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Corporate Governance

Rating System

FOR DEVELOPMENT BANKS & OTHER FINANCIAL INSTITUTIONS

Published by:

Association of Development Financing Institutions in Asia and the Pacific

With support from:

Center for International Private Enterprise

The Association of Development Financing Institutions in Asia & the Pacific (ADFIAP) is the focal point of all development banks and other financial institutions engaged in the financing of development in the Asia-Pacific region. Its mission is to advance sustainable development through its members. Founded in 1976, ADFIAP has currently 58 member-institutions in 30 countries. The Asian Development Bank is a Special Member of the Association. ADFIAP is also a founding member of the World Federation of Development Financing Institutions composed of regional associations in Africa, Asia-Pacific, Latin America and the Middle East. ADFIAP is an NGO in consultative status with the United Nations' Economic and Social Council. The permanent Secretariat of ADFIAP is based in Makati City, Metro Manila, Philippines.

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Contents

BACKGROUND INFORMATION

The Asian financial crisis of 1997 not only stressed the need for corporate reform in the business community but also brought the need for reform within national development finance institutions (DFIs).

Set up by their governments as specialized financial institutions, DFIs provide long-term financing and technical assistance to enterprises that contribute to the country's economic development and growth but which are inadequately supported by other financial institutions during their formative years. Thus, DFIs have an important role in a country's development and are an integral part of its financial system.

DFIs also play a central role in advancing corporate reforms in the region. Unlike regular commercial banks, development banks not only provide financial assistance to enterprises, but they are also involved in training and providing management expertise. Thus, to be effective in promoting good corporate governance they must institute good corporate governance practices themselves.

Recognizing this situation, ADFIAP started in February, 2003, the *"DFIs for Corporate Governance"* Project in partnership with the Washington, D.C.-based Center for International Private Enterprise (CIPE). It is ADFIAP's collective and responsive effort to advance sustainable development by bringing together the national development banks and promoting mechanisms of good corporate governance as a key to business sustainability in the region. ADFIAP's work is a response to the need of DFIs to adopt and institutionalize good corporate governance policies and practices in their organizations not only because it is a *"right thing to do"*, but because it is essential to business success.

ADFIAP addresses the weakness of corporate governance in the region by encouraging Boards of Directors to develop, write, and accept Codes of Corporate Governance, as well as to appoint a senior officer (or unit) to oversee, direct, and manage a sustainable good corporate governance program in their institutions.

By leveraging its extensive network of 58 member-institutions in 30 countries in the region and its affiliation with government agencies and the private sector, not to mention its relationship with the Asian Development Bank (ADB) that helped form the Association in 1976, ADFIAP raised the needed funds to run the project on a co-financing scheme with CIPE. ADFIAP also worked with its members who voluntarily provided their staff and training facilities as well as resource persons for the project.

ADFIAP's strategy to improve corporate governance consisted of the following:

- doing a membership-wide survey to determine the extent of its members' corporate governance policies and practices.
- organizing a regional symposium-workshop to develop an action agenda.
- organizing national workshops to focus on *"local"* corporate governance programs.
- assisting members to develop a framework and to sustain their corporate governance policies and programs.
- promoting the project through the Association's regular publications and website.
- visiting institutions to assist members in developing their corporate governance systems, using best practices learned from the surveys, seminars and other interaction with them.

Under the project, ADFIAP has conducted several training events in a span of 15 months in the Philippines, Malaysia, Mongolia, India, Thailand and Cook Islands in the Pacific. Other countries that benefited from the program included Fiji, Pakistan, Vietnam and Uzbekistan. Thus, this covered a sub-regional cross-section of South Asia, East Asia, Central Asia and the Pacific.

As a result of the project, there is now a more evident and broad-based insight on and conduct of corporate governance practices across members, judging from their annual reports and other publications given to the Association. Eight out of ten member-institutions now have either or both their corporate governance policies and codes approved by their respective Board of Directors and almost all of them have focal persons and/or units in their organizations minding and implementing corporate governance programs and activities. The other tangible outputs of the project are as follows:

- A total of 165 participants – Directors and senior management persons – from 23 countries in the region attended the training events.
- A total of 79 institutions – ADFIAP members, affiliates and other networks – participated under the program.
- Eight (8) country training program designs were developed.

- A new ADFIAP publication, *Governance*, was developed and produced for dissemination to members and other networks.
- A new project to develop a corporate governance 'scorecard' for DFIs and their clients has been approved by CIPE.

DFIs are deemed "trailblazers" in the sense that they finance start-up projects that other financial institutions tend to avoid because of inherent risks and long-term gestation. From ADFIAP's point of view, the practice and institutionalization of corporate governance in DFIs is one such trailblazing initiative that it is proud to have undertaken. It has provided its member-institutions a chance to become model good corporate governance institutions as its contribution to *"make a better world"*.

PREFACE

ADFIAP member-institutions recognize the need to develop their governance systems in step with national efforts. In most countries, the government and central banks have led the way for corporations and banks to institute reforms.

Along the same direction, ADFIAP created initiatives to assist its member-DFIs. First, it conducted a series of surveys of governance practices among its member-banks. With assistance from CIPE, a regional seminar workshop identified best international practices and remaining gaps that future reforms should address. Workshop participants recognized that their financial institutions must periodically track the progress of these governance reforms.

With this purpose, the regional workshop in Manila developed an assessment and monitoring instrument called the ADFIAP Corporate Governance Rating System (ACGRS). Consistent with other existing international governance rating methods, the rating system monitors the areas for governance reforms. The ADFIAP version seeks to add significant value and relevance by focusing on priority areas identified by their member-institutions and assisted by governance experts.

The ACGRS was reviewed, tested and revised in five national workshops in Malaysia, Pakistan, Mongolia, Fiji Islands and Vietnam. After developing the final version in Manila, the ACGRS will now be distributed to the member-institutions of ADFIAP. It will serve as a tool for helping them assess and monitor their governance reform process. The areas for improvement and relative importance of each reform area are clearly specified in the rating system. These reform areas are: Shareholder Rights, Commitment to Corporate Governance Principles, Board Governance, Disclosure & Transparency and Auditing. By periodically tracking changes in governance policies and practices, the ACGRS reports the overall state and quality of governance in the financial institution.

To extend the benefits of good governance to the stakeholders, particularly borrower-clients of its member institutions, ADFIAP also developed another instrument called *"ADFIAP Checklist of Indicators of the Quality of Corporate Governance of Corporate Borrowers"* (ACI-QCG). It has been found that corporate loan losses are associated with poor governance of borrower companies. By using the ACI-QCG, the financial institution is sending a clear message to its borrowers that the quality of governance matters in terms of the way their loans will be processed and monitored.

ADFIAP hopes that these instruments will be adopted by its member-institutions as a centerpiece of their governance reforms and monitoring process. ADFIAP is prepared to assist its members in the adoption and application of these instruments.

ACKNOWLEDGMENT

ADFIAP gratefully acknowledges the Center for International Private Enterprise (CIPE) which provided the grant to make the project possible. Special thanks are due to all CIPE staff and officers, particularly John D. Sullivan and John Callebaut, CIPE Executive Officer and Senior Program Officer, respectively, who have given their trust and support to the project.

Our appreciation also to all ADFIAP member-banks as well as those members who have provided resources for the conduct of the training events under the project. Their continuous support has enabled ADFIAP to carry out its developmental mission.

This handbook was prepared by a team of staff from the ADFIAP Secretariat in Manila, Philippines. The team consists of Sandra Honrado, Sandy Lim, Susan Bajar, Lorina Cervantes, Robert Juan, Liza Olvina, Rey Lazo, Tinette Arenas, Jordan Isidro and Ricky Blanca. The team is headed by the ADFIAP Secretary General, Octavio B. Peralta.

Finally, ADFIAP is grateful for the support and expertise of Dr. Cesar Saldaña, Founding Fellow of the Institute of Corporate Directors in the Philippines, who provided ADFIAP with the conceptual framework in developing and formulating the ACGRS and worked with ADFIAP staff as well as its member-banks in all the training events conducted under the project.

EXECUTIVE SUMMARY

The proposed ADFIAP Corporate Governance Rating System (ACGRS) contained in this handbook is an adaptation and expansion of two rating instruments, namely, the German CG Scorecard of the *Deutsche Vereinigung fur Finanzanalyse und Asset Management* or DVFA and the one prepared and used by the Institute of Corporate Directors (ICD) in the Philippines.

Adoption of a corporate governance rating system for Asia-Pacific countries is suitable because their corporate sectors share similar structures and legal framework. In these countries also, governments have early on set up development finance institutions (DFIs) to accelerate their economic development. These DFIs, most of which are members of ADFIAP, are the target users of the ACGRS.

By using a common corporate governance rating system, concerned government, multilateral and private institutions can monitor the progress of corporate governance reforms within each country and in comparison with others in the region. It is a viable approach because there are regional financial markets that institutions in these countries could access. The competition for investments among region-based companies will highlight the importance of good governance practices of companies receiving these investments.

The ACGRS is schematically shown in Annex I. It follows the major criteria in the instrument developed by the German Society of Investment Analysts and Asset Management (DVFA)[1] and used as a standard evaluation methodology for the CG practices of publicly-listed companies.

Following the DVFA scorecard format, there are five elements in the ACGRS instrument, namely: Shareholder Rights, Commitment to Corporate Governance Principles, Board Governance, Transparency and Auditing. ADFIAP modified the second criterion into "Commitment to Governance Reforms" and the criterion of Transparency into "Disclosure". The overall standards for assessing an institution's performance involve meeting expectations by investors and shareholders in each of these areas as described below.

1. **Shareholder Rights**. There are two versions of this section. For commercial banks and other financial institutions (other than DFIs), the focus is the **shareholders**. For governance to be considered good, shareholders expect to be informed and free to elect management of their institution in an annual shareholders' meeting. Minority shareholders expect fair treatment from their

[1] The DVFA-formulated German CG Scorecard is a tool for financial analysts and investors who intend to evaluate non-tangible factors affecting corporate valuation. It is premised on comprehensive new German regulations affecting the capital market and code of Best Pratice for German Corporations.

institution by allowing them to access information, to avail of opportunities for control of the institution in proportion to their shareholdings, and to seek redress for any act of expropriation of the institution's wealth by dominant stakeholders.

   For DFIs, the focus is the sectors of the economy and society that are served by them. For governance to be considered good, the DFI should fulfill its mission as specified by the only shareholder – government. It should be communicating and seeking to explain the institutional directions and accomplishments in the service of its beneficiaries.

2. **Commitment to Corporate Governance Principles**. An institution should work in the best interest of shareholders and to guide the institution's operations within the norms of social, environmental and public welfare. This involves enhancing long-term shareholder value, adopting sound CG policies and complying with provisions of the Institution's Code.

3. **Board Governance**. Shareholders expect the Board of Directors to assume effective governance over the institution and be accountable to them and the regulatory authorities. To meet this expectation, an institution needs to adopt sound policies and practices in selecting directors, appointing independent directors and ensuring adherence to sound practices by the Board of Directors.

4. **Disclosure**. Investors and shareholders expect the institution to provide them adequate access to information, management analysis of financial results and competent reports for annual shareholders' meetings. They also expect full disclosure of inter-institution and related party transactions.

5. **Auditing**. Investors expect an institution to follow generally-accepted accounting standards for its financial reporting and to be audited by professionally competent independent external auditors.

The weights for each governance criterion are as follows: Shareholder Rights – 25%, Commitment to Corporate Governance – 20%, Board Governance – 25%, Disclosure and Transparency – 15% and Auditing – 15%. These weights are somewhat arbitrary in the sense that CG research has not prescribed a hierarchy of elements of sound governance. Probably a more useful exercise is to review the criteria that go into each of the five CG elements.

The ACGRS instrument is in the form of a questionnaire that requires a respondent to assess the CG practices in his/her institution. There are two versions – one for DFIs and another for commercial banks and other financial institutions. A survey administrator converts the responses to a weighted score for each question using a point equivalence system attached as shown in Annex I. The scores in each criterion are consolidated into an overall weighted average CG score of the institution.

A description of corporate governance factors used in the CG ratings is given below:

1. **Shareholder or Beneficiary Rights.**

   a) Equality of voting rights of same class of shares

   b) Sufficient notice to small shareholders of annual general shareholders' meetings (AGSM)

   c) Efforts by majority shareholders to encourage minority shareholders to attend AGSM

   d) Degree of access by shareholders and beneficiaries to adequate, reliable, timely, comparative and non-financial information

   e) For DFIs, focus of investment and credit programs to target beneficiaries and subsequent accountability to them

2. **Commitment to Corporate Governance Reforms.**

   a) Goals of the institution, especially shareholder value in the case of banks and development goals for target beneficiaries in the case of DFIs

   b) Availability of a written code of corporate governance

   c) Policies of the institution regarding treatment of public investors

   d) Appointment of a Compliance Officer to ensure adherence to sound banking regulations

   e) Code of Ethics adopted by the institution for its directors

3. **Board Governance.**

   a) Structure of the Board of Directors: roles, involvement in operations, number of members, independent directors, frequency of meetings, written duties and responsibilities

   b) Qualifications and experience of directors

   c) Whether Board committees are organized and actively functioning

   d) Performance evaluation of management by the Board

   e) Compensation system for top management and directors

4. **Disclosure**

   a) Adequate access to information by investment analysts and shareholders

   b) Characteristics of information disclosure as to frequency, scope of distribution and conformity of financial reporting with local or international standards

   c) Quality of reports prepared for the AGSM

5. **Auditing.**

   a) Consistency of accounting system and audits with international standards

   b) Quality of independent auditors.

   c) Publication of quarterly reports

   d) Timeliness in publication of annual and quarterly reports

   e) Disclosure of self-dealings according to regulations

In summary, the ADFIAP Corporate Governance Rating System (ACGRS) consists of the following:

1. An overview of the rating system and its elements
2. Two Corporate Governance Rating Questionnaires, one for DFIs and another for commercial banks and other institutions, complete with a guide to preparation of the questionnaires
3. An MS Excel-based spreadsheet for the point system and for tabulating the scores

A Governance Rating Standard for Development Finance Institutions in the Asia-Pacific Region

Who Should Prepare this Checklist:

This rating is to be prepared by a director or committee of directors authorized by the Board. Usually the Corporate Governance Committee (if there is one) or the Audit Committee is authorized by the Board to conduct the task.

Name of Development Finance Institution:

City/Country:

1.0 STAKEHOLDERS AND BENEFICIARIES RIGHTS

1.1 Does the Development Finance Institution's (DFI) Charter and/or Articles of Incorporation identify the stakeholders or beneficiaries of the DFI?

Answer "yes" if the DFI's Charter and/or Articles of Incorporation specify who in society are the stakeholders that are the primary clients of the DFI and why they are being served by the DFI. Answer "no" if it is not specified but only implied in the Charter.

Yes ☐ No ☐

1.2 Are the DFI's investments and credit programs closely linked to the development plans for the beneficiaries?

DFI's were set up by governments to finance sectors promoted under the country's economic development plans. Indicate whether DFI's investments and credit programs are closely linked to the government's investment plans for the beneficiaries.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐

Not clearly linked — Closely linked

1.3 Are the investments and credit programs prepared under the direction of and approved by the board?

Answer "yes" if the DFI's investments and credit programs prepared by management under the direction of the board and approved by the Board for implementation by management.

If the Board has little involvement in the planning process, answer "no".

Yes ☐ No ☐

1.4 Does the supervising government ministry review and comment on the DFI's strategy, plans and performance on periodic (at least annual) basis?

Answer "yes" if the supervising government ministry reviews and gives its feedback on the DFI's strategy, plans and performance on periodic (at least annual) basis. If there is no supervising government ministry or institution, or one exists but is passive regarding the DFI's plans, answer "no".

Yes ☐ No ☐

1.5 Does the annual report of the DFI including the Management Discussion & Analysis (MD & A) clearly indicate the impact of its services to stakeholders and its beneficiaries?

Answer "yes" if the annual report of the DFI clearly specifies the impact of its services to its stakeholders and its beneficiaries. If it is not clear whether they benefited from the programs and operations of the DFI, answer "no".

Yes ☐ No ☐

1.6 Do the stakeholders and beneficiaries have the right to access information and express their opinion on DFI performance?

Answer "yes" if stakeholders and beneficiaries could and actually access information about the effectiveness of the DFI and express their opinion on DFI performance as it affected them. If there are no communication and feedback mechanism with beneficiaries, answer "no".

Yes ☐ No ☐

1.7 Does the government or supervising ministry of the DFI expect the DFI to earn a reasonable performance in terms of profits and services to beneficiaries?

Answer of "yes" means that the government or supervising ministry of the DFI specify, explicitly of through public pronouncements, what the DFI is expected to deliver in terms of profits and services. If any level of performance seems acceptable to the government, or the standard for reasonable performance is not made clear to the DFI, then answer "no".

Yes ☐ No ☐

2.0 BOARD GOVERNANCE

A. The Chairman

2.1 Does the Chairman exercise leadership by setting the agenda for the Board meeting?

The agenda for the Board meeting may be prepared by the Board Secretary for the Chairman's revision and approval. Answer "yes" if the agenda is done ahead of time and the Chairman only approves the final draft of the Board agenda.

Yes ☐ No ☐

2.2 Does the Chairman encourage and give opportunity for directors to participate actively in board deliberations?

The Chairman's style may range from going over the entire agenda without encouraging comments from other directors ("not involved") or taking time to ask comments of each director and extensively discussing their comments ("highly involved").

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐

No opportunity — Ample opportunity

2.3 Is the Chairman of the Board also the President and CEO of the DFI?
If the Chairman of the Board is also the final executive decision maker, answer "yes".

Yes ☐ No ☐

Is the appointment of the Chairman and CEO mandated in the DFI's charter or Articles of Incorporation?

Check if this position of Chairman and CEO is mandated in the charter of the financial institution, in which case, answer "yes".

Yes ☐ No ☐

2.4 Is the Board largely separate from management, i.e., does management report to the Board and the Board is not involved in decision-making except for matters reserved for it (e.g., large loans and related party transactions)?

Separation of the Board from management is tested by determining whether management can make decisions over matters entrusted to it without undue intervention by the Board. If the Board is known to intervene frequently and over matters already assigned to management, answer "no". Indicate the degree of involvement by the Board in the next question.

Yes ☐ No ☐

To what degree is the board involved in management of the DFI?

If you answered "yes" to the previous question, you are expected to answer between "1" and "3". If you answered "no", you are expected to choose between "5" and "7" to justify your earlier claim of high degree of involvement by the Board in management matters.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐

Not involved — Highly involved

B. Members of the Board

2.5 Do directors get appointed under a process ("Fit and Proper Test") that includes a review by authorities of a nominee's experience, character, motivation and skills?

Is there an explicit and formal checklist and appraisal of candidates to the Board? The checklist should specify the preferred background or qualifications of the Board. Many Central Banks require a review based on a "Fit and Proper Test". Is there one for your DFI for the appointment of directors?

Yes ☐ No ☐

2.6 Is there a separate and more rigorous process used for selecting the Chairman?

When selecting the Chairman, is there a similar and more rigorous process for selecting a highly qualified one?

Yes ☐ No ☐

2.7 Rate the diversity (different experience and disciplines) and skill levels of your board:

Diversity means different background of directors: for part (a) as to education, previous and current corporate involvement, interest and personality; and for part (b), as to expertise and skills.

a. Diversity

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐

Similar backgrounds — Very different backgrounds

b. Expertise and skills

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐

General experience — Highly skilled expert

2.8 How many directors are there in the DFI Board? ________

Specify the number of directors in the Board of your financial institution. Give a breakdown for independent directors, non-executive directors and executive directors in the present Board. Independent directors are those without executive or any other position or contractual relationship with the financial institutions Executive directors are those currently holding executive positions with the financial institution.

Of this total number of directors, how many are:

a. independent directors ________
b. outside or non-executive directors ________
c. executive directors ________

2.9 Do the directors receive reasonable compensation?

The reasonableness of the compensation of directors is difficult to appraise because they vary across DFIs. Reference can be to compensation at other financial institutions. Another is the principle that the Chairman should get paid as much as a CEO on a time spent basis (i.e., about equal in hourly rate). Still another yardstick for reasonable directors pay is an amount, like $100 per Board meeting or some other amount deemed reasonable in the country as compensation for time spent by a senior professional.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐

Too little Reasonable Too much

C. Meetings of the Board

2.10 Does the board conduct regular meetings of at least quarterly and at most monthly?

Answer "yes" if the Board meets regularly (on fixed schedule) between monthly and quarterly periods. If some other schedule like the legal minimum of annual or on "call" basis, answer "no".

Yes ☐ No ☐

2.11 Are the minutes of the meeting duly taken and shows details about the deliberation, particularly positions of directors on key issues?

Two requirements for a "yes" answer to the questions are whether somebody takes minutes of the Board, usually the Board secretary, and whether those minutes are detailed enough to know the opinions expressed by directors on specific issues discussed and decided upon by the Board. If minutes are taken but details are not shown, answer "no".

Yes ☐ No ☐

2.12 How many of the board directors have attendance record of meetings (include electronic video-conference meetings if allowed by authorities):

2.12.1 at least 75% of board meetings last year? ________

For example, if the Board meetings are monthly, count directors attended: 9 or more meetings last year

2.12.2 less than 25% of board meetings last year? ________

3 or less meetings last year

2.13 How many of your directors concurrently hold directorships in:

Count the number of directors with directorships according to the 3 categories given. Directorships at institutions are counted as 1 regardless of size but do not include civic organizations, country clubs and the like. The guideline is that institutions should have important issues for the Board and that there is a "bottom line" set of objectives that a Board works to achieve.

2.13.1 more than 10 institutions? ________

2.13.2 5 to 10 institutions? ________

2.13.3 less than 5 institutions? ________

3.0 COMMITMENT TO CORPORATE GOVERNANCE REFORMS

3.1 Does the DFI have a written code of corporate governance wherein the beneficiaries, relationship with the government oversight agencies, duties of the board, etc. are specified?

(To answer "yes", the Code of Governance should be in writing, approved by the Board and accepted by regulators when mandated. If not required by regulators, the first two will do.)

Yes ☐ No ☐

3.2 Is the Chairman of the board specifically responsible for ensuring adherence to the code and the Company Law?

(Answer of "yes" if the Chairman is specified in the Code as the person responsible for enforcing the Code. Otherwise, if the Code is silent, answer "no".)

Yes ☐ No ☐

3.3 Does the DFI's annual report have a Management Discussion & Analysis (MD&A) that extensively discusses factors that could affect the valuation of the DFI, e.g., its credit and CAMEL rating?

Answer "yes" if the FI's annual report have an MD&A that discusses its profitability, financial stability and risk factors, including its credit rating or CAMEL rating.

Yes ☐ No ☐

3.4 Does the DFI have a written code of ethics that a director signs into upon appointment as director?

Answer "yes" if there is a Code of Ethics document that is separate from the Code of Governance and accepted in signature by a director upon his/her appointment. Answer "no" otherwise.

Yes ☐ No ☐

3.5 Does the DFI have a full-time compliance officer responsible for ensuring compliance with laws and regulations?

Answer "yes" only if there is a separate position and full-time compliance officer. If the answer is "yes", proceed to the next questions about the incumbent compliance officer.

Yes ☐ No ☐

If the DFI has a compliance officer:

a) Is the compliance officer separate from Internal Audit Department?

Answer "yes" if the Compliance Officer is not doing internal audit functions for the Internal Audit Department. Answer "no" otherwise.

Yes ☐ No ☐

b) Does the compliance officer report directly to the Audit Committee of the board?

Answer "yes' if the Audit Committee supervises the Compliance Officer.

Yes ☐ No ☐

If not, to whom does the compliance officer report?

____

c) Does the compliance officer report the results of the regulatory examination to the board?

Answer "yes" if the compliance officer reports the results of regulatory review directly to the Board. Answer "no" otherwise.

Yes ☐ No ☐

d) What is the degree of access by the compliance officer to information, whether from management or the board?

Rate the access of the compliance officer to information. A rating of between "5" and "7" means that he/she can access any information in a timely manner.

1 ☐	2 ☐	3 ☐	4 ☐	5 ☐	6 ☐	7 ☐
No direct access			Acceptable access			Ample access

4.0 AUDITING

4.1 Does the DFI have an Audit Committee of the Board with a written Charter?

Answer "yes" if there is an Audit Committee with a written charter specifying the scope of responsibility and composed of directors. Answer "no" otherwise.

Yes ☐ No ☐

4.2 Does the Audit Committee recommend the selection of independent auditors or does the government as owner mandate the selection of independent auditors?

Answer "yes" if the Audit Committee assists the Board in reviewing the proposals of auditors and recommends the independent auditors. Also answer "yes" if the government mandates that the DFI employs a government auditing authority. Answer "no" otherwise.

Yes ☐ No ☐

In either case, does the Audit Committee review the report of the auditors and discuss their audit exceptions?

Yes ☐ No ☐

4.3 Does the DFI have an internationally accredited auditors or a state auditor mandated by the government?

Answer "yes" if the independent auditor of the financial institution has international affiliation and accreditation or is mandated by the government as state auditor. Answer "no" otherwise.

Yes ☐ No ☐

4.4 Do the DFI's Annual report and/or MD&A address the agenda set by the government entity overseeing the DFI?

Answer "yes" if the management's discussion and analysis of the annual financial statements address the concerns of the beneficiaries or how the DFI has contributed to the national development goals that have been set for them by the national leadership. If the DFI's performance is not clearly measured and evaluated against those targets, answer "no".

Yes ☐ No ☐

4.5 Is the audited annual report of the DFI issued to supervising government agency of the DFI and to the public within 3 months from year end?

Answer "yes" if the audited annual report of the financial institution is distributed to the public and government regulators within 3 months from the year end of the financial institution. Answer "no" otherwise.

Yes ☐ No ☐

5.0 DISCLOSURE

5.1 Does the DFI's annual report have a Management Discussion & Analysis that extensively discusses factors that could affect the valuation of the DFI, e.g., its credit and CAMEL rating, portfolio composition, investments, alliances, etc.?

Answer "yes" if the audited annual report presents Management Discussion & Analysis and strategies for competing and growing the financial institution in the future.

Yes ☐ No ☐

5.2 Does the DFI's annual report discuss the DFI's risk management system and its major risk factors?

Answer "yes" if the financial institution's annual report discusses its risk management system and its major risk factors. Answer "no" otherwise.

Yes ☐ No ☐

5.3 Does the DFI's annual reports offer meaningful details like portfolio composition, business segment performance, potential liabilities, in conformity with International Financial Reporting Standards etc.

Answer "yes" if the annual report of the financial institution includes details about its portfolio, performance of each business segment, ownership, credit rating, etc. Answer "no" otherwise.

Yes ☐ No ☐

5.4 Are transactions with related parties revealed through an established mechanism, approved by regulators and the central bank (or its equivalent institution)?

Answer "yes" if the annual audited financial statements and the notes reveal sufficient details about transactions with related parties.

Yes ☐ No ☐

A Governance Rating Standard for Commercial Banks and Other Financial Institutions in the Asia-Pacific Region

Who Should Prepare this Checklist:

This rating is to be prepared by a director or committee of directors authorized by the Board to conduct the task. This is usually the Corporate Governance Committee (if there is one) or the Audit Committee of the Board.

Name of Financial Institution:

City/Country:

1.0 SHAREHOLDERS RIGHTS

These questions concern policies and practices of the financial institution (FI) in relating to its shareholders.

1.1 Do all common shareholders have the same voting and other rights?

Answer "yes" if there are no distinctions between common shares, i.e., there are no "Classes" like Class "A" for voting and class "B" for non-voting (usually foreign nationals).

Yes ☐ No ☐

1.2 Are the rights of the stakeholders under the law actively respected in the governance process in terms of attention by the Board, provision of relevant information and consultations with stakeholders?

Stakeholders are entities who are involved in your financial institution as suppliers, customers, banks, the public, etc. Indicate the extent the Board addresses stakeholder needs and concerns, as evidenced by Board policies, announcements, annual reports, etc.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐

No attention — Indifferent — Extra effort and respect

1.3 Do majority shareholders exert efforts to encourage other shareholders to attend and vote during the annual general shareholder meetings?

Is the Board concerned with attendance of all shareholders? More concern means the financial institution chooses the best means to reach out to shareholders, especially if there are many shareholders located in various parts of the country.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐

Criteria — Criteria — Criteria

1.4 Are all shareholders given the right to subscribe when the FI's Board increases its share capital by more than 10%?

Giving all shareholders the right to subscribe to new shares will protect their right to maintain a proportionate share in the financial institution.

Yes ☐ No ☐

1.5 Please rate the way financial and non-financial information is provided to all shareholders, especially those not involved in amount (details) of information?

Shareholders should get adequate, reliable, timely, comparative financial and non-financial information.

- Adequate amount (details) of information?

  Adequate means sufficient information with details.

  1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐

  Very low — Very High

- Reliable and accurate information?

  Reliable and accurate information means that the shareholder can verify and rely on the accuracy of the financial institution as a source of information

  1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐

  Very low — Very High

- Transmitted on time?

  Information that impact the price of the shareholders' shares must be provided in time. As a reference, "very high" means within the next trading day for listed companies.

  1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐

  Very low — Very High

- Presented to show comparisons?

Provision of comparative facts and figures determine the FI's current situation vis-a-vis past performance and future trends.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐

Very low Very High

- Contains important non-financial information to explain performance?

Non-financial information, like changes in the industry, competition, technology and the entry or exit of players, is required to understand the financial institution's performance.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐

Very low Very High

2.0 BOARD GOVERNANCE

A. The Chairman

2.1 Does the Chairman exercise leadership by setting the agenda for the Board meeting?

The agenda for the Board meeting may be prepared by the Board Secretary for the Chairman's revision and approval. Answer "yes" if in practice the agenda is set in advance and the Chairman approves the final draft of the Board agenda.

Yes ☐ No ☐

2.2 Does the Chairman encourage and give opportunity for directors to participate actively in board deliberations?

The Chairman's style may range from going over the entire agenda without encouraging comments from other directors ("not involved") or taking time to ask comments of each director and extensively discussing their comments ("highly involved").

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐

No opportunity Ample opportunity

2.3 Is the Chairman of the Board also the President and CEO of the FI?

If the Chairman of the Board is also the final executive decision maker, answer "yes". Check if this position of Chairman and CEO is mandated in the charter of the financial institution, in which case, answer "yes".

Yes ☐ No ☐

Is the appointment of the Chairman and CEO mandated in the FI's charter or Articles of Incorporation?

Yes ☐ No ☐

2.4 Is the Board largely separate from management, i.e., management reports to the Board and the Board is not involved in decision-making except for matters reserved for it (e.g., large loans and related party transactions)

Separation of the Board from management is tested by determining whether management can make decisions over matters entrusted to it without undue intervention by the Board. If the Board is known to intervene frequently and over matters already assigned to management, answer "no". Indicate the degree of involvement by the Board in the next question. If you answered "yes" to the previous question, you are expected to answer between "1" and "3". If you answered "no", you are expected to choose between "5" and "7" to justify your earlier claim of high degree of involvement by the Board in management matters.

Yes ☐ No ☐

To what degree is the Board involved in management of the FI?

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐

Not involved Highly involved

B. Members of the Board

2.5 Do directors get appointed under a process ("Fit and Proper Test") that includes a review by authorities of a nominee's experience, character, motivation and skills?

Is there an explicit and formal checklist and appraisal of candidates to the Board? The checklist should specify the preferred background or qualifications of the Board. Many Central Banks require a review based on a "Fit and Proper Test". Is there one for your financial institution for the appointment of directors?

Yes ☐ No ☐

2.6 Is there a separate and more rigorous process used for selecting the Chairman?

Was the appointment of the Chairman based on a nomination and qualification process followed by the appointing authority in the government?

Yes ☐ No ☐

2.7 Rate the diversity (different experience and disciplines) and skill levels of your board:

Diversity means different background of directors: for part (a) as to education, previous and current corporate involvement, interest and personality; and for part (b), as to expertise and skills.

a. Diversity

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐

Similar backgrounds — Very different backgrounds

b. Expertise and skills

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐

Broad exposure and experience — Highly skilled experts

2.8 How many directors (members) are there in the Board? ________

Specify the number of directors in the Board of your financial institution. Give a breakdown for independent directors, non-executive directors and executive directors in the present Board. Independent directors are those without executive or any other position or contractual relationship with the financial institutions Executive directors are those currently holding executive positions with the financial institution.

Of this total number of directors, how many are:

a. independent directors ________

b. outside or non-executive directors ________

c. executive directors ________

2.9 Do the directors receive reasonable compensation?

The reasonableness of the compensation of directors is difficult to appraise because they vary across financial institutions. Reference can be to compensation at other financial institutions. Another is the Chairman should get paid as much as a CEO on a time spent basis (i.e., about equal in hourly rate). Still another yardstick for reasonable directors pay is an amount, like $100 per Board meeting or some other amount deemed reasonable in the country as compensation for time spent by a senior professional.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐

Too little — Reasonable — Too much

C. Meetings of the Board

2.10 Does the board conduct regular meetings of at least quarterly and at most monthly?

Answer "yes" if the Board meets regularly (on fixed schedule) between monthly and quarterly periods. If some other schedule like the legal minimum of annual or on "call" basis, answer "no".

Yes ☐ No ☐

2.11 Are the minutes of the meeting duly taken and shows details about the discussions, particularly the positions taken by directors on key issues?

Two requirements for a "yes" answer to the questions are whether somebody takes minutes of the Board, usually the Board secretary, and whether those minutes are detailed enough to know the opinions expressed by directors on specific issues discussed and decided upon by the Board. If minutes are taken but details are not shown, answer "no".

Yes ☐ No ☐

2.12 How many of the board directors have attendance of meetings (include electronic conference meetings if allowed by authorities):

For example, if the Board meetings are monthly, count directors attended:

2.12.1 at least 75% of board meetings last year? ________
9 or more meetings last year

2.12.2 Less than 25% of board meetings last year? ________
3 or less meetings last year

2.13 How many of your directors are concurrent directors:

Count the number of directors with directorships according to the 3 categories given. Directorships at institutions are counted as 1 regardless of size but do not include civic organizations, country clubs and the like. The guideline is that institutions should have important issues for the Board and that there is a "bottom line" set of objectives that a Board works to achieve.

2.13.1 in more than 10 institutions? ________

2.13.2 in 5 to 10 institutions? ________

2.13.3 in less than 5 institutions? ________

3.0 COMMITMENT TO CORPORATE GOVERNANCE REFORMS

3.1 Does the FI have a written code of corporate governance that has been adopted by the Board and accepted by regulators?

Answer "yes" only if the Code of Governance is in writing and approved by the Board.

Yes ☐ No ☐

3.2 Is the Chairman of the board specifically responsible for ensuring adherence to the code and the company law?

Answer of "yes" if the Chairman is specified in the Code as the person responsible for enforcing the Code. Otherwise, if the Code is silent, answer "no".

Yes ☐ No ☐

3.3 Does the FI have a written code of ethics that a director signs in to upon appointment as director?

Answer "yes" if there is a Code of Ethics document that is separate from the Code of Governance and accepted by a director by signing the document upon his/her appointment. Answer "no" otherwise.

Yes ☐ No ☐

3.4 Does the FI have a full-time compliance officer responsible for ensuring compliance with laws and regulations

Answer "yes" only if there is a separate position and full-time compliance officer. If the answer is "yes", proceed to the next questions about the incumbent compliance officer.

Yes ☐ No ☐

a) Is the compliance officer separate from Internal Audit Department?

Answer "yes" if the Compliance Officer is not doing internal audit functions for the Internal Audit Department. Answer "no" otherwise.

Yes ☐ No ☐

b) Does the compliance officer report directly to the Audit Committee of the board?

Answer 'yes' if the Audit Committee supervises the Compliance Officer. If the answer is "no", specify to whom the Compliance Officer reports.

Yes ☐ No ☐

If not, to whom does the compliance officer report?

____

c) Does the compliance officer report the results of the regulatory examination to the board?

Answer "yes" if the Compliance Officer reports the results of regulatory review directly to the Board. Answer "no" otherwise.

Yes ☐ No ☐

d) What is the degree of access by the compliance officer to information, whether from management or the board?

Rate the access of the Compliance Officer to information. A rating of between "5" and "7" means that he/she can access any information in a timely manner.

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐

No direct access Acceptable access Ample access

4.0 AUDITING

4.1 Does the FI have an Audit Committee of the board with a written charter?

Answer "yes" if there is an Audit Committee with a written charter specifying the scope of responsibility and composed of directors. Answer "no" otherwise.

Yes ☐ No ☐

4.2 Does the audit committee recommend the selection of independent auditors?

Answer "yes" if the Audit Committee assists the Board in reviewing the proposals of auditors and recommends the independent auditors. Answer "no" otherwise.

Yes ☐ No ☐

4.3 Do the CEO and the Chief Financial Officer make an annual certification that the audited financial statements of the financial institution do not contain material misstatements and omissions?

Answer "yes" if the CEO and the chief financial officer sign a statement of responsibility for the financial statements and certify that they do not contain material misstatement and omission. Answer "no" otherwise.

Yes ☐ No ☐

4.4 Does the FI have an internationally accredited auditors or one recognized by the government?

Answer "yes" if the independent auditor of the financial institution has international affiliation and accreditation. Answer "no" otherwise.

Yes ☐ No ☐

4.5 Is the audited annual report of the FI submitted to regulators and issued to the public within 3 months from year end?

Answer "yes" if the audited annual report of the financial institution is distributed to the public and government regulators within 3 months from the yearend of the financial institution. Answer "no" otherwise.

Yes ☐ No ☐

5.0 DISCLOSURE

5.1 Does the FI's annual report have a Management Discussion and Analysis that extensively discusses factors that could affect the valuation of the FI, e.g., its credit and CAMEL rating, strategies, growth areas and potentials, etc?

Answer "yes" if the audited annual report presents Management Discussion & Analysis and strategies for competing and growing the financial institution in the future.

Yes ☐ No ☐

5.2 Does the FI's annual report discuss the FI's risk management system and its major risk factors?

Answer "yes" if the financial institution's annual report discusses its risk management system and its major risk factors. Answer "no" otherwise.

Yes ☐ No ☐

5.3 Does the FI's annual reports offer meaningful details like portfolio composition, business segment performance, potential liabilities, in conformity with International Financial Reporting Standards etc.

Answer "yes" if the annual report of the financial institution includes details about its portfolio, performance of each business segment, ownership, credit rating, etc. Answer "no" otherwise.

Yes ☐ No ☐

5.4 Are transactions with related parties revealed through and established mechanism, approved by regulators and the central bank (or its equivalent institution)?

Answer "yes" if the annual audited financial statements and the notes reveal sufficient details about transactions with related parties.

Yes ☐ No ☐

Checklist of Indicators of the Quality of Corporate Governance of Corporate Borrowers

Who Should Prepare this Checklist:
The Relationship Manager (RM) or Account Officer (AO) in-charge of the corporate borrower's loan account should prepare this Form. The RM or AO can consult with other officers of the bank who handle the other businesses of the corporate borrower, e.g., deposits, trust, international transactions.

Name of the Corporate Credit Customer:

Name of the Bank Officer Evaluator:

Instruction: *Put a check mark in the box indicated if the indicator has been* ***observed to a significant degree*** *in the subject corporate borrower. There should be sufficient observation in practice before the evaluator can put a check mark in the box.*

A. Creating Value for Shareholders and Fair Treatment of Creditors

☐ 1. The CEO and CFO operate under a strategic plan approved by the Board.

☐ 2. Substantial related-party transactions without proper disclosure of amounts involved and nature of transactions

☐ 3. Advances by major shareholders to the corporation are recognized as current liabilities

☐ 4. Management is involved in the budget process of the company that the Board reviews and approves.

☐ 5. Chronic cash flow problems although reporting growing earnings.

☐ 6. Investment and expansion plans are approved by the Board.

☐ 7. Company has been consistently earning a healthy rate of return over the past years.

B. The Chairman and the Board

- ☐ 1. A significant portion of the Chairman and CEO's compensation represented by bonuses or other incentives contingent upon achieving high and difficult targets for operating results or financial positions.
- ☐ 2. An excessive interest by the Board or Chairman in increasing stock price or earnings trend through the use of unusually aggressive accounting practices.
- ☐ 3. A number of directors have deep expertise and experience in the company's line of business.
- ☐ 4. High turn-over of senior management, legal counsel, or board directors.
- ☐ 5. History of securities law violations or claims against the entity or its senior management alleging fraud or violations of securities law and listing rules.
- ☐ 6. The Board is active and meets every month or at least every quarter.
- ☐ 7. Strained relationship between management and the current or predecessor auditor.
- ☐ 8. Deep awareness (and efforts to respond through policies) by the Board and management over rapid changes in the industry, such as significant declines in customer demand, high vulnerability to rapidly changing technology and markets or rapid product obsolescence.
- ☐ 9. Significant related-party transactions not in the ordinary course of business or with related entities not audited or audited by another firm.
- ☐ 10. Significant, unusual, or highly complex transactions close to year and that pose difficult "substance over form" questions.
- ☐ 11. Significant bank accounts or subsidiary or branch operations in tax-haven jurisdictions for which there appears to be no clear business justification.

C. Governance Structures

- ☐ 1. Widely-dispersed business locations with decentralized management and a poor internal reporting system.
- ☐ 2. Insistence by the CEO or CFO that he/she be present at all meetings between the audit committee and internal and external auditors.

- ☐ 3. Overly complex organizational structure involving numerous or unusual legal entities or subsidiaries and affiliates, or contractual arrangements without clear business purpose.
- ☐ 4. Difficulty in determining the organization of the group of companies or identify individuals that actually controls the company.

D. Financial Reporting and External Audits

- ☐ 1. The company's independent auditors are internationally accredited or belong to a select group of leading audit firms in the country.
- ☐ 2. Large transactions around the financial statement cut-off dates that result in significant revenues in quarterly or annual reports.
- ☐ 3. Independent auditors work under the supervision of the Audit Committee of the Board.
- ☐ 4. Changes in independent auditors caused by accounting or auditing disagreements with the Board or the CEO (i.e., the new auditors agree with the CEO and the old auditors do not) or for no apparent cause.
- ☐ 5. Apparent inconsistencies between the fact underlying the financial statements and Management's Discussion and Analysis of financial condition and results of operations (MD&A) and the President's letter (e.g., the MD&A and letter present a "rosier" picture than the financial statements warrant).
- ☐ 6. Hesitancy, evasiveness, and/or lack of specifics from management or auditors regarding questions about financial statements especially large unexplained revenues or assets.
- ☐ 7. Frequent disagreement on financial recording or reporting issues between management and independent auditors.
- ☐ 8. Audited financial statements are submitted to the bank and regulatory agencies within 90 days of year end.
- ☐ 9. Reluctance by management or the Board to make changes in systems and procedures recommended by the internal and/or independent auditors.

E. Transparency and Disclosure

- ☐ 1. Overly optimistic news releases or shareholder communications, with the CEO trying hard to convince creditors and investors of future potential growth.
- ☐ 2. Financial results that seem "too good to be true" or significantly better than competitors -- without substantive differences in operations
- ☐ 3. The annual report discusses the risk factors faced by management and what the Board and management are doing about them.
- ☐ 4. Company meets financial ratios set in debt covenant conditions but consistently close or only exactly matched
- ☐ 5. Details of performance results are available to creditors, e.g., breakdown of results by business line, schedule of inventories and accounts receivable, etc.
- ☐ 6. Accounting principles/practices that are not in line with industry practice.
- ☐ 7. Frequent and significant changes in estimates or reserves for no apparent reasons, that resulted in significant impact on reported earnings.

REFERENCES

National Association of Company Directors (USA), 2002. AUDIT COMMITTEES: A Practical Guide. Washington D.C: The National Association of Corporate Directors.

The Institute of Corporate Directors, (Philippines), Institute Papers on Corporate Governance, 2000 CG 01: CODE OF PROPER PRACTICES FOR DIRECTORS and CG02: ELEMENTS OF A CODE OF CORPORATE GOVERNANCE

Organization for Economic Cooperation and Development, 2000. OECD PRINCIPLES OF CORPORATE GOVERNANCE

FORMS & SPREADSHEETS

ADFIAP CORPORATE GOVERNANCE RATING FORM

A Governance Rating Standard for Development Finance Institutions in the Asia-Pacific Region

Name of Development Finance Institution:

City/Country:

To the DFI Respondent:
As applicable, please rate the following questions within the scale of 1 to 7 with indicated translation or answer with yes or no.

1.0 STAKEHOLDERS AND BENEFICIARIES RIGHTS

1.1 Does the Development Finance Institution's (DFI) Charter and/or Articles of Incorporation identify the stakeholders or beneficiaries of the DFI?

Yes ☐ No ☐

1.2 Are the DFI's investments and credit programs closely linked to the development plans for the beneficiaries?

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐

Not clearly linked — Closely linked

1.3 Are the investments and credit programs prepared under the direction of and approved by the board?

Yes ☐ No ☐

1.4 Does the supervising government ministry review and comment on the DFI's strategy, plans and performance on periodic (at least annual) basis?

Yes ☐ No ☐

1.5 Does the annual report of the DFI including the Management Discussion & Analysis (MD & A) clearly indicate the impact of its services to stakeholders and its beneficiaries?

Yes ☐ No ☐

1.6 Do the stakeholders and beneficiaries have the right to access information and express their opinion on DFI performance?

Yes ☐ No ☐

1.7 Does the government or supervising ministry of the DFI expect the DFI to turn in a reasonable performance in terms of profits and services to beneficiaries?

2.0 BOARD GOVERNANCE

A. The Chairman

2.1 Does the Chairman exercise leadership by setting the agenda for the Board meeting?

Yes ☐ No ☐

2.2 Does the Chairman encourage and give opportunity for directors to participate actively in board deliberations?

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐

No opportunity — Ample opportunity

2.3 Is the Chairman of the Board also the President and CEO of the DFI?

Yes ☐ No ☐

Is the appointment of the Chairman and CEO mandated in the DFI's charter or Articles of Incorporation?

Yes ☐ No ☐

2.4 Is the Board largely separate from management, i.e., does management report to the Board and the Board is not involved in decision-making except for matters reserved for it (e.g., large loans and related party transactions)?

Yes ☐ No ☐

To what degree is the board involved in management of the DFI?

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐

Not involved — Highly involved

B. Members of the Board

2.5 Do directors get appointed under a process ("Fit and Proper Test") that includes a review by authorities of a nominee's experience, character, motivation and skills?

Yes ☐ No ☐

2.6 Is there a separate and more rigorous process used for selecting the Chairman?

Yes ☐ No ☐

2.7 Rate the diversity (different experience and disciplines) and skill levels of your board:

a. Diversity

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐

Similar backgrounds — Very different backgrounds

b. Expertise and skills

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐

General experience — Highly skilled expert

2.8 How many directors are there in the DFI Board? ________

Of this total number of directors, how many are:

a. independent directors ________
b. outside or non-executive directors ________
c. executive directors ________

2.9 Do the directors receive reasonable compensation?

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐

Too little — Reasonable — Too much

C. Meetings of the Board

2.10 Does the board conduct regular meetings of at least quarterly and at most monthly?

Yes ☐ No ☐

2.11 Are the minutes of the meeting duly taken and shows details about the deliberation, particularly positions of directors on key issues?

Yes ☐ No ☐

2.12 How many of the board directors have attendance record of meetings (include electronic video-conference meetings if allowed by authorities):

2.12.1 at least 75% of board meetings last year? ________
2.12.2 less than 25% of board meetings last year? ________

2.13 How many of your directors concurrently hold directorships in:

2.13.1 more than 10 institutions? ________
2.13.2 5 to 10 institutions? ________
2.13.3 less than 5 institutions? ________

3.0 COMMITMENT TO CORPORATE GOVERNANCE REFORMS

3.1 Does the DFI have a written code of corporate governance wherein the beneficiaries, relationship with the government oversight agencies, duties of the board, etc. are specified?

Yes ☐ No ☐

3.2 Is the Chairman of the board specifically responsible for ensuring adherence to the code and the Company Law?

Yes ☐ No ☐

3.3 Does the DFI's annual report have a Management Discussion & Analysis (MD&A) that extensively discusses factors that could affect the valuation of the DFI, e.g., its credit and CAMEL rating?

Yes ☐ No ☐

3.4 Does the DFI have a written code of ethics that a director signs into upon appointment as director?

Yes ☐ No ☐

3.5 Does the DFI have a full-time compliance officer responsible for ensuring compliance with laws and regulations?

Yes ☐ No ☐

If the DFI has a compliance officer:

a) Is the compliance officer separate from Internal Audit Department?

Yes ☐ No ☐

b) Does the compliance officer report directly to the Audit Committee of the board?

Yes ☐ No ☐

If not, to whom does the compliance officer report?

____

c) Does the compliance officer report the results of the regulatory examination to the board?

Yes ☐ No ☐

d) What is the degree of access by the compliance officer to information, whether from management or the board?

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐

No direct access Acceptable access Ample access

4.0 AUDITING

4.1 Does the DFI have an Audit Committee of the Board with a written Charter?

Yes ☐ No ☐

4.2 Does the Audit Committee recommend the selection of independent auditors or does the government as owner mandate the selection of independent auditors?

Yes ☐ No ☐

In either case, does the Audit Committee review the report of the auditors and discuss their audit exceptions?

Yes ☐ No ☐

4.3 Does the DFI have an internationally accredited auditors or a state auditor mandated by the government?

Yes ☐ No ☐

4.4 Do the DFI's Annual report and/or MD&A address the agenda set by the government entity overseeing the DFI?

Yes ☐ No ☐

4.5 Is the audited annual report of the DFI issued to supervising government agency of the DFI and to the public within 3 months from year end?

Yes ☐ No ☐

5.0 DISCLOSURE

5.1 Does the DFI's annual report have a Management Discussion & Analysis that extensively discusses factors that could affect the valuation of the DFI, e.g., its credit and CAMEL rating, portfolio composition, investments, alliances, etc.?

Yes ☐ No ☐

5.2 Does the DFI's annual report discuss the DFI's risk management system and its major risk factors?

Yes ☐ No ☐

5.3 Does the DFI's annual reports offer meaningful details like portfolio composition, business segment performance, potential liabilities, in conformity with International Financial Reporting Standards etc.

Yes ☐ No ☐

5.4 Are transactions with related parties revealed through an established mechanism, approved by regulators and the central bank (or its equivalent institution)?

Yes ☐ No ☐

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A Governance Rating Standard for Commercial Banks and Other Financial Institutions in the Asia-Pacific Region

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City/Country:

To the respondent financial institution:
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Yes ☐ No ☐

1.2 Are the rights of the stakeholders under the law actively respected in the governance process in terms of attention by the Board, provision of relevant information and consultations with stakeholders?

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐
No attention — Indifferent — Extra effort and respect

1.3 Do majority shareholders exert efforts to encourage other shareholders to attend and vote during the annual general shareholder meetings?

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐

1.4 Are all shareholders given the right to subscribe when the FI's Board increases its share capital by more than 10%?

Yes ☐ No ☐

1.5 Please rate the way financial and non-financial information is provided to all shareholders, especially those not involved in amount (details) of information?

- Adequate amount (details) of information?

  1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐
  Very low — Very High

- Reliable and accurate information?

  1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐
  Very low — Very High

- Transmitted on time?

  1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐
  Very low — Very High

- Presented to show comparisons?

  1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐
  Very low — Very High

- Contains important non-financial information to explain performance?

  1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐
  Very low — Very High

2.0 BOARD GOVERNANCE

A. The Chairman

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Yes ☐ No ☐

2.2 Does the Chairman encourage and give opportunity for directors to participate actively in board deliberations?

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐
No opportunity — Ample opportunity

2.3 Is the Chairman of the Board also the President and CEO of the FI?

Yes ☐ No ☐

Is the appointment of the Chairman and CEO mandated in the FI's charter or Articles of Incorporation?

Yes ☐ No ☐

2.4 Is the Board largely separate from management, i.e., management reports to the Board and the Board is not involved in decision-making except for matters reserved for it (e.g., large loans and related party transactions)

Yes ☐ No ☐

To what degree is the Board involved in management of the FI?

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐

Not involved — Highly involved

B. Members of the Board

2.5 Do directors get appointed under a process ("Fit and Proper Test") that includes a review by authorities of a nominee's experience, character, motivation and skills?

Yes ☐ No ☐

2.6 Is there a separate and more rigorous process used for selecting the Chairman?

Yes ☐ No ☐

2.7 Rate the diversity (different experience and disciplines) and skill levels of your board:

a. Diversity

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐

Similar backgrounds — Very different backgrounds

b. Expertise and skills

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐

Broad exposure and experience — Highly skilled experts

2.8 How many directors (members) are there in the Board? ________

Of this total number of directors, how many are:

a. independent directors ________

b. outside or non-executive directors ________

c. executive directors ________

2.9 Do the directors receive reasonable compensation?

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐

Too little — Reasonable — Too much

C. Meetings of the Board

2.10 Does the board conduct regular meetings of at least quarterly and at most monthly?

Yes ☐ No ☐

2.11 Are the minutes of the meeting duly taken and shows details about the discussions, particularly the positions taken by directors on key issues?

Yes ☐ No ☐

2.12 How many of the board directors have attendance of meetings (include electronic conference meetings if allowed by authorities):

2.12.1 at least 75% of board meetings last year? ________

2.12.2 Less than 25% of board meetings last year? ________

2.13 How many of your directors are concurrent directors:

2.13.1 in more than 10 institutions? ________

2.13.2 in 5 to 10 institutions? ________

2.13.3 in less than 5 institutions? ________

3.0 COMMITMENT TO CORPORATE GOVERNANCE REFORMS

3.1 Does the FI have a written code of corporate governance that has been adopted by the Board and accepted by regulators?

Yes ☐ No ☐

3.2 Is the Chairman of the board specifically responsible for ensuring adherence to the code and the company law?

Yes ☐ No ☐

3.3 Does the FI have a written code of ethics that a director signs in to upon appointment as director?.

Yes ☐ No ☐

3.4 Does the FI have a full-time compliance officer responsible for ensuring compliance with laws and regulations

Yes ☐ No ☐

a) Is the compliance officer separate from Internal Audit Department?

Yes ☐ No ☐

b) Does the compliance officer report directly to the Audit Committee of the board?

Yes ☐ No ☐

If not, to whom does the compliance officer report?

____

c) Does the compliance officer report the results of the regulatory examination to the board?

Yes ☐ No ☐

d) What is the degree of access by the compliance officer to information, whether from management or the board?

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐

No direct access Acceptable access Ample access

4.0 AUDITING

4.1 Does the FI have an Audit Committee of the Board with a written charter?

Yes ☐ No ☐

4.2 Does the Audit Committee recommend the selection of independent auditors?

Yes ☐ No ☐

4.3 Do the CEO and the Chief Financial Officer make an annual certification that the audited financial statements of the financial institution do not contain material misstatements and omissions?

Yes ☐ No ☐

4.4 Does the FI have an internationally accredited auditors or one recognized by the government?

Yes ☐ No ☐

4.5 Is the audited annual report of the FI submitted to regulators and issued to the public within 3 months from year end?

Yes ☐ No ☐

5.0 DISCLOSURE

5.1 Does the FI's annual report have a Management Discussion and Analysis that extensively discusses factors that could affect the valuation of the FI, e.g., its credit and CAMEL rating, strategies, growth areas and potentials, etc?

Yes ☐ No ☐

5.2 Does the FI's annual report discuss the FI's risk management system and its major risk factors?

Yes ☐ No ☐

5.3 Does the FI's annual reports offer meaningful details like portfolio composition, business segment performance, potential liabilities, in conformity with International Financial Reporting Standards etc.

Yes ☐ No ☐

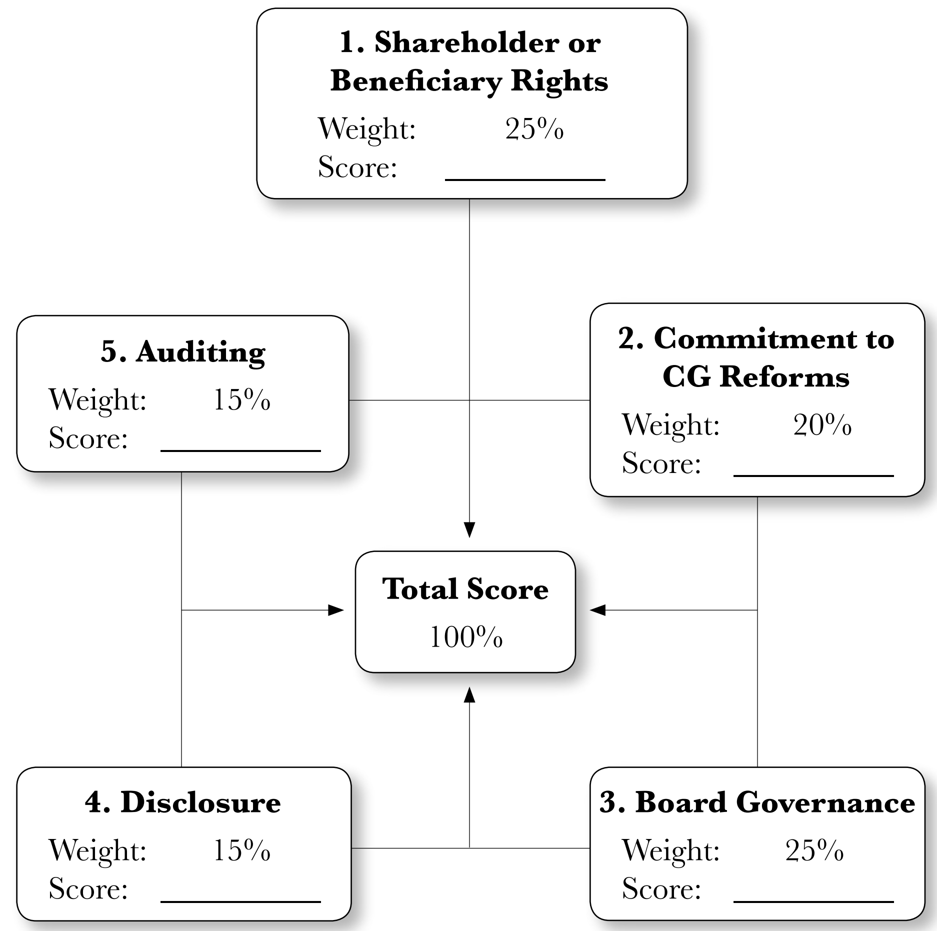
5.4 Are transactions with related parties revealed through and established mechanism, approved by regulators and the central bank (or its equivalent institution)?

Yes ☐ No ☐

FIGURE 1

Overview of the ADFIAP Corporate Governance Rating Form

(Rating Criteria and Areas for Improvement of Corporate Governance Systems of Financial Institutions)



ANNEX I

Point System for Development Finance Institutions

Name of DFI: **Date of Evaluation:**

Item	Corporate Governance Area	Max Score	Raw Score	Total Score for Parts 1 - 4	Comments on Areas for Improvement
Part 1	**Stakeholders and Beneficiary Rights**	**25%**			
	1.1 Beneficiaries	4%			
	1.2 Link to of investments and credit programs to dev't plans	4%			
	1.3 Supporting programs	4%			
	1.4 Feedback	4%			
	1.5 Benefits to stakeholders	3%			
	1.6 Info access	3%			
	1.7 Reasonable return	3%			
Part 2	**The Board and Its Governance Role**	**25%**			
	A. Chairman	**10%**			
	2.1 Chair leadership	2%			
	2.2 Director participation	2%			
	2.3 Separation CEO-Chair	2% if No and 0 if Yes			
	2.4 Involvement in mgt	2% if 1-2, 1% if 3-4, 0% if 5-7			
	2.6 More rigorous process for Chairman	2%			
	B. Board Members	**10%**			
	2.5 Fit & Proper Test directors	2%			
	2.7 a) Diversity	2%			
	2.7 b) Expertise	2%			
	2.8 Independent directors	2%			
	2.9 Director compensation	2% if 3,4,5 & 0 otherwise			
	C. Board Meetings	3%			
	2.1 Regular meetings	2%			
	2.11 Detailed minutes	1%			
	2.12 Director attendance	1% if > 20% of Board			
	2.13 Number of directorships	1% if 4 or less			
Part 3.	**Commitment to CG**	**20%**			
	3.1 Code of CG	2%			
	3.2 Chair's CG role	3%			
	3.3 MD&A portion of annual report	2%			
	3.4 Code of Ethiics	2%			
	3.5 Full time Compliance Officer	2%			
	a) Separate from Internal Auditor	2%			
	b) Report to Audit Com	3%			
	c) Supervision reports	2%			
	d) Degree of access to information	2%			
Part 4	**External Auditing**	**15%**			
	4.1 Board Audit Com charter	3%			
	4.2 Selection of external auditor	3%			
	4.3 Accredited external auditors	3%			
	4.4 Mgt reports meet oversight req.	3%			
	4.5 Public report in 3 months	3%			
Part 5	**Disclosure**	**15%**			
	5.1 Policy on disclosure	4%			
	5.2 Risk reporting	4%			
	5.3 Reports with details	4%			
	5.4 Related party transactions	3%			
			Total Score		

Guidelines on scoring:
1. For items answerable by "Yes" or "No", assign the maximum points for Yes and Zero for No, except as indicated.
2. For items with 7 point scale, and maximum of 4%: 0-1 = 1% 2-3 = 2% 4-5 = 3% 6-7 = 4%
   For items with 7 point scale, and maximum of 2%: 0-1 = .5% 2-3 = 1% 4-5 = 1.5% 6-7 = 2%
3. For other items, follow indicated scores corresponding to response.

Point System for Banks and other Financial Institutions

Name of Bank or Financial Institution:

Item	Corporate Governance Area	Maximum Score	Raw Score	Total Score for Parts1-4	Comments on Areas for Improvement
Part 1	**Shareholder Rights**	**25%**			
	1.1 Same voting rights	5%			
	1.2 Protection of shareholder	4%			
	1.3 Encourage attendance in shareholders' meeting	5%			
	1.4 Right to keep proportionate ownership	4%			
	1.5 Information to shareholders				
	a) adequate amount	2%			
	b) accurate	2%			
	c) timely	1%			
	d) comparative	1%			
	e) with non-financial factors	1%			
Part 2	**The Board and Its Governance Role**	**25%**			
	A Chairman	10%			
	2.1 Chair leadership	2%			
	2.2 Director participation	2%			
	2.3 Separation CEO-Chair	2% if No and 0 if Yes			
	2.4 Involvement in mgt	2% if 1-2, 1% if 3-4, 0% if 5-7			
	2.6 Selection of Chair is more rigorous	2%			
	B Board Members	10%			
	2.5 F&P Test directors	2%			
	2.7 a. Diversity	2%			
	2.7 b. Expertise	2%			
	2.8 Independent directors	3%			
	2.9 Director compensation	1%			
	C Board Meetings	5%			
	2.1 Regular meetings	2%			
	2.11 Detailed minutes	1%			
	2.12 Director attendance	1% if >20%, 0 otherwise			
	2.13 Number of directorships	1% if 4 or less, 0 otherwise			
Part 3	**Commitment to CG**	**20%**			
	3.1 Code of CG	3%			
	3.2 Chair's CG role	3%			
	3.3 Code of Ethics	3%			
	3.4 Full time Compliance Officer	2%			
	a Separate from Int. Auditor	2%			
	b) Report to Audit Com	3%			
	c) Supervision reports	2%			
	d) Degree of access to info	2%			
Part 4	**Auditing**	**12%**			
	4.1 Board Audit Com charter	3%			
	4.2 Selection of external auditor	3%			
	4.3 Board certification of FS	2%			
	4.4 Accredited external auditors	2%			
	4.5 Mgt submits financial statements within 90 days	2%			
Part 5	**Disclosure**	**15%**			
	5.1 Policy on disclosure	4%			
	5.2 Risk reporting	4%			
	5.3 With details on portfolio, etc.	4%			
	5.4 Disclosure of related party transactions	3%			
				Total Score	

Guidelines on scoring:
1. For items answerable by "Yes" or "No", assign the maximum points for Yes and Zero for No, except as indicated.
2. For items with 7 point scale, and maximum of 4%: 0-1 = 1% 2-3 = 2% 4-5 = 3% 6-7 = 4%
   For items with 7 point scale, and maximum of 2%: 0-1 = .5% 2-3 = 1% 4-5 = 1.5% 6-7 = 2%
3. For other items, follow indicated scores corresponding to response.

STATEMENT OF MISSION

To advance sustainable development by strengthening the development finance function and institutions, enhancing capacity of members, and advocating development finance innovations