



Kazakhstan private banks: Select issues in corporate governance and transparency

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Why corporate governance is on the banks' agenda?

- ❑ Strong growth of Kazakh private banks in recent years was based, to a great extent, on the availability of cheap long-term debt-financing, primarily outside of Kazakhstan
- ❑ Recent credit crunch in the international debt markets and the correspondingly tightened regulatory requirements in Kazakhstan are likely to force the banks to reconsider their strategy with respect to funding

Why corporate governance is on the banks' agenda?

- ☐ **In-country borrowing opportunities are limited and might not be sufficient to fund sustainable growth**
- ☐ **In the near future more and more banks may be looking to international equity markets and consider capital injection as the most cost-effective way of financing their growth**
- ☐ **Increased demand for equity-financing brings the issue of corporate governance at the core of Kazakh banks' agenda**

Corporate governance in banks: Why is it so specific?

- ☐ **Corporate governance in finance organizations requires a different approach compared to what we see in industrial corporations**
- ☐ **Being a highly-leveraged businesses, compared to real-sector companies, banks are typically more dependent on the availability of outside funding, preferably long-term funding**
- ☐ **Banks are deemed to have a “fiduciary duty to care” both to the country’s households and the economy as a whole**

Corporate governance in banks:

Risk management

- ☐ Risk management is key for an entity's attractiveness for a potential investor
- ☐ The ability of a banking organization to identify and effectively manage its risks is probably the cornerstone of a bank's corporate governance system

Corporate governance in banks:

Risk management

- ☐ The risks that a banking organization faces are numerous and are not limited only to operational risks
- ☐ Some risks are more difficult to manage and require more sophisticated systems and tools to manage them
- ☐ A solid and comprehensive risk management system is what a potential foreign investor would be willing to see in a Kazakh bank in the first place

Corporate governance in banks:

Risk management

- **A good risk management system will have all these parties cooperate effectively**

Shareholders:	highest-level decision-making
Board:	strategy
RM Committee:	setting standards & monitoring
Management:	implementation
Audit committee:	monitoring
Internal auditor:	monitoring & reporting
External auditor:	audit & reporting

Risk management: Banks in Kazakhstan

- ☐ **The National Bank adopted a special instruction that focuses on risk management in commercial banks**
- ☐ **The instruction is based on the standards of the Committee on Banking Supervision of the Bank for international Settlements**
- ☐ **To further improve the existing instruction its focus might be shifted from testing “existence” to testing “effectiveness”**
- ☐ **Lack of sophisticated risk management software significantly limits domestic banks in their ability to apply their risk management procedures**

Risk management: Banks in Kazakhstan

- ☐ **A good risk management system will be reviewed and changed constantly in order to addresses the changing risk environment**
- ☐ **Risks may be not related directly to an entity's finances, and Kazakh banks are yet to start concentrate on non-financial risks**

Corporate governance in banks: Transparency

- ☐ Transparency is often hampered by the existing conflicts of interest
- ☐ Conflicts of interest and inadequate disclosure are probably key obstacles to a bank's efforts to increase its attractiveness for a potential investor
- ☐ A strong board of directors may be a right answer to address conflicting interest, provided it includes independent directors who are prepared to ask “uncomfortable” questions



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