

8th DFI Corporate Governance Group Meeting



March 4-6, 2014
Washington, D.C.

'BUSINESS CASE UPDATE'



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Black Sea Trade and Development Bank



BUSINESS CASE UPDATE

- Following Manila, a sub-working was formed with BSTDB (coordinator), IFC, FMO, CDC, IIC as members
- Task: Score about 50 financial institutions, which working group members have invested in/lent to
- Scoring methodology as per FMO methodology with few changes
- Methodology approved by WG in November 2013
- Different from earlier one used in BSTDB pilot





BUSINESS CASE UPDATE

Corporate Governance (CG) Rapid Risk Screening Tool for banks, non-banking financial institutions or corporate microfinance entities		Evaluate each category separately: three to five 'true' lead to a '1' one to two 'true' lead to a '2' zero 'true' leads to a '3'. Each 'unknown' counts as 'true'. Statements need to be answered based on today's facts and not future assumptions.	
Client name:			
Topic	EVALUATION	RESULT	
Commitment to CG			
The FI is owned by an individual, directly or indirectly, that could dominate the decision-making process at the (supervisory) board or management level.		No Data	
The management/supervisory board does not approve an annual calendar of corporate events			
There is room to believe that political influence is exercised at the (supervisory) board or management level.			
There is no company code of ethics or CG Code			
The FI has not assigned responsibility for CG internally (e.g., to a corporate secretary).			
Structure and Functioning of the Board of Directors			
The (supervisory) board is unusually large (more than 15 members) or unusually small (less than six members).		No Data	
The (supervisory) board has non-executive directors but the majority of these non-executives are not independent.			
The (supervisory) board has neither one audit and risk committee nor a separate committee for each, audit and risk.			
The (supervisory) board gets involved in day-to-day or other operational issues.			
The (supervisory) board meets less than four times or more than 12 times a year.			
Control Environment and Processes			
There is no proper internal audit function and a Board Audit Committee ensuring appropriate internal controls and compliance with relevant laws and regulations		No Data	
There is no proper risk management (for credit, market, liquidity, and operation risks) or compliance program for training, auditing, and monitoring systems and reporting violations			
The internal auditor and head of risk function (CRO) only have access to management and not to either a combined audit and risk committee or separate audit and risk committees (at the board)			
The external auditor does not issue management letters			
The audit committee is not comprised of a majority of independent directors or is not chaired by an independent director			
Transparency and Disclosure			
The financial statements are audited by a 'weak' auditor.		No Data	
The independence or quality of external audits is not sufficient because the external auditor has been engaged since many years or provides other significant services.			
The audit opinion has been qualified in the past five years, or there have been material restatements.			
Only local accounting standards are applied.			
No information on the (supervisory) board is available beyond their names with regards to experience, skills and other board seats (in the annual report or website).			
Shareholders Rights			
There are pyramid structures, cross-holdings or other complex shareholding arrangements.		No Data	
Different share classes or differences between cash flow and voting rights exist.			
The FI has no policies with respect to treatment of minority shareholders			
There are other business activities of shareowners or members of the (supervisory) board that pose potential conflicts of interest.			
There is no up-front and independent approval by the (supervisory) board or its audit committee on intra-group and related party transactions.			
No other remarks			
Done by:			





BUSINESS CASE UPDATE

Commitment to CG

The FI is owned by an individual, directly or indirectly, that could dominate the decision-making process at the (supervisory) board or management level.

The management/supervisory board does not approve an annual calendar of corporate events

There is room to believe that political influence is exercised at the (supervisory) board or management level.

There is no company code of ethics or CG Code

The FI has **not** assigned responsibility for CG internally (e.g., to a corporate secretary).





BUSINESS CASE UPDATE

Structure and Functioning of the Board of Directors

The (supervisory) board is unusually large (more than 15 members) or unusually small (less than six members).

The (supervisory) board has non-executive directors but the majority of these non-executives are **not** independent.

The (supervisory) board has **neither** one audit and risk committee **nor** a separate committee for each, audit and risk.

The (supervisory) board gets involved in day-to-day or other operational issues.

The (supervisory) board meets **less than** four times **or more than** 12 times a year.





BUSINESS CASE UPDATE

Control Environment and Processes

There is no proper internal audit function and a Board Audit Committee ensuring appropriate internal controls and compliance with relevant laws and regulations

There is no proper risk management (for credit, market, liquidity, and operation risks) or compliance program for training, auditing, and monitoring systems and reporting violations

The internal auditor and head of risk function (CRO) only have access to management and **not** to either a combined audit and risk committee or separate audit and risk committees (at the board)

The external auditor does not issue management letters

The audit committee is not comprised of a majority of independent directors or is not chaired by an independent director





BUSINESS CASE UPDATE

Transparency and Disclosure

The financial statements are audited by a 'weak' auditor.

The independence or quality of external audits is **not** sufficient because the external auditor has been engaged since many years or provides other significant services.

The audit opinion has been qualified in the past five years, or there have been material restatements.

Only local accounting standards are applied.

No information on the (supervisory) board is available beyond their names with regards to experience, skills and other board seats (in the annual report or website).





BUSINESS CASE UPDATE

Shareholders Rights

There are pyramid structures, cross-holdings or other complex shareholding arrangements.

Different share classes or differences between cash flow and voting rights exist.

The FI has **no** policies with respect to treatment of minority shareholders

There are other business activities of shareowners or members of the (supervisory) board that pose potential conflicts of interest.

There is **no** up-front and independent approval by the (supervisory) board or its audit committee on intra-group and related party transactions.





METHODOLOGY

- The methodology asks for a true/false answer to the statements. If more than one true/unknowns then marked as “moderate” risk. If equal to or more than three true/unknowns, then “high risk”.
- Once all 50+ FIs have been evaluated, we will examine if the CG scores, per category, and overall, are linked to the company’s performance
- Based on observation and, if possible, some statistical method we are interested to see if we find any evidence that “low”, “moderate”, or “high scores in CG, influence fin’l performance or not





METHODOLOGY

- Two financial scores have been currently selected to measure financial performance:
- Z-score: $(ROA + (\text{equity}/\text{assets})) / \text{standard deviation (ROA)}$
- Impaired loans/total loans
- Return on Assets (ROA)
- The statements has been answered based on information from the CG questionnaires, the Letters of Information that the potential clients send to us and their website.





METHODOLOGY

- For the financial data we used the Bankscope database with data starting from 2005.
- Any institution who is willing to participate in the exercise is invited to join and score its FI clients according to the methodology.
- Up to now, we are open to all FIs without restrictions, except for leasing/factoring companies.
- BSTDB may be able to collect Bankscope data for your FIs, if you so like, on a confidentiality basis.



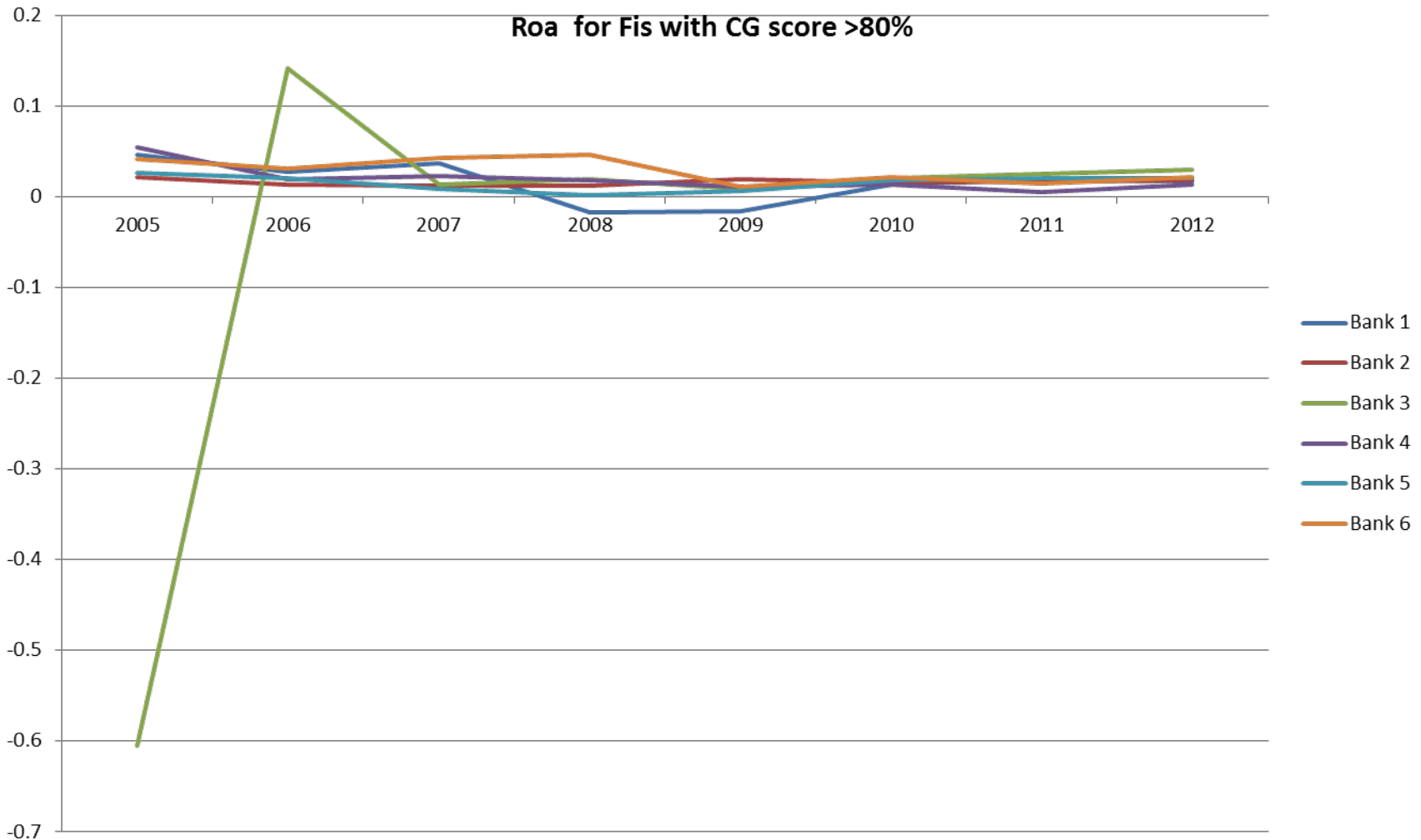


WEIGHTED SCORES

Corporate Governance Assessment												Max Total Score=300 / Min Total Score=100 Weighted Score	Max score=100 / Min Score 50 Weighted Score	Unweighted Score
		10%		30%		30%		20%		10%				
		Commitment to CG 1		Structure and Functioning of the Board of Directors 2		Control Environment and Processes 3		Transparency and Disclosure 4		Shareholders Rights 5				
Bank 3		Moderate	2	Moderate	2	Low	3	Low	3	Low	3	260	86.6	86.6
Bank 6		Moderate	2	Moderate	2	Low	3	Low	3	Moderate	2	250	83.3	80
Bank 7		Moderate	2	Moderate	2	Moderate	2	Low	3	Moderate	2	220	73.3	73.3
Bank 4		Low	3	Low	3	Low	3	Low	3	Low	3	300	100	100
Bank 1		Moderate	2	Moderate	2	Low	3	Low	3	Low	3	260	86.6	86.6
Bank 5		Low	3	Moderate	2	Low	3	Moderate	2	Moderate	2	240	80	80
Bank 15		Moderate	2	High	1	High	1	Moderate	2	Moderate	2	140	46.6	53.3
Bank 11		Moderate	2	Moderate	2	Moderate	2	Low	3	Moderate	2	220	73.3	73.3
Bank 13		Moderate	2	Moderate	2	Moderate	2	Moderate	2	Moderate	2	200	66.6	66.6
Bank 14		Moderate	2	High	1	High	1	Low	3	Moderate	2	160	53.3	60
Bank 2		Low	3	Moderate	2	Moderate	2	Low	3	Low	3	240	80	86.6
Bank 12		Moderate	2	Moderate	2	Moderate	2	Moderate	2	Moderate	2	200	66.6	66.6
Bank 8		Moderate	2	Moderate	2	Low	3	Moderate	2	Moderate	2	230	76.6	73.3
Bank 9		Moderate	2	Moderate	2	Moderate	2	Low	3	Moderate	2	220	73.3	73.3
Bank 10		Moderate	2	Moderate	2	Moderate	2	Low	3	Moderate	2	220	73.3	73.3



FINANCIAL INDICATORS

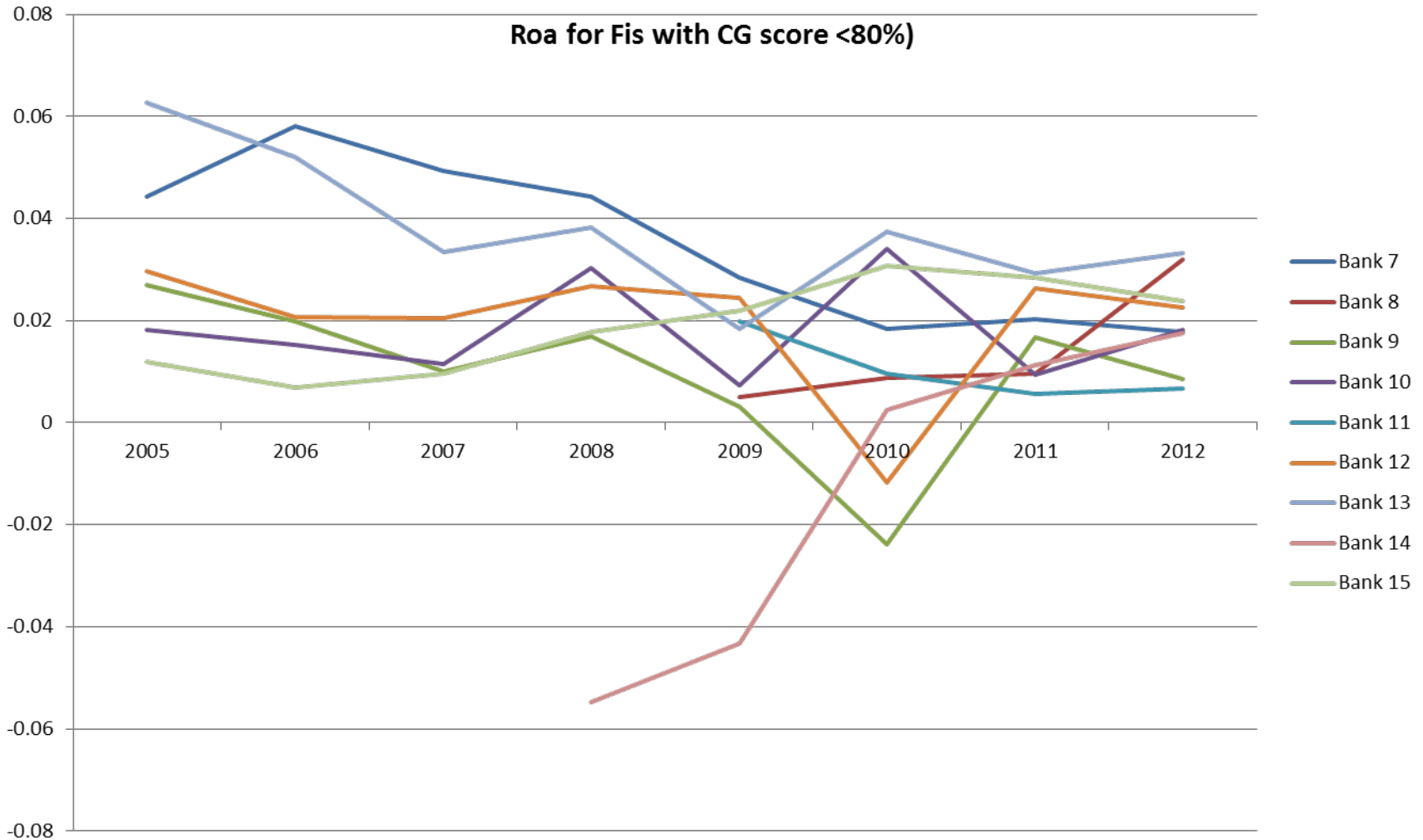


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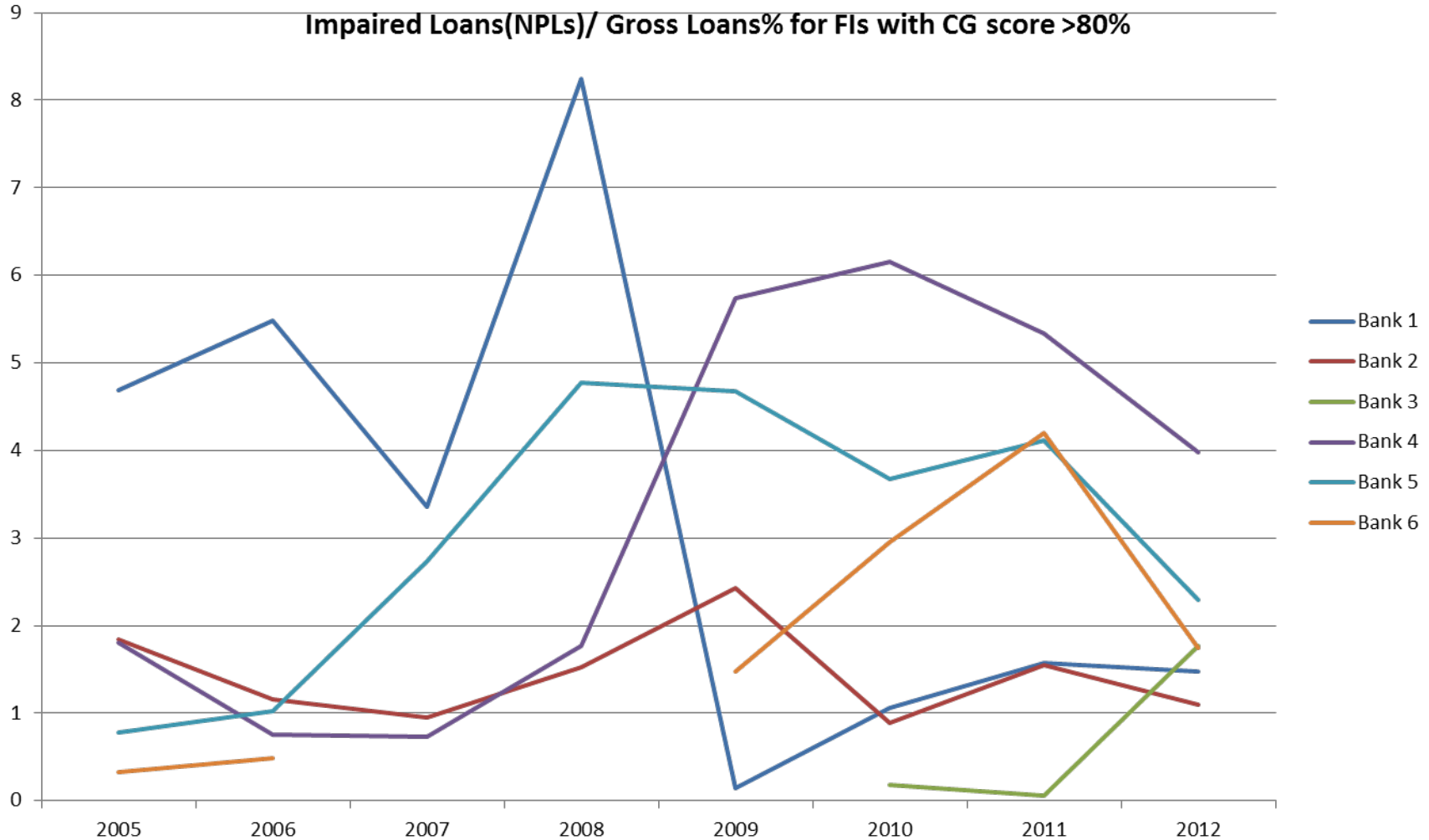


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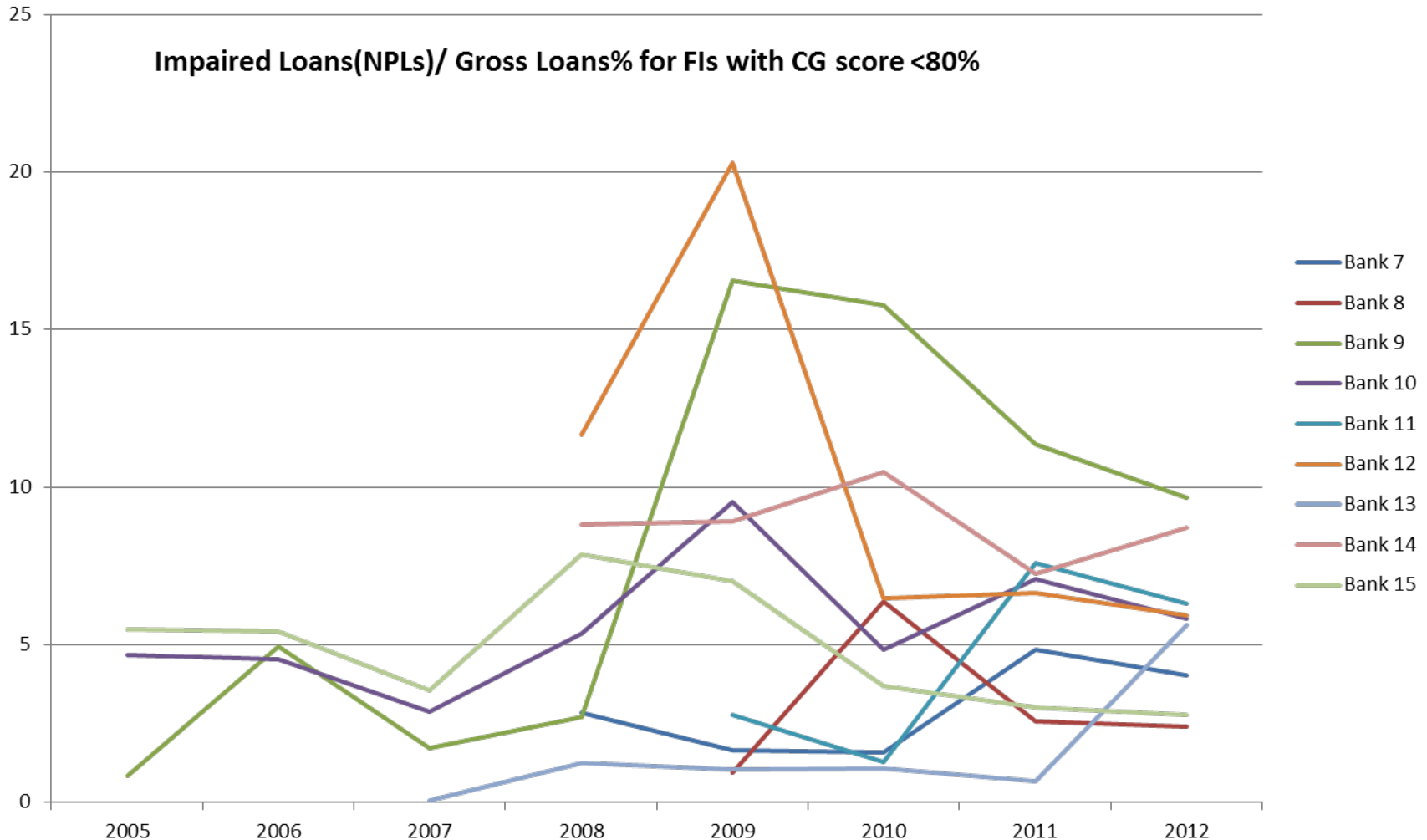


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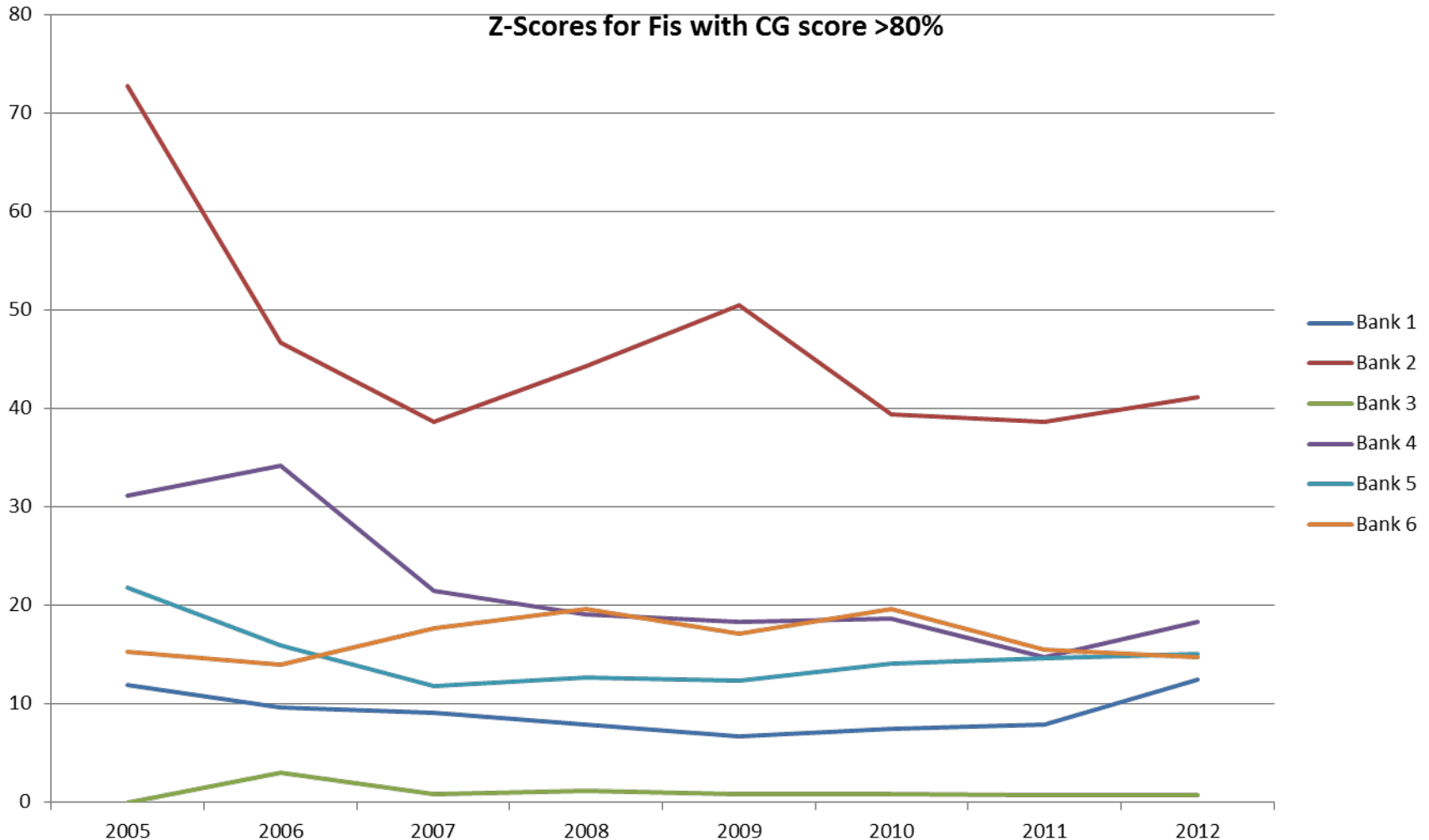


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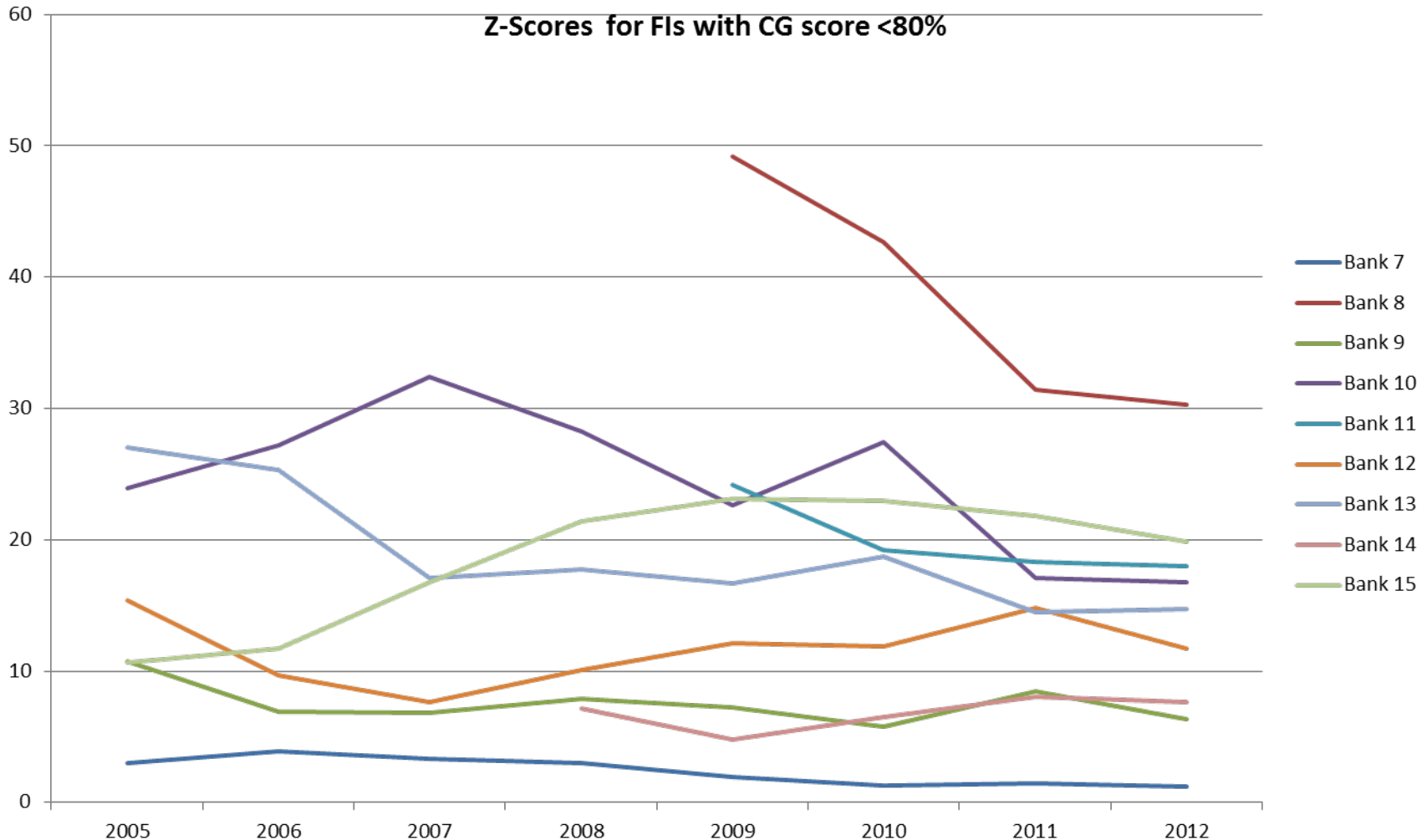


FINANCIAL INDICATORS





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BUSINESS CASE UPDATE

Many thanks! If you want to join, contact me!

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