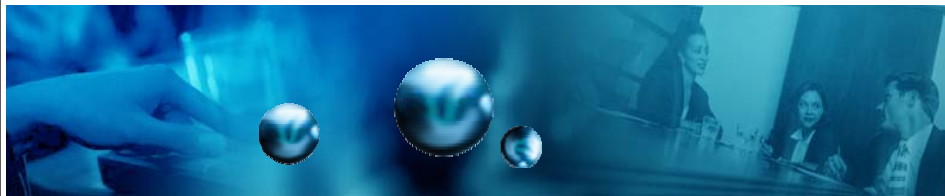
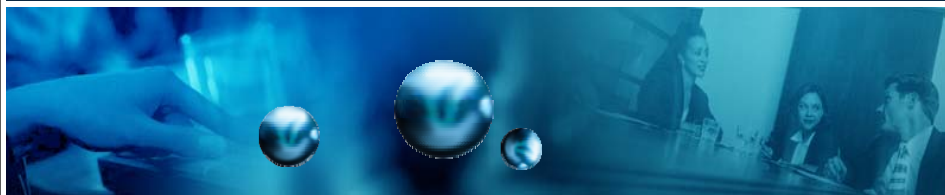


7th DFI Corporate Governance Group Meeting



**6-7 February 2013
Manila, Philippines**

BUSINESS CASE PROPOSAL



**VASSILIS CHRISTAKIS
*BSTDB***


Integrating CG in investment operations

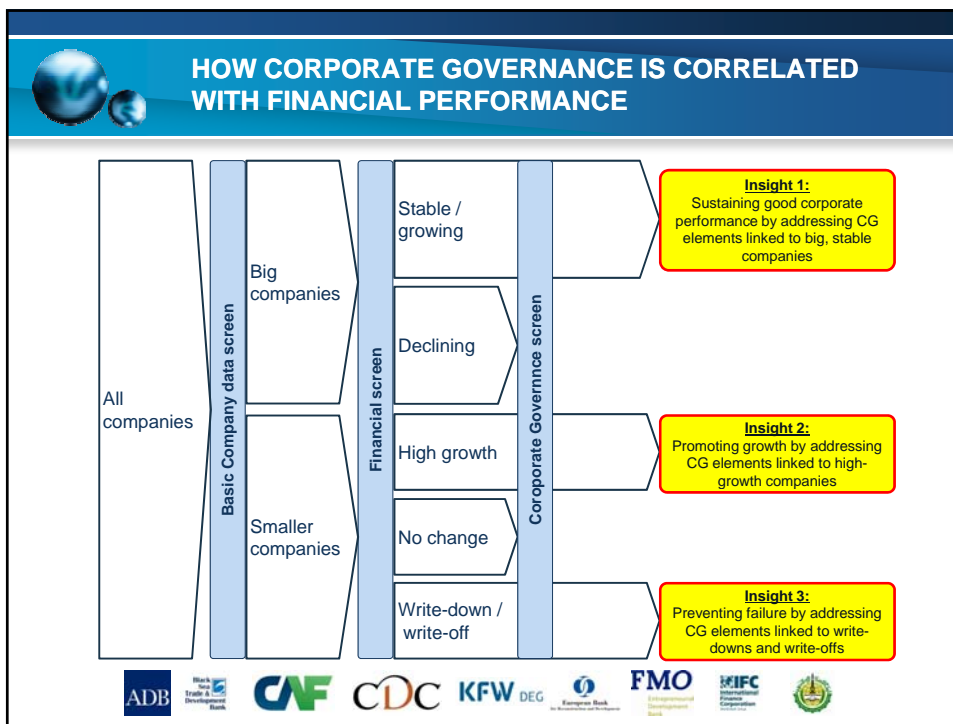
- Do you undertake CG due diligence for all operations or for “pilot” operations only?
- Do you follow the DFI methodology (questionnaire, progression matrix etc.)
- Do you undertake CG assessment (risk mitigation) only or do you create CG action plans (advisory) as well?
- Do you undertake a different approach when dealing with loan and equity operations?
- How do you monitor CG developments, esp. when you have an action plans?
- What are the major impediments to successfully implementing CG due diligence in your operations?



GATHERING KEY INFORMATION FROM INVESTMENT PORTFOLIOS

What information/input is needed?	Why, i.e. how is this information helpful?
<p>Basic company data...</p> <ul style="list-style-type: none"> • Country • Sector • Stage • Size • Ownership 	<p>...to enable comparison of peers – by country and/or sector and/or size etc.</p>
<p>Corporate Governance information...</p> <ul style="list-style-type: none"> • Questionnaire • Matrix assessment 	<p>...to understand the level of corporate governance and progress made</p>
<p>Financial performance data...</p> <ul style="list-style-type: none"> • IRR • Write-downs • Write-offs 	<p>...to correlate good and poor financial performance...</p> <ul style="list-style-type: none"> • ...with level and progress of corporate governance, and... • ...with relevant peers, by country, sector, stage etc





SUGGESTED DATA TO BE COLLECTED

Company data

- Name (unless anonymised)
- Country
- Sector
- Number of employees
- Years of operation
 - Ownership/structure
 - Family owned
 - Private/not family owned
 - Public/listed
 - State Owned Enterprises (SOEs)
- Investing DFI
- Year of investment / disbursement of loan
- Year of exit / repayment of loan
- Non-DFI co-investors

Financial performance

- Total assets
- Net profit
- Equity
- Revenue/sales
- EBITDA
- IRR
- Exit multiple (only for equity)
- Cost of capital
- Write-down
- Write-off

Corporate Governance

- CG Matrix and Questionnaire

BUSINESS CASE-ROSTER OF CG EVALUATED FIRMS																		
NAME	COUNTRY	PRODUCT	Number of employees	Years of operation	Ownership Structure	DFI Involved	Year of Operation	Loan Maturity	1. Board structure and function	2. Risk management and controls	3. Financial disclosures	4. Minority shareholders	5. Commitment	TOTAL SCORE (max:50)	Gross Loans / Deposits	ROA	ROE	Equity / RWA
									RISK (max: 10)	RISK (max: 10)	RISK (max: 10)	RISK (max: 10)	RISK (max: 10)					
Bank A	Georgia	Short-term Trade Finance Facility	244	19	Private	EBRD	2012	2013	6	10	3	3	10	32.00	73.58	2.22	13.90	16.96
Bank B	Russia	Bank to Bank Loan for SME financing purposes	1484	18	Private	IFC	2012	2016	3	6	6	4	6	25.00	122.93	1.88	15.80	15.03
Bank C	Georgia	Revolving and committed Trade Finance Facility	477	13	Private	-	2012	2013	3	6	6	3	6	24.00	85.46	1.28	5.40	19.35
Bank D	Armenia	Loan for Mortgage Financing	>1000	10	Private	IFC	2012	2019	10	10	6	3	3	32.00	96.02	1.80	8.25	23.83
Bank E	Armenia	Loan for SME Financing	917	8	Private	-	2012	2017	1	1	6	6	N/A	14.00	183.33	1.10	5.87	18.62
Bank F	Azerbaijan	Medium-term SME Facility	127	17	Publicly listed	-	2012	2017	3	6	3	3	3	18.00	123.27	2.07	10.24	21.21



METHODOLOGY	
<ul style="list-style-type: none"> Collected all Financial Institutions (Banks) that were presented for final approval after BSTDB adopted the Framework and changed its Operations Manual (Sept. '11) to mandate that "The Operation Leader sends the corporate governance questionnaire to the client for completion. The Operation Leader then reviews the corporate governance information submitted and prepares a corporate governance review. If the Operation Leader determines that a deeper corporate governance analysis is necessary, a request is made to Project Implementation and Monitoring Dept. to provide a corporate governance assessment, or to provide assistance in hiring external specialist consultants as necessary." Used the CG progression matrix to evaluate the CG questionnaires of eleven Financial Institutions based on the idea that points are given according to the level, that is if at level 1, you get one point, at level 2, two points, at level 3, three points, and at Level 4, four points. Responses from the Questionnaire were used to place a Bank on a certain level on the Progression Matrix, even if not all requirements of that level were fulfilled, depending on if certain key requirements from each Level were met. As this approach is somewhat subjective, we used two separate persons to grade each company who then compared their evaluations and decided together if the relevant grades for a certain level should be awarded or not. The evaluators were Vassilis Christakis, CG coordinator, and Mariangela Stavridi, an MBA graduate, who worked as an intern in the department As a principle, we did not give grades for a certain level if the previous level was not given a grade (no 4 without a 3) Then, we collected all IFRS financial statements for 2011 for these companies (IFRS statements are a BSTDB requirement), consulted with the Financial Analysis dept. and came up with a capital adequacy ratio (equity to risk-weighted assets), two efficiency ratios (return to equity and return to assets), and a liquidity ratio (gross loans to deposits). To this, we added attributes of each bank such as number of employees, years of operation, country of operation (headquarters), type of ownership (private or listed) as well as when did BSTDB's facility become available, the type and tenor of the facility as well as if any other IFI is a shareholder. Proposal: to verify this methodology with the Signatories and if there is sufficient interest to form a working group that could elaborate further and start adding banks and relevant figures to the roster. It was found easier to deal with banks rather than companies as the difference between economic sectors (i.e. shipping vs manufacturing) does not allow for meaningful financial indicators. The methodology would have to be verified by an external specialist (consultant or academic institution) as to its reliability and would have to be complemented from the early stages with the various regression analysis that are envisage. 	



PROGRESSION MATRIX

CG Attribute	Area	YES / NO	Weighting against Progression Matrix	Score
A. Commitment to Corporate Governance	- The company has a charter or articles of incorporation, with provisions on: - the protection of shareholder rights and the equitable treatment of shareholders, - the distribution of authority between the Annual General Meeting of Shareholders, the Board	YES	1	1
	- The company has a written code of ethics approved by the Board of Directors.	NO		
	- The company has a designated officer responsible for ensuring compliance with the company's corporate governance policies and also has a compliance officer responsible for ensuring compliance with its code of ethics.	YES	2	2
	- Management/Board of Directors approves annual calendar of corporate events (Board meetings, General Shareholders' Meeting, etc.).	NO		
	- The company has a written corporate governance code.	NO	3	0
	- The company periodically discloses to shareholders its corporate governance code and practices and the extent to which such practices conform to the country's voluntary code of best practices, if applicable.	NO		
	- Applicable corporate governance, accounting, external and internal auditing, internal controls, and shareholder information practices are equivalent to those in place at best practice public companies (i.e., little would need to be done to qualify to ma	NO	4	0
	- The company fully complies or explains any deviations from all applicable provisions of the voluntary code of best practices of the country (some elements of which may be applicable only to public companies).	NO		

PROGRESSION MATRIX


CG Attribute	Area	YES / NO	Weighting against Progression Matrix	Score
B. Structure of the Board of Directors	- The Board of Directors is constituted, meets periodically and deliberates independently of executive management.	YES	1	1
	- Board members are given sufficient information and time to prepare for Board meetings. Board members exercise their duties of management oversight and developing the company's direction and strategy.	YES		
	- The Board includes members who are neither executives of the company and its affiliates, nor controlling shareholders.	YES	2	2
	- Board meetings are held according to a regular schedule (at least 4 times a year), the agenda is prepared in advance, and minutes are recorded and approved.	YES		
	- Board composition (competencies / skill mix) is adequate for its strategy and oversight duties.	YES		
	- The Board of Directors has an Audit Committee - chaired by an independent Director, - composed of a majority of independent Directors; - includes at least one financial expert; and - all members should be at least financially literate.	YES	3	3
	- The Board of Directors and executive management receive induction and regular training.	NO		
	- The Board of Directors is elected on a regular basis.	YES		
	- The Board of Directors is composed of a majority of independent Directors.	NO		
	- The audit committee is composed entirely of independent Directors.	NO		
	- The Board has a Nominating Committee.	NO		
	- The Board has a Compensation Committee.	NO		
	- The Board of Directors is elected annually.	NO		
	- The performance of the Board as well as each individual director is reviewed annually.	YES	4	0
	- The company has an established succession plan for the CEO.	NO		

PROGRESSION MATRIX

CG Attribute	Area	YES / NO	Weighting against Progression Matrix	Score
C. Control Environment and Processes	- An adequate internal control system is in place, documented and periodically reviewed by an independent internal audit function.	YES	1	1
	- The internal control system is in accordance with the highest national standards.	YES		
	- The internal audit function is established and is in accordance with the highest national standards.	YES		
	- The Board of Directors approves and regularly monitors the company's risk management and compliance policies and procedures.	YES	2	2
	- The company has a comprehensive compliance program that is annually reviewed.	NO		
	- The internal audit function is independent and overseen and reports directly to the Audit Committee.	YES	3	3
	- The internal controls system and the internal audit function are risk-based and in accordance with highest international standards.	NO	4	0


PROGRESSION MATRIX

CG Attribute	Area	YES / NO	Weighting against Progression Matrix	Score
D. Transparency and Disclosure	Financial statements are prepared in accordance with the highest national accounting standards, and audited by a recognized independent external auditing firm.	YES	1	1
	The company complies with all disclosure requirements under applicable law, regulations and listing rules (fair disclosure).	YES		
	Shareholders are provided with information and documentation upon their request and as specified by applicable law.	YES		
	The company prepares and presents all financial statements and reporting in accordance with a widely accepted, internationally recognized system of accounting (IFRS or U.S. GAAP).	YES	2	2
	The company's financial statements are audited in accordance with International Standards on Auditing.	YES		
	The company discloses information on: - Affiliated parties and the affiliation of members of the Board of Directors; and - In meetings of the Board of Directors and Annual General Meeting of Shareholders.	NO		
	All disclosure to and communications with shareholders (e.g., materials for the shareholders' meetings, minutes of the most recent meetings etc.) are made available on the internet in a timely fashion.	NO		
	The company discloses information on the remuneration of the members of the Board of Directors and senior management.	NO		
	The company publishes a comprehensive annual report that includes a corporate governance section.	NO	3	3
	The company rotates its external auditors or at least rotates its audit engagement partner.	YES		
	The company discloses its beneficial owners.	YES		
- Financial and non-financial disclosure practices are in accordance with highest international standards.	YES	4	4	



PROGRESSION MATRIX

CG Attribute	Area	YES / NO	Weighting against Progression Matrix	Score
E. Rights of Minority Shareholders	- Minority shareholders are provided with adequate notice and an agenda of the shareholders' meetings, and are permitted to participate and vote at such shareholders' meetings. All shareholders' meetings are convened at an easily accessible location.	YES	1	1
	- All shareholders of the same class are treated equally with respect to voting rights, subscription rights and transfer rights.			
	- Shareholders are provided with accurate and timely information regarding the number of shares of all classes held by controlling shareholders and their affiliates (ownership concentration).			
	- Shareholders have the opportunity to propose items to the agenda and to ask questions at the shareholders' meetings.			
	- Effective representation of minority shareholders is provided by cumulative voting or similar mechanisms.	YES	2	2
	- The company has a well understood policy and practice of full and timely disclosure to shareholders of all material transactions with affiliates of the controlling shareholders, directors or management (conflicts of interest).			
	- The company has a dividend policy which is disclosed to shareholders.			
	- The company has effective shareholder voting mechanisms in place to protect minority shareholders against unfairly prejudiced actions of controlling shareholders where ownership is especially concentrated or controlling shareholders have strong conflict.			
	- The company has clearly articulated and enforceable policies with respect to the treatment of minority shareholders in changes of control situations (tag-along rights).	YES	3	3
	- The annual report clearly discloses the principal risks to minority shareholders associated with the identity of the company's controlling shareholders; the degree of ownership concentration; cross-holdings among company affiliates.			
	- The company pays dividends shortly after a decision to declare dividends is made.			
	- Shareholders have the opportunity to use electronic means of communication (including the internet) for voting.			
	- The company has a system of registering shareholders complaints and effectively regulating corporate disputes.			
	- The company's history of equitable treatment of shareholders demonstrates consistent conformance with international market expectations.			
- The company has a well understood policy and practice of full and timely disclosure to shareholders of all material shareholder agreements.	NO	4	0	



Title



Name

Designation, Company

