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*Corporate Governance of State-Owned Enterprises
Corporate Governance of Banks*

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Session 4: The Role of Banks in Corporate Governance
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Mr Armen Mathevosyan, Head of Internal Control Department, Bank Republic, Georgia

Dear Ladies and Gentlemen,

Let me first to introduce myself. My name is Armen Mathevosyan. I represent Bank Republic – one of the largest commercial banks in Georgia.

We can talk a lot about all the advantages - sound practices of corporate governance bring to a business, but recently I came across results of studies performed by Paul Gompers of Harvard and Andrew Metrick of the University of Pennsylvania's Wharton School, which confirmed that "firms with stronger shareholder rights had higher firm value, higher profits, higher sales growth, lower capital expenditures, and fewer corporate acquisitions." Investors who bought firms with the strongest democratic rights and sold those with the weakest rights "would have earned abnormal returns of 8.5 percent per year during the sample period."

In the recent past, companies learned they could create better products more efficiently with the full mental participation of their employees. Today, investors are learning that participation by shareowners also adds value to the invested business.

In countries with transitional economies like Georgia is, the commercial banking sector is always ahead in its development of any other businesses in the economy. Not only are the banks leaders in development, but they often are the standard setters as far as, because of underdeveloped capital markets the banking sectors in these nations represent the main if not the solely suppliers of financing to the corporate sector via crediting activities.

Yes, - we may influence and accelerate development of corporate governance practices in the corporate world of our countries via setting specific evaluation criteria for assessment of various risks associated with client. Results of the concrete study by authoritative scholars, mentioned by me previously in my speech, only underline the fact that corporate customers with good corporate governance practices bear all the features of lower risk borrowers. And this is important, because isn't that something we all are looking for when assessing a potential borrower? It is at the same time important to make it clear to both our potential and existing customers, that we favor the ones with good corporate governance and avoid the others. It is possible to make a parallel with the world investment society, willing to invest actively in countries with established democracy and avoiding performance of business in politically unstable and totalitarian regimes.

At the same time it is important to influence corporate governance practices in our countries by setting examples. In the case of our Bank, which was the first commercial bank in Georgia to be chosen and to start a Business Development Project with International Finance Corporation, aimed at improvement of corporate governance practices in 2004 – it is truly demonstrated. Not only the efficiency and effectiveness of our bank enhanced, resulting in more than 100% growth of the Bank's assets over the past 2 years, but today our Bank has offers from several international private equity funds as well as from a multinational strategic investor for equity investment.

If several years ago we were limiting ourselves with an objective to maintain positions of one of the leading commercial banks in Georgia, today with the assistance of our potential investors we have plans to become the leader in the national banking sector and expand our business to the member states of Trans-Caucasian region. Of course such an evolution required a lot of hard work and dedication of our bank's management and employees, but the fact of interest of international investment community in our bank is a true result of our big efforts both to improve our corporate governance activities and to increase the transparency of our business as well as to widely inform the public about this fact.

The big investment event expected by us within the closest few months will be a true demonstration of all the benefits of implementation of high quality corporate governance practices for the whole corporate world of Georgia. We think this as well as other planned activities to implement corporate governance evaluation criteria into our crediting activities, will be a good job done by us to serve the interests of implementation and harmonization of corporate governance practices in the Eurasia.