

**CASE : Corporate Commercial Bank
Bulgaria
prof Bistra Boeva**

- "...it is a very fast changing world right now."

from a letter from one of
my CG friends

Key points

- how to understand corporate governance in the banking sector or about the key elements of a sound corporate governance framework in a bank
- corporate governance and Bulgarian banking sector –basic features
- Corporate Commercial Bank(CCB): from a private bank towards public company or bank's CG development milestones
- How to understand CCB corporate governance practice :from the perspective of OECD and Basel Principles;
- CCB corporate governance from the perspective of the recommendations of EU financial institutions about the post crisis improvements of corporate governance- another perspective
- CCB corporate governance practice from theoretical point of view

key elements of a sound corporate governance framework in a bank

- Well articulated corporate strategy: objectives, risk profile and performance criteria
- Setting and enforcing clear assignments of responsibilities and accountabilities , appropriate for the bank's selected risk profile
- Strong financial risk management (independent of business lines)

key elements of a sound corporate governance framework in a bank

- Adequate internal control system (incl. internal and external audit functions and the financial process with the necessary checks and balances)
- Adequate corporate values, code of conduct and other standards of appropriate behaviour incl. disclosure of conflict of interests
- Appropriate remuneration incentives;
- Transparency and well functioning information flows internally and to the public

Key players in bank' corporate governance or responsibility matrix

Key players	responsibility	importance
shareholders	Appoint BoD/SB ,auditor	Very important
BoD/SB	Set policies, monitor effects	critical
Executive management/MB	Implement P&S Manage day to day operations	critical
AC/internal Audit	Test compliance of Bank policies	critical
External audit	Evaluate & express opinion	Very important

Corporate governance in the banking sector of Bulgaria

- Top down approach: legal framework sets corporate governance principles in the banking sector: Law on credit institutions provides owners and managers with the basics of corporate governance;
- Bulgaria's legislation in synthesis with EU Directives contains a number of corporate governance principle that the Basel Committee recommends;
- Field research into the banking practice in Bulgaria , as well as observance of the legal framework give grounds to conclude that the Basel principles on corporate governance are shared by the corporate board members of Bulgarian Banks irrespective of whether they are publicly floated companies or not.

Corporate governance in the banking sector of Bulgaria

- The few banks with free float that are traded on BSE(official market segment B) comply with the additional requirements for corporate governance imposed by LPOS and they implement BNCCG;
- Majority of foreign owned banks in Bulgaria are positively effected by the standards of corporate governance of their mothers' banks

Corporate Commercial Bank(CCB): from a private bank towards public company or bank's CG development milestones

- 1994 established;
- 1997 became a public company;
- 2009 market share – 3% ;
- Among the first ten banks
- bank from the second tier (first tier- the biggest five banks owned by foreign banks, the second tier- the rest of the banks and the third tier- foreign branches)

Corporate Commercial Bank(CCB): from a private bank towards public company or bank's CG development milestones

- the bank is private owned;
- Concentrated or block-holder governance structure: 57,29% owned by Bulgarian Company Bromac- 3437310 shares (long term investor)
30% owned by Bulgarian Acquisition Company II S.a.r.l(BAC)- 1800000 shares BAC is owned by State General Reserve Fund (SGRF-Oman- private company) 10-12 bln euro-long term(investor)
and the rest 762690 04 12,71 by minority shareholders.
- bank's shares traded on the official market segment B;
- Sofix index-the most liquid shares

Corporate commercial bank

- From IPO in 2007
- To best public company among 100 companies listed on BSE (Dnevnik ranking) for 2008; and
- Award for company with best CG practice for 2008

Best public company for 2008

critierion	2008	2007	Rank 2008/2007
Revenue(BGN mln)	129,4	88,761	29/33
Revenue growth(%)	45,78		23/22
Market cap'on (BGN mln)	390	576,18	5/16
Liquidity(num ber of transactions)	4371	7147	22/15
Profit margin(%)	31,14	26,26	12/19
Profit(BGN mln)	40,298	23,177	7/10

Bank's CG practice: OECD and Basel principles perspective

- Bank's CG practice rests on:
 - Basel principles for corporate governance for banking organization , that are embedded in the National Law for Credit institutions;
 - Law for public offering of securities; and
 - National Code for Corporate governance- the banks boards declare officially that they implement the code on the comply and explain basis. Annual reports disclosed the degree of the implementation

Bank's CG practice: OECD and Basel principles perspective

1. Good disclosure practice

- **pre code history: the prospectus for IPO meets not only the legal requirements** but informs in clear and plain Bulgarian the future investors about their economic, management and controlling rights and the directors and management staff which will operate with their money;
- **state of the art disclosure practice:**
three levels of disclosure system: shareholders' meeting elects the auditor and approves the annual financial report; supervisory board approves the proposal of the management board for the annual financial report and the proposal for profit distribution; management board is responsible for the annual closing of accounts by drafting the annual financial report; annual financial report based on IFRS
annual report- according the requirements for listed companies (annual financial report on activities) contains annual financial statements; auditor report; programme for implementation of internationally recognized standards of good CG; written statements by CEO certifying to the best of their knowledge financial statements presents correct and fairly the information about banks assets and liabilities, financial situation, profit or losses; annual activity report contains a truthful review of the development and the results of the bank, together with a description of major risks and uncertainties faced by the banks

Bank's CG practice: OECD and Basel principles perspective

- ***the bank disclose voluntarily*** financial results every month;
- ***informative web site from the perspective of the shareholders and investors; clear picture about the banks mission and objectives***, ease access to the annual reports with well presented results and perspective in the management report; disclosure of remuneration policy(The bench mark between the guidelines that BNB provides for the remuneration policy for Bulgarian Banks and the remuneration policy that Corporate Commercial Bank declares reveals good corporate governance practice for the latest; the articles the articles of association shed lights on the functions of the supervisory board and management board and their fiduciary duties and finally one could easily be informed about the rules for conflicts mitigation and disclosure;
- ***audit committee is established accordingly.***

Bank's CG practice: OECD and Basel principles perspective

□ **Effective corporate boards:**

Supervisory and management boards meet Basel corporate governance criteria, as well the criteria that the law foresees: fit and proper for the banking directors and the management: highly educated persons with outstanding experience;

two ***independent*** directors at the Supervisory board

two ***foreign*** directors at the Supervisory board with due qualification-
representatives of the foreign shareholder(CEO of SRGF and the investor manager of SEGF

fiduciary duties that the Law for credit institutions, LPOS and the Corporate Governance Code foresee are embedded in the articles of association. The bank's performance during the crisis is another argument that these duties are part of the companies life;

written rules for disclosure and mitigation of conflicts;

high priority towards risk management

Bank's CG practice: OECD and Basel principles perspective

CG and shareholders

Block holder structure;

- Division for investors relations
- minority share holders- banks' corporate governance practice and performance indicates for compliance with the principles for shareholders' rights-well defined in the Prospectus;
- Foreign investor presence encourages the enhancing of corporate governance practice-enhancing of disclosure, improving the internal communications
- Dividend policy- no dividends for the period 2007-2012-prospectus

Bank's CG practice: OECD and Basel principles perspective

CG and the stakeholders

- High quality staff ; training programmes and rotation of employees;
- Secret agent
- KYCP-know your policy customer
- No problems with money laundering
- Bank's initiative for good CSR is part of good corporate governance practice: the bank support the Global Compact ,joining to the Bulgarian network of the companies that comply with the basic principles of the good corporate citizenship

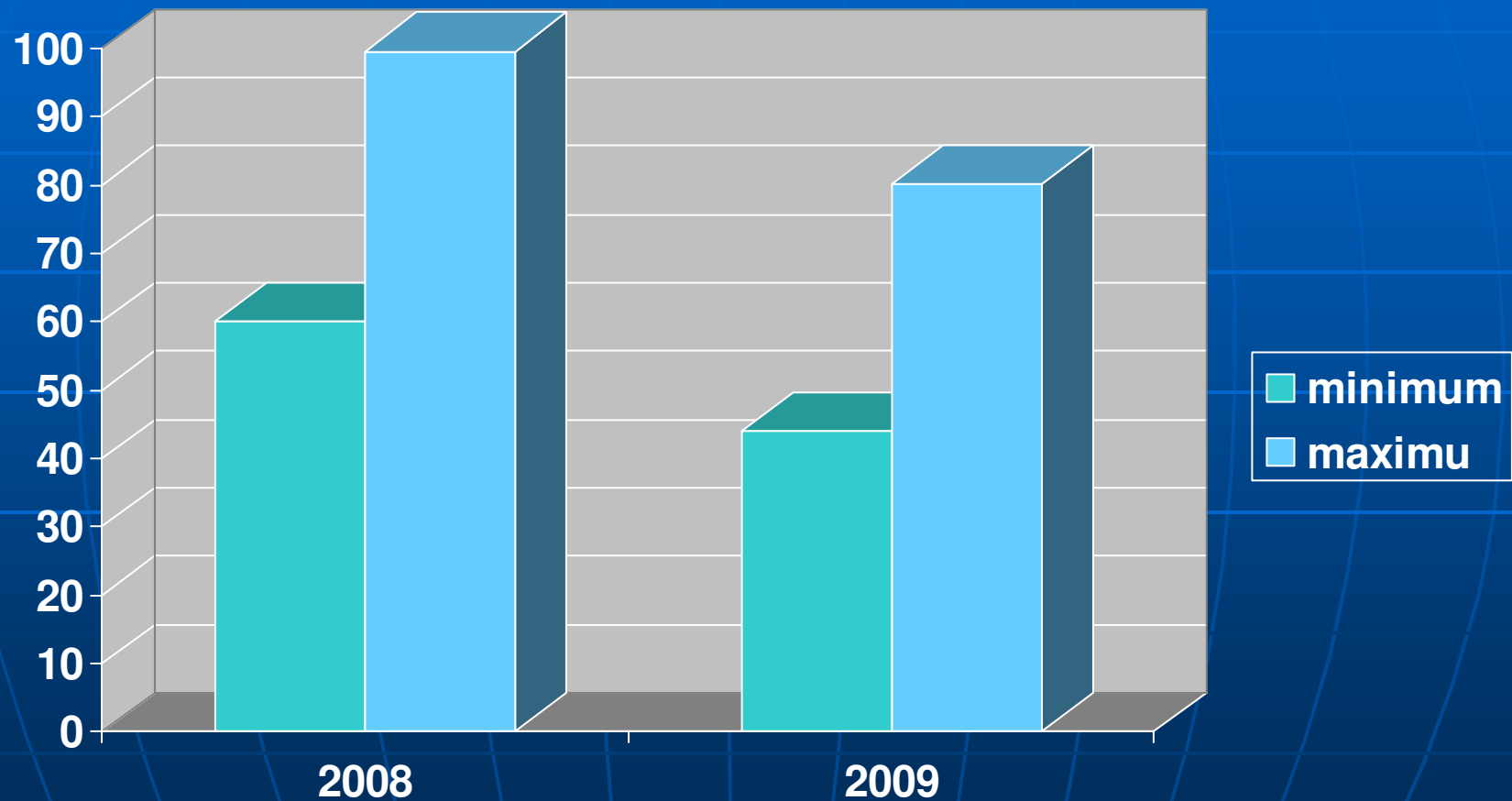
Bank's CG practice: OECD and Basel principles perspective

- Well functioning internal audit system-audited by Institute of Internal Auditors (US);
- Internal audit system is designed according COSO Internal Control Framework(Committee of Sponsoring Organizations of Treadway Commission)
- Risk oriented internal audit system;
- AGMS approves internal audit office report

Bank's CG from the perspective of EU financial institutions recommendations for CG enhancement

- Corporate Commercial bank was exposed to the crisis as the rest of the banks and BSE players : drop of the share prices and decrease of capitalization
- although the crisis- good performance: increase of the RoE and RoA(2,7%); increase of the net income from interest rates;
- good strategized portfolio of investments- infrastructure and energy and project financing
- new owner that paid 50% premium on the share price
- Moody's rating- Long term Ba3 perspective stable

Levels of share prices (minimum and maximum)BGN



Bank's CG and EU financial institutions recommendations for CG enhancement

- Most of the recommendations are part of the CG system of the Bank:
 - Professionalism of the NED could not be considered a problem, that the international experts revealed as a failure and prerequisite for the crisis;
 - independence is combined with professionalism;
 - Limited numbers of directorships;
 - the Chairman combines a good combination between financial background/industry successful experience with leadership skill;
 - separation of the functions of the Chairman and CEO
- some of the recommendations may be will such as regular evaluation

Bank's CG and EU financial institutions recommendations for CG enhancement-

Risk management system:

- Tailor- made risk management system, that corresponds to regulation requirements, the risk profile-low risk profile and modern risk appetite of the bank;
- risk management system embeds CG concepts of checks and balances: a few committees and a division for Risk analysis and control;
- well establishing reporting system ;
- on quarterly basis the CRO informs MB and SB about the risks
- Well established disclosure practice about the risks that bank's activities faces: prospectus, annual reports, auditors reports about the risk profile and risk management of the bank

Bank's CG and EU financial institutions recommendations for CG enhancement

- Remuneration policy aligned with European Committees of Banks Supervision authorities and BNB;
- Bank's employees have access to the policy guidelines, accordingly disseminated via bank intranet
- fix remuneration, based on personal contribution of the banks employees

CCB corporate governance :from theoretical perspective

Status quo/characteristics	agent	steward
Managers as	agents	stewards
Model of behaviour	individualism	collectivism
Managers motivated by	The owns objectives	Principal objectives
Principal managers relations	control	trust
orientation	Short term	Long term

CCB corporate governance- theoretical perspective

- your opinion???

- Thank you
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