting in case a capital shortfall cannot be corrected within a defined time frame; (iii) BRH power to order an independent assessment of a bank's financial situation; (iv) BRH power to appoint a provisional administrator to replace the bank's board of directors and management; (v) conditional BRH power to recapitalize a bank or changing its management without closing it or making the intervention public; (vi) upon a stricter set of circumstances, conditional BRH power to take over and close a bank, with full powers to restructure or sell the bank or some or all of its assets; and (vii) BRH power to order and manage the liquidation of the bank's residual balance sheet.

Consolidated and cross-border banking supervision (CPs 24–25)

24. **Rules for consolidated supervision should be improved.** The current regulations on consolidated supervision define banking groups too narrowly, and mainly focus on

consolidated financial statements. The new draft banking law gives the BRH ample powers to determine the consolidation perimeter and to apply prudential standards to the group as a whole.

25. **Cross-border issues are currently of little relevance.** No Haitian bank has cross-border branches or subsidiaries (except for money remittance services), only one small bank has significant foreign ownership, and local branches of foreign banks are supervised by the home supervisors of their parent banks. However, in the case of the small bank mentioned (and any other similar case in the future), appropriate memorandums of understanding should be signed with the home supervisory authorities, so as to expedite the exchange of information when needed.

Table 1. Summary Compliance with the Basel Core Principles—ROSC

Core Principle	Comments
1. Objectives, independence, powers, transparency, and cooperation	
1.1 Responsibilities and objectives	Need of updating legal/regulatory framework
1.2 Independence, accountability and transparency	Limited BRH independence. Insufficient DBS budget, staffing is tight and needs upgrading in risk focus.
1.3 Legal framework	Limited power to obtain information
1.4 Legal powers	Broad powers, but without clear criteria
1.5 Legal protection	
1.6 Cooperation	Lack of mechanism for cooperation and information sharing
2. Permissible activities	Lack of rules reserving use of word "bank"
3. Licensing criteria	Criteria and procedures not well defined
4. Transfer of significant ownership	No requirement of supervisory approval
5. Major acquisitions	Noncompliance with essential criteria (EC) 2-6
6. Capital adequacy	Lack of express authority to take steps when capital ratio falls below required minimum
7. Risk management process	No evidence of verification of comprehensive risk management systems/procedures, or of active Board/senior management involvement
8. Credit risk	Idem, with respect to credit risk
9. Problem assets, provisions, and reserves	Board use of credit MIS?
10. Large exposure limits	No evidence of verification of active Board/senior management involvement
11. Exposure to related parties	Too large aggregate limit, major deficiencies with respect to EC 1-4, 6
12. Country and transfer risks	
13. Market risks	Major deficiencies with respect to EC 1, 2, 4
14. Liquidity risk	Major deficiencies with respect to EC 1-6
15. Operational risk	Major deficiencies with respect to EC 1-8
16. Interest rate risk in the banking book	Absence of regulations/supervisory attention
17. Internal control and audit	Major deficiencies with respect to several EC
18. Abuse of financial services	Major deficiencies with respect to several EC

19. Supervisory approach	Need of better IT support
20. Supervisory techniques	Need of better focus, less unnecessary detail
21. Supervisory reporting	Need of statutory definition of reporting duties
22. Accounting and disclosure	Lack of express power to rescind the appointment of an external auditor
23. Corrective and remedial powers of supervisors	Lacks flexibility and breadth. Weak powers during intervention
24. Consolidated supervision	Major deficiencies with respect to several EC
25. Home-host relationships	
Aggregate: Compliant (C) – #, Largely compliant (LC) – #, Materially noncompliant (MNC) – #, Noncompliant (NC) – #, Not applicable (N/A) – #	

Recommended action plan and authorities' response

Recommended action plan

26. Table 2 presents a set of action priorities identified by the mission, aiming at improving compliance with the Basel Core Principles and fostering a sound development of Haiti's banking system.

Table 2. Recommended Action Plan to Improve Compliance with the Basel Core Principles

Reference Principle	Recommended Action
Preconditions	Options for an adequate deposit insurance or guarantee scheme should be assessed in the short term, to be implemented in 2008-2010. The legal and judicial framework for enforcing creditor rights (including well-functioning property registries) needs to be strengthened. The upgrading of accounting and auditing standards for business firms in general, as well as the improved availability of qualified accountants and auditors should be targeted.
1-7, 10, 11, 17, and 21-25	The new draft banking law will introduce major improvements if passed as drafted. Some additional implementing regulations will be required.
1(2) Independence, accountability and transparency	Independence, accountability and transparency of the banking supervisory authority should be improved in the context of addressing such factors for the BRH through reforming the central bank law and/or issuing a bank supervision law. The DBS budget needs to be increased in a sustainable way, to allow the recruitment of the needed numbers of staff with the required quality. An adequate strategy of staffing and training should aim at improving supervisory capacities with respect to bank risk analysis and management.

Reference Principle	Recommended Action
7-17 Risk management	The aggregate limit on exposures to related parties (*parties liées à la banque*) should be raised to the level of the limit applicable to a single counterparty or group of connected counterparties that are not related to the bank. The enforcement of limits on credit exposures to a single counterparty or group of connected counterparties (related to the bank or not) should be strengthened. Regulations establishing minimum risk management and internal control standards, as well as the respective supervisory practices, need to be substantially reviewed and upgraded.
18 Abuse of financial services	The new banking law should clarify the BRH's authority to issue regulations in this area for the institutions under its supervision.
19-21 Supervisory approach, techniques and reporting	The IT support platform (especially for data capture from banks and off-site supervision) should be upgraded. Better focus of data production, internal reports and review activities on key risks, and a more efficient use of staff is needed.
22 Accounting and disclosure	Capacity needs to be built in banks on IFRS and internal controls. Banks should be required to publish their audited financial statements in full (including endnotes). A standards form for banks to present their annual financial statements should be required. Banks' Board and management should be required to certify to the BRH that the bank's financial statements contain no false information and are prepared in accordance with applicable standards. Competition in the bank auditing sector should be developed over the medium term (e.g., by requiring banks to invite foreign firms to tender for their audits at least every four years). A substantive accreditation process for bank auditors under the BRH should be established.

Authorities' response to the assessment

27. Overall, the authorities welcome the assessment and find its conclusions helpful for improving the functioning of Haiti's financial sector. Nonetheless, such conclusions are largely focused on the existing banking law, and the authorities wish to emphasize that:

- The adoption of the new draft banking law should allow compliance with the requirements of principles 1 to 7, 10, 11, 17, and 21 to 25;
- The amendment of prudential regulations and the revision of on-site inspection procedures with emphasis on risk management should allow compliance with principles 8, 13, 14, 15, and 16;
- The amendment of the central bank law could allow the BRH to issue regulations on the abuse of financial services by institutions under its supervision.

28. In addition, the authorities consider that the assessments of MNC for principles 2 and 6 could have been reconsidered in light of their following arguments:

- With regard to principle 2, the essential criterion 3 has been applied with excessive rigor, given that the risk that the use of the word "bank" in the case of so-called "Bank de Borlette" (i.e., popular game of chance businesses) may mislead the public was virtually nil;

- With regard to principle 6, article 45 of the current banking law establishes that the BRH can fine any bank that contravenes BRH instructions or regulations with respect to capital adequacy or other prudential standards, and take any other remedial action deemed appropriate. Moreover, existing capital adequacy regulations establish a 90-day deadline for bringing back capital adequacy ratios in compliance. [To be added]

APPENDIX I. STRESS TESTS

A. Data Issues

1. **Overall, the data provided for stress testing purposes was adequate, although the lack of information on maturity structures, asset collateralization, and recovery rates prevented the use of certain standard techniques**. The stress tests were applied on a bank-by-bank basis, using balance sheet information as of September 2006. Information gaps prevented the use of models relying on maturity mismatch and deposit concentration data. Liquidity stress tests were therefore carried out in an indirect fashion (see Scenario B) and stress tests involving changes in interest rates are mainly based on a model of banks' net interest income. Although the mission has received information on collaterals and guarantees underlying the largest credit exposures, assumptions had to be made about expected haircuts. Finally, because of the relatively limited time series information, it proved difficult to estimate reliable econometric relationships.

2. **The resolution of Socabank has had a significant impact on many relevant variables**. Balance sheet, income statement, and prudential information for BNC as of June 2007 has been used to reassess both BNC's exposures and systemic stability. Stress tests have been performed both on published BNC accounts (which include central bank guarantees amounting to 50 percent of Socabank's negative capital), and on accounts adjusted for the partial under-provisioning of some ex-Socabank assets. New data on BNC was then integrated with the original data, and the whole set of stress tests was repeated.

B. Single Risk Factor Stress Tests

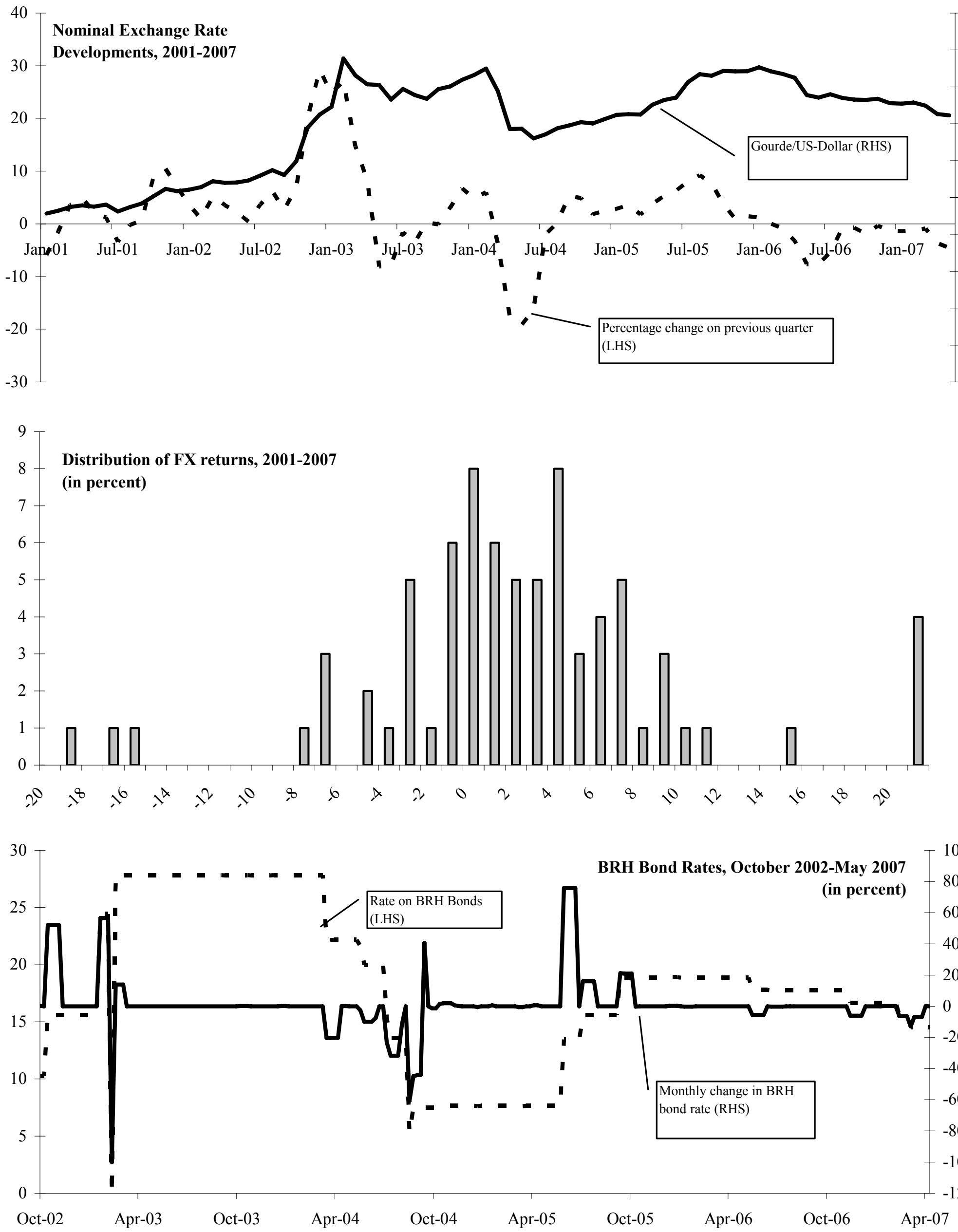
3. **Regarding credit risk, three stress tests have been calibrated.** A first test assumes a system-wide *reclassification of performing loans*, while a second test involves *a reclassification of existing non-performing loans into categories with higher degree of impairment.* The former is calibrated using the increase in NPLs experienced between 2003 and 2004. The latter approach assumes that all loans classified as sub-standard or doubtful at the time of the shock will be re-classified to the highest provisioning category. The third test focuses on risks stemming from credit concentration, and assumes the *failure of each bank's largest borrower*.

4. **The impact of a migration of assets from low to high risk weights quantifies the effect of a substitution of BRH bonds with risky loans.** The test is implemented assuming that assets in an amount corresponding to all currently outstanding BRH bonds will be substituted with assets from the highest risk category. The corresponding increase in the loan portfolio by 28 percent would be large but in line with cross-country evidence on credit booms.

5. **The stress test for FX risks measures the re-pricing effects of exchange rate shocks on the valuations of banks' FX assets and liabilities.** The shock is applied on the net open position in U.S. dollars, which represents by far the largest among foreign currency denominated positions. Since FX returns appear to be characterized by fat tails, a historical approach was deemed to be more adequate. Consequently, the tests replicate the movements toward the end of 2002 and in May 2004, evaluating the impact of a 29.1 percent depreciation and of a 19.1 percent appreciation.

6. **Interest rate shocks are calibrated as a simultaneous fall of the return earned on BRH bonds, and a decrease in bank lending rates.** In the latter case, the negative shock is chosen to match the March 2001-March 2002 episode, when lending rates fell by more than 26 percent, from 16.5 to 12 percent. For BRH bonds, it is assumed that rates gradually decrease from 14.5 to 5.1 percent. The magnitude of such a shock matches the July 2004-July 2005 period, when average BRH bond rates decreased by 9.3 percentage points.

7. **Exposures to an increase in operating costs have been addressed in a stress test of banks' occupancy cost.** These could be due to sudden deterioration in the security environment or an increase in energy prices, with adverse effects on banks' expenses for in-house power generation. The shock to operating cost is simulated in the framework of an income/expense model, and calibrated using econometric estimates of the elasticity of occupancy costs to energy prices.



Source: Staff calculations based on data provided by Haitian authorities

C. Scenarios

8. **The macroeconomic background for scenario A combines an increase in economic activity with lower inflation and a decreasing need for BRH liquidity absorption.** An acceleration in GDP growth would, on the financial side, be mirrored in a stronger demand for bank credit. On the supply side, a sustained economic recovery could lead to a relaxation of lending restrictions. Increased macro stability is likely to lead to an increase in money demand, reducing the need to mop up excess liquidity. The resulting decline in the attractiveness of risk-free bonds would support a strong credit expansion and,

assuming insufficient upgrading of credit risk management practices, a transitional decline in credit quality. The calibration is based on the single-risk factor shocks above, with adjustments for past correlations between interest rates, credit growth and NPLs:

- A gradual decrease in the BRH auction rate for 91-day bonds by 9.4 percentage points, combined with a gradual decrease in the average lending rate charged by banks (by 3.1 percentage points).
- A decrease in the stock of BRH bonds by 50 percent, and the replacement of bonds by an increase in credit of the same magnitude.
- A shock to asset quality, consisting of an increase in the ratio of NPLs to gross loans to the 2005 level, corresponding to a 21 percent increase from current levels.

9. **Scenario B assumes a drop in inflows of official transfers, leading to a pronounced depreciation.** It was implemented as a combination of the following shocks:

- A depreciation of the gourde against the U.S. dollar, the size of which is based on the respective single risk factor shock above.
- A decrease in credit quality, resulting from the default of companies whose financial health depends on dollar receipts, or the price to which they exchange gourde income streams into dollars. Its magnitude is derived from a pooled panel regression, suggesting that a one percentage point increase in the depreciation rate leads to an increase in NPLs by 1.3 percent.
- A shock in funding cost, calibrated with reference to the depreciation episode between 2002 and 2003, when the maximum rate on term deposits rose from 4.5 percent in October 2002 to 6.75 percent in October 2003.

D. Results

10. **The system appears able to withstand most single risk factor shocks, although portfolio concentration and related credit risk constitute a major source of vulnerability for most banks** (Table 4):

- Neither a depreciation nor an appreciation of the gourde would lead to a substantial deterioration in capitalization, as banks seem to manage market risks resulting from asset and liability dollarization.
- A surge in banks' operational costs would have a small but palpable effect in aggregate. Some smaller banks seem to be exposed to a pronounced increase in such costs, and aggregate profitability would fall by 43 percent.
- Most banks appear to be able to manage a migration from low-risk to risky assets. However, the fact that the impact may affect primarily the larger banks raises the need for close supervisory monitoring of this risk.

- A decline in interest rates would, on its own, probably not raise systemic risks, as large banks' capital buffers would likely be sufficient. Still, the reduction in profitability would be substantial, with average ROE falling by about 60 percent.
- A deterioration in asset quality would severely affect most banks. It would lead to a substantial drop in aggregate capital ratios and to undercapitalization for a group of smaller banks.
- Among credit risks, exposures due to loan portfolio concentrations are the main source of concern. The above results likely underestimate the underlying vulnerabilities, as they assume no haircuts on the collateral securing the loans to the largest borrowers. If haircuts were taken into account, the capital loss would increase accordingly, and may reach more than 50 percent of the system's capital in a worst-case scenario of complete collateral loss. In this case, three banks would not meet the minimum requirement for capital adequacy.

11. **Scenario analysis suggests that the system is vulnerable to a major external shock and the potential impact of a transition from a financially repressed to a more dynamic environment**:

- Scenario A reflects episodes in other emerging market and developing countries that have experienced the combination of a normalization of financial conditions, decline in interest rates, and subsequent credit boom. The results indicate that banks would need to ramp up their credit risk management capacities and capital buffers substantially to safely maneuver through such a transition.

- Scenario B captures vulnerabilities resulting from asset and liability dollarization, concentrated lending to businesses sensitive to exchange rate pressures, and the sensitivity of the population to expectations of exchange rate depreciation. It takes into account funding liquidity risks associated with a shift from gourde to dollar deposits, reflecting further depreciation expectations. While the direct effects of the depreciation itself would be minor, the likely impact on asset quality and depositor confidence would seriously affect banks' capital positions.

Table 4. Summary of Stress Test Results

	Banking System as of end-FY-2006			Banking System Adjusted for BNC/Socabank	
	Regulatory Capital to Risk-Weighted Assets		Number of Banks Pushed Below Statutory CAR [1/]	Regulatory Capital to Risk-Weighted Asset	
	Weighted Average for Banking System (In percent)	Median (In percent)		Excluding Additional Provisioning for BNC (In percent)	Including Additional Provisioning for BNC (In percent)
Individual Stress Tests	*Direct impact of shocks on regulatory capital*				
Exchange rate risk	13.7	15.2	0	17.0	15.7
Change (in percentage points)	*-0.6*	*-0.2*	...	*-0.6*	*-0.6*
Interest rate risk	11.5	13.3	0	15.0	13.6
Change (in percentage points)	*-2.8*	*-2.1*	...	*-2.6*	*-2.6*
Credit risk: Increase in NPLs	9.4	10.1	2	12.7	10.0
Change (in percentage points)	*-4.9*	*-5.3*	...	*-4.9*	*-6.3*
Credit risk: Reclassification	10.6	11.6	1	14.3	11.7
Change (in percentage points)	*-3.8*	*-3.8*	...	*-3.3*	*-4.6*
Concentration related credit risk	10.3	11.7	1	14.9	13.6
Change (in percentage points)	*-4.1*	*-3.8*	...	*-2.7*	*-2.7*
Shocks to operational costs	12.3	12.7	1	15.5	14.3
Change (in percentage points)	*-2.1*	*-2.7*	...	*-2.1*	*-2.0*
Migration of assets	11.6	13.1	0	14.3	13.2
Change (in percentage points)	*-2.8*	*-2.3*		*-3.3*	*-3.1*
Scenario Analysis	*Direct impact of shocks on regulatory capital*				
Scenario A	7.8	10.1	2	11.0	8.7
Change (in percentage points)	-6.5	-5.3	...	*-6.6*	*-7.6*
Scenario B	6.1	7.0	2	10.9	8.3
Change (in percentage points)	-8.3	-8.4	...	*-6.7*	*-8.0*
	Impact taking into account buffer provided by current year profits				
Scenario A	11.2	12.3	1	14.2	11.5
Change (in percentage points)	-3.1	-3.1	...	*-3.4*	*-4.7*
Scenario B	11.1	8.5	2	14.6	11.6
Change (in percentage points)	-3.3	-6.9	...	*-3.0*	*-4.7*

Source: Staff estimates using data provided by the central bank.

[1/] This column does not include the banks whose CARs were already below the statutory minimum in September 2006.

APPENDIX II. STATISTICAL APPENDIX

Table 1. Haiti: Financial System Structure, December 2006

	Size 1/			Ownership 2/			Total
	Large	Medium	Small	Public	Domestic	Foreign	
Number of institutions							
Commercial banks	2	3	4	2	5	2	9
Savings and housing credit institutions	0	0	1	0	1	0	1
Total	2	3	5	2	6	2	10
Percent of system assets							
Commercial banks	61.4	22.6	13.0	18.8	70.7	7.5	96.9
Savings and housing credit institutions	0.0	0.0	3.1	0.0	3.1	0.0	3.1
Total	61.4	22.6	16.1	18.8	73.8	7.5	100.0

Source: Based on statistics published by the Banque de la République d'Haïti.
1/ Defined by assets size: Large ≡ > US$400 million; Medium ≡ US$100 million to US$400 million; Small ≡ < US$100 million.
2/ Defined by majority control of shares.

Table 2. Haiti: Summary Balance Sheet of the Banking System, December 2005-2006

	Assets			
	(In millions of US$) 1/		Composition	Growth
	2005	2006	(In percent)	(In percent)
Assets				
Cash and central bank bonds	779.2	881.8	45.2	13.2
Loans, net	567.2	582.7	29.9	2.7
Other assets	467.2	486.4	24.9	4.1
Total	1,813.6	1,950.9	100.0	7.6
Liabilities and Equity				
Deposits	1,528.9	1,617.8	82.9	5.8
Other liabilities	188.4	219.2	11.2	16.4
Equity	96.3	114.0	5.8	18.3
Total	1,813.6	1,950.9	100.0	7.6
Nonperforming loans	82.9	67.7		-18.3
Provisions	43.1	60.1		39.5

Source: Based on statistics published by the Banque de la République d'Haïti.
1/ The figures for both years were converted from gourdes at the same end-2006 exchange rate of 37.5914 gourdes/US dollar.

Table 3. Haiti: Aggregate Financial Soundness Indicators of the Banking System, 2002-June 2007
(In percent)

	2002	2003	2004	2005	2006	Apr-Jun 2007
Size and growth						
Asset volume (in US$ millions, end of period) 1/	936.6	1347.8	1487.9	1750.7	1929.1	2005.3
Credit/GDP (percent)	12.9	13.5	12.2	12.3	10.2	…
Deposits/GDP (percent)	32.1	35.8	34.2	33.8	30.6	…
Credit growth (net) from year before (percent)	15.1	33.7	5.1	5.6	13.7	7.0
Capital adequacy						
Regulatory capital to risk-weighted assets	...	...	...	16.5	14.3	19.1
Capital (net worth) to assets	5.4	5.4	5.3	5.0	5.3	7.2
Asset quality and composition						
Loans (net) to assets	34.5	31.9	30.5	31.5	28.2	28.7
NPLs to gross loans	6.5	5.5	7.4	12.4	11.1	11.6
Provisions to gross loans	5.5	5.4	6.2	6.1	9.9	7.6
Provisions to gross NPLs	84.4	96.8	82.9	49.1	89.3	65.6
NPL less provisions to net worth	6.8	1.1	7.8	42.2	7.0	17.3
Earnings and profitability (annualized)						
ROA	1.0	1.9	0.8	0.7	1.8	1.8
ROE	16.9	35.0	15.1	12.8	34.2	25.6
Net interest income to gross interest income	67.2	65.7	55.1	71.8	72.2	69.3
Operating expenses to net profits	79.3	69.4	79.9	80.5	70.7	69.3
Operating expenses to total expenses	69.4	63.5	58.7	75.5	70.5	66.7
Spread between lending and deposit rates	14.9	17.0	14.9	11.9	11.7	…
Liquidity						
Liquid assets to total assets 2/	47.4	45.0	46.5	43.6	45.3	46.1
Liquid assets to deposits 2/	55.3	53.0	54.1	50.5	54.5	56.0
Market risk						
Foreign currency loans to total loans (net)	...	...	...	59.3	66.0	65.7
Foreign currency deposits to total deposits	...	50.9	47.3	52.6	53.6	50.8

Source: Based on statistics published by the Banque de la République d'Haïti.
1/ The figures for all years were converted from gourdes at the same 12/31/06 exchange rate of 37.5914 gourdes/US dollar.
2/ Liquid assets comprise cash and central bank bonds.

Table 4. Haiti: Financial Soundness Indicators of Individual Banks, June 2007

(In percent; unless otherwise stated)

	Sogebank	Unibank	BNC 1/ 2/	Citibank	Capitalbank	BUH	Sogebel 3/	Scotia	BPH 1/	**System**
Size and growth										
Asset volume (in US$ millions)	636.7	587.0	333.8	105.7	100.7	81.4	65.5	64.3	30.3	**2,005.3**
Deposit volume (in US$ millions)	557.3	498.6	247.1	67.4	84.6	72.6	50.4	48.2	23.2	**1,649.5**
Market share (in percent of asset volume)	31.8	29.3	16.6	5.3	5.0	4.1	3.3	3.2	1.5	**100.0**
Asset growth since year before	16.0	6.7	67.9	19.8	6.3	5.7	8.9	17.5	-6.7	**7.5**
Credit growth (net) since year before	16.8	1.5	186.1	20.3	-1.7	12.7	14.7	35.4	3.6	**7.0**
Capital adequacy										
Regulatory capital to risk-weighted assets	14.5	22.4	26.3	15.7	15.9	11.3	26.4	17.7	2.7	**19.1**
Capital (net worth) to assets	5.6	8.5	9.3	5.8	6.7	1.8	10.9	6.7	7.6	**7.2**
Asset quality and composition										
Loans (net) to assets	25.1	26.2	34.6	53.1	34.5	29.7	42.2	56.7	34.6	**28.7**
NPLs to gross loans	5.4	0.6	50.6	0.0	2.8	12.4	7.2	9.9	30.0	**11.6**
Provisions to gross loans	6.3	1.5	22.6	3.2	2.8	8.5	4.9	5.0	30.0	**7.6**
Provisions to gross NPLs	116.8	257.5	44.7	N.A.	100.2	68.7	68.2	51.0	99.9	**65.6**
NPLs less provisions to net worth	-4.4	-3.1	84.8	-29.9	0.0	71.1	10.6	42.8	0.2	**17.3**
Earnings and profitability (cumulative Apr. 07–Jun. 2007)										
ROA	1.4	1.8	2.1	1.4	1.0	-0.4	1.8	8.0	4.8	**1.8**
ROE	25.6	21.3	23.4	25.0	15.2	-21.7	17.0	128.8	65.2	**25.6**
Net interest income to gross interest income	63.5	65.7	71.9	66.2	81.6	82.0	58.7	89.1	70.9	**69.3**
Operating expenses to net profits	71.1	65.8	69.4	52.8	84.6	94.8	50.1	59.9	60.2	**69.3**
Operating expenses to total expenses	64.8	64.9	69.3	43.7	84.6	88.6	40.0	74.4	77.9	**66.7**
Liquidity										
Liquid assets to total assets 4/	44.9	42.0	55.9	44.5	46.1	46.0	50.0	38.5	56.7	**46.1**
Liquid assets to deposits 4/	51.3	49.4	75.5	69.8	54.9	51.5	64.8	51.2	74.0	**56.0**
Market risk										
Foreign currency loans to total loans (net)	63.7	78.2	56.1	86.3	58.4	45.2	72.7	31.8	37.7	**65.7**
Foreign currency deposits to total deposits	53.2	57.0	29.7	73.5	56.9	37.0	73.5	29.1	36.5	**50.8**

Source: Based on statistics published by the Banque de la République d'Haïti.

1/ State-owned bank 2/ BNC absorbed Socabank in March 2007. 3/ Savings and housing credit institution affiliated to Sogebank. 4/ Liquid assets comprise cash and central bank bonds.