

Bank Disclosure Index

Global Assessment of Bank Disclosure Practices

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*The Report assigns a composite **Bank Disclosure Index** to each of the ~180 countries surveyed in the study, yearly since 1994. Using a checkbox approach to analyze financial statements of individual banks, the index seeks to quantitatively measure the actual disclosure practices of commercial banks around the world, in relation to their assets, liabilities, funding, incomes, and risk profiles. The measurement framework is compatible with IMF's Financial Soundness Indicators (FSI) system, as well as Basel Committee's prescriptions on bank accounting disclosures. The framework is applicable to banks in low and mid-income countries. Specific policy prescriptions can be made automatically based on the sub-index and sub-component scores linked to individual disclosure categories. The Report also utilizes the time-series and cross-sectional variations of the Index to conduct a series of assessments and diagnoses on several systematically important developing countries and regions, as examples to demonstrate the Index's policy applications.*

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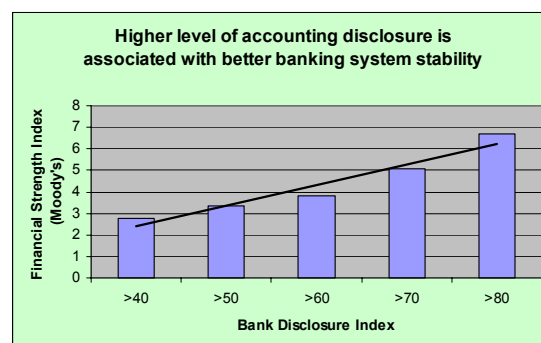


I. Why assess bank disclosure practices?

Enhanced accounting disclosure leads to better transparency and stronger market discipline in the banking sector. The third pillar of Basel II, Basel Core Principles No.21, and recently the Policy Brief released by the OECD “Corporate Governance of Banks” Task Force, have explicitly asked for better disclosures by banks to allow the market to have a better picture of the overall risk position of the banks and to allow the counterparties of the banks to price and deal appropriately. More disclosures should reduce information asymmetry between those with privileged information and outside small investors, and facilitate more efficient monitoring, because sufficient information is necessary for market participants to exert effective disciplinary roles.¹ According to a McKinsey “Global Investor and Emerging Market Policymaker Opinion Survey on Corporate Governance”, “accounting disclosure” was listed as the number one most important factor considered by 71% of investors surveyed, and “enhanced disclosure” was named as number one key progress area by 44% of policymakers.

Accounting disclosure is raised to a particularly high level of importance for banking organizations compared to non-financial firms, for banks are inherently more opaque. Accounting reports are almost the sole source of information for bank investors and other stakeholders. Banks own few physical and visible assets, and investors can acquire a sense of a bank’s performance and asset quality only from accounting numbers. Earnings numbers alone are not adequate for assessing the valuation of banks, the main business of which is to take risks and to provide liquidity (and thus earnings can be inflated through doing more of them). Thus profitability does not give investors the whole picture of the bank’s financial situation, until risk profile of the bank is holistically disclosed. Finally, aggregate accounting numbers (e.g., *total profits*, *total loans*) without reasonable level of breakdown is less informative for banks than it is for industrial firms, because the most important information usually lies in the details of the sources of income and expenses, or quality of assets. Investors need this information to make judgments on which incomes are sustainable and which expenses are recurring.

Transparency and disclosure is important ingredient of banking sector stability. Enhanced bank disclosures have been showed to be able to make banking crisis less likely to happen (Tadesse [2005], Hoggarth, Jackson, and Nier [2003]), because in high disclosure regime banks are less likely to take excessive risks (Nier and Baumann [2006]), and when they happen



¹ As proposed by Andrew Crocket (BIS), four pre-conditions have to be met in order for market discipline to work effectively. They are: (1) Market participants need to have sufficient information to reach informed judgments. (2) They need to have the ability to process it correctly. (3) They need to have the right incentives. (4) They need to have the right mechanisms to exercise discipline.



the losses less costly (Rosengren [2001]). The reason is that worse-run banks will see their funding base shrink as a result of market discipline, and thus situations would not have deteriorated to a disaster-level in the first place. The key for market discipline however is information disclosure. Cordella and Yeyati (1998) and Boot and Schmetis (2000) both show that, ex-ante, managers will choose lower risk when the risk profile is observable to outsiders; and ex-post, when a banking crisis does occur; for example, Hoggarth et al. (2003) argue that disclosures reduce the likelihood of runs on fundamentally sound banks.

Enhanced accounting disclosures should be required for not only publicly-traded banks, but also for privately-held and state-owned banks, because of the systematic importance of banks in national economy, their deposit-taking from the general public, and the safety net extended to them financed by taxpayers. When banks are insured or owned by the government, bank disclosures provide important information for tax payers, who potentially and ultimately shoulder the costs of bail-outs, in monitoring and disciplining the banks, the bank supervisors, and the elected government. In this context, transparency and disclosure of banks can be regarded as a component of IMF's "Code of Good Practices on Fiscal Transparency" too, as bank performance (on the negative side) is linked to fiscal performance. For government-owned banks in particular, transparency and disclosure has already been listed as one of the key principles of the "OECD guidelines of governance of state-owned enterprises".

Transparency & disclosure is one of the core components emphasized in many Bank/Fund operations in financial sector, e.g., FSAP, ROSC, and IFC's Corporate Governance Assessment. Currently, data needed for assessment purpose are collected on an *ad hoc* basis prior to each individual FSAP or ROSC missions. The establishment of a quantitative benchmarking system with timely data on disclosure practices around the globe is long overdue and if completed will greatly facilitate cross-country comparisons and the use of peer pressures in catalyzing reforms. Furthermore, the disclosure items examined in this project are closely linked to what are already included in IMF's Financial Soundness Indicators (FSI) framework (the core and the encouraged set), which creates compatibility with IMF-led operations, while at the same time seeks to provide more disaggregated and micro level information in the assessment of financial stability in member countries.

A simplified, relevant, and standardized checklist of core disclosure items needs to be developed for low and mid-income countries. There already are many initiatives made by not only international standard-setting bodies such as the IASB and Basel Committee, but also national regulators to standardize financial reporting of banks, to make information disclosure more comparable across banks, through for example fixed formats of presentation. In BCBS report "Enhancing bank transparency", it is recommended that "one area in which supervisors are well suited to take on a productive role is in enhancing comparability by promoting the use of supervisory definitions and reporting classifications in public disclosure." The new IFRS 7 has replaced IAS 30 and asks for more detailed disclosure from financial institutions. Comprehensive as the new rule



certainly is, the long laundry list prescribed is too remote for less complex banks in mid- and low-income developing countries. A smaller checklist of core items thus is needed, which has to be concise, easy to understand, easy to benchmark, and applicable to economies at all stages of development.

II. A Checkbox Approach to Measuring Disclosure Practices

The project seeks to benchmark bank disclosure practices across countries and individual banks, by developing and implementing a quantitative measurement system that caters to the specific nature of banking business. Center to the project is the creation of a Bank Disclosure Index, which creates an initial platform and discussion point for opinion-seeking and consensus-building. Hopefully the publication and dissemination of the indices will help raise public awareness regarding the inadequacy of accounting disclosures among banks in developing countries, contribute to the dialogue on corporate governance of banks, and help set reform agenda to address the vulnerabilities identified by the indices.

II.A. Bank Disclosure Index (Core Set of Disclosure Items)

A Bank Disclosure Index (core set) is created based on the measurement framework originally proposed by *Erlend Nier* from the Bank of England. The composite index is first created for individual banks by measuring the level of details banks provide in their published accounts on seventeen core disclosure items, and then the national index is created by averaging the index values of individual banks in a country, weighted by their assets.

The headline Disclosure Index is a composite disclosure index that aggregates information from six categories of disclosures, including: (1) *LOANS*: breakdown of loans by maturity, type, counterparty, credit risk, problem loans, etc; (2) *OTHER EARNIGN ASSETS*: breakdown of securities by type, and hold purpose; (3) *DEPOSITS*: breakdown of deposits by maturity, type of customer; (4) *OTHER FUNDING*: breakdown of money market funding, and long-term funding; (5) *MEMO LINES*: disclosures of capital ratio, reserves, contingent liabilities, off-balance-sheet, etc; (6) *INCOMES*: breakdown of non-interest income and disclosure of loan loss provisions. A sub-index is created for each category of disclosures. These sub-indices further contain a total of seventeen disclosure items, which are listed and explained in *Table 1*.

In *Table 1*, we also seek to link each disclosure items to risk categories emphasized by Basel Committee as well as FSI indicators proposed by the IMF. We show that there is high compatibility between the disclosure items with the standards/frameworks proposed by other international standard-setting bodies. Each of the items is related to one or more dimensions of a bank's risk profile (interest rate risk, credit risk, liquidity risk and market risk) or the capital/reserves the banks hold to cushion against the risks. Most of them can also find counterparts in IMF's financial stability indicator framework. Drawing results from the IMF's "Survey on the use, compilation, and dissemination of macroprudential



indicators”, we also show that the disclosure items included in the core set are among the most valued and desirable ones according to responses by a large group of national regulators and market participants.

Table 1 Checklist of Disclosure Items (Core Set)

	Disclosure Items	Details of Information / Breakdown by category	Basel Risk Category	IMF FSI [Usefulness Scores ² in brackets. Scale 1-4]
Loans	(1) Loans by maturity	Sub three months, three to six months, six months to one year, one to five years, more than five years	Interest rate risk, Liquidity risk	Duration of assets [3.4]
	(2) Loans by type	Loans to municipalities/government, mortgages, HP/lease, other loans	Credit risk	Real estate loans to total loans [3.2]
	(3) Loans by counterparty	Loans to group companies, loans to other corporate, loans to banks	Credit risk	Large exposure to capital [3.5]
	(4) Problem loans	Total problem loans	Credit risk	Non-performing loans to total gross loans [3.9] Non-performing loans net of provisions to capital [3.8]
	(5) Problem loans by type	Overdue/restructured/other non-performing	Credit risk	
Other earning assets	(6) Securities by type	Detailed breakdown: Treasury bills, other bills, bonds, CDs, equity investments, other investments	Liquidity risk	Liquid assets to total assets (liquid asset ratio) [3.5] Liquid asset to short-term liabilities [3.6]
		Coarse breakdown: Government securities, other listed securities, non-listed securities	Liquidity risk	
	(7) Securities by holding purpose	Investment securities, trading securities	Liquidity risk, Market risk	Net opening equity to capital [3.0]
Deposits	(8) Deposits by maturity	Demand, savings, sub three months, three to six months, six months to one year, one to five years, more than five years	Interest rate risk, Liquidity risk	Duration of liabilities [3.4]

²Source: IMF’s “Survey on the use, compilation, and dissemination of macroprudential indicators”



Bank Disclosure Index: Global Assessment of Bank Disclosure Practices

	(9) Deposit by type of customer	Banks deposits, municipal/government	Liquidity risk	Customer deposits to total (non-interbank) loans [3.2]
Other funding	(10) Money market funding	Total money market funding	Liquidity risk, Market risk	Duration of liabilities [3.4]
	(11) Long-term funding	Convertible bonds, mortgage bonds, other bonds, subordinated debt, hybrid capital	Liquidity risk, Market risk	
Memo Lines	(12) Reserves	Loan loss reserves (memo)	Credit risk	
	(13) Capital	Total capital ratio, tier 1 ratio, total capital, tier 1 capital	Cushion for risk	Regulatory capital to risk-weighted assets [3.8] Regulatory tier 1 capital to risk-weighted assets [3.6]
	(14) Contingent liabilities	Total contingent liabilities	Credit risk	
	(15) Off-balance sheet items	Off-balance sheet items	Credit risk	Gross asset/liability position in financial derivatives to capital [2.8]
Income Statements	(16) Non-interest income	Net commission income, net fee income, net trading income	Market risk	Trading income to total income [3.3]
	(17) Loan loss provisions	Loan loss provisions	Credit risk	

Based on the Checklist elaborated in Table 1, a *checkbox approach* is implemented to codify the level of disclosed details on each of the seventeen core items. For each disclosure item a 0 was assigned if there was no entry of information in any of the corresponding disclosure categories associated with it and a 1 otherwise, except for the “securities by type” and the “capital” items. For the “securities by type” item, a 0 was assigned if there was no entry for any of the associated disclosure categories, a 1 if there was only an entry for the coarse breakdown and a 2 if there was an entry for the detailed breakdown. For the “capital” item, a 0 was assigned if there was no entry in any of the categories, a 1 if there was one entry only, a 2 if there were two entries and a 3 if there were three or four entries.³ Aggregating the information scores on the 17 disclosure items, the composite index can be created with the following formula: $DISC = \frac{1}{20} \sum_{i=1}^{17} s_i \times 100$, as

first proposed by *Erlend Nier*. This checkbox approach was also used in the construction of the CIFAR (*Center for International Financial Analysis Research*) Index of accounting transparency, which has been widely used in policy and academic research, e.g. Rajan and Zingales (1998), and La Porta et al. (1998).

³ Note that whenever a bank provides information on three of these items, one can infer the fourth. Providing three items was therefore viewed as informationally equivalent to providing four items.



These seventeen items constitute the *core set* of disclosure items on which we believe banks should always collect information on and make available to the public. These items are relevant to traditional commercial banks located in countries at all stages of development, and should apply to banks in the poorest part of the world. In contrast, the usefulness of many of the more advanced disclosure items may depend on the complexity and sophistication of the banking system and the idiosyncrasy of the country in question. These items may provide important information for certain group of banks and countries, but it is unrealistic and unpractical that banks of all size and in all countries need to prepare such detailed disclosures such as the 300-pages long 20-F reports of Banco Santander Chile (ADR). In this context, the information availability of the *core* disclosure items in our list is rather internationally comparable, because under any accounting regimes and at any stages of economic and financial development, these items are needed in order for investors to be able to understand the state of the banks' operations.

Certainly, the definitions of the items may differ by country, but it is less a problem here because we are comparing availability not the values of the numbers. Finally, a caveat has to be borne in mind when interpreting the index, that although the failure to publicize information on these disclosure items is certainly an indicator of opacity, even full disclosure of all of them is not bulletproof guarantee of transparency. Information provided by the banks may not be completely true and fair, and a lot of important information can be revealed only in more advanced level of disclosures not covered by the items in the *core set*. Nevertheless, it is still a wise decision to fasten your seat belt although people wearing seat belts still die from car crashes. Less of them do, compared to those who drive without.

Similar to the *Transparency and Disclosure (T&D) Study* done by the *Standard and Poor's*, this project does not attempt to assess the quality of information provided or identify any disclosure that may be incorrect or fraudulent. It is understood that disclosure of a piece of information does not always guarantee its integrity. Nevertheless, timely and comprehensive disclosures and descriptions of a bank's risk profile make constant covering-up of accounting frauds more costly and less convenient. The usefulness of the Index constructed based on the checkbox approach thus relies on the assumption that even *nominal* disclosure of these core items has its important value-added, even when the information disclosed are not wholly true and fair.

In the drafting of corporate governance guidelines for banks, we usually avoid the checkbox approach, because this will simply induce banks to follow the text not the essence of the rules (e.g. the establishment of corporate governance committee, the introduction of independent directors). For disclosure practices, however, literally speaking a bank cannot meet a disclosure requirement without actually making a disclosure. Here the rule is quite black and white, and the message to a bank after a disclosure evaluation is quite clear: disclose items X, Y, Z, or lower rating. A bank can certainly manipulate the numbers it discloses, but a bank can only fool all the people all the time when it does not discloses at all. The fact that so many banks refuse to supply



information on all of the core disclosure items is revealing evidence that even heavily manipulated information on these items can give investors important information against the insiders.

The rationale behind it can be illustrated with the following hypothetical story. In a country, loan exposure has been required to be disclosed by industry, and ex-ante an ill-intended bank manager does not know how to systematically manipulate the reporting (because ex-ante he does not know which sector will turn non-performing). The next year, steel sector experiences wide-spread bankruptcy problem. Now as the result of the disclosures made last year it becomes very difficult for the manager to claim lower NPL if it was reported last year that the bank is heavily exposed to the steel sector (The manager did not cover this up last year because at that time he did not know that things would turn bad). Cutting off disclosure now is not an option for him either, as it will certainly elicit an even more negative reaction.⁴

This story tells us exactly why so many banks refuse to disclose loan exposure by industry. Once they start to disclose, there is no turning back, and over time it becomes more and more difficult to manipulate the numbers (once you tamper on one item you need to change others, and probably historical ones as well, and you also need to make all of the sector exposures add up to 100% and make it reasonably consistent with your peers). Such is the beauty of modern accounting book-keeping: each item is somehow intertwined with others, and the more items you disclose, the more difficult it gets for you to reconcile a manipulated item with others. Also, as more banks start to subscribe to better disclosure practices, comparability of data increases and frauds can be identified easier through peer comparisons.⁵

II.B. Bank Disclosure Index (Encouraged Set of Disclosure Items)

The Disclosure Index (core set) discussed in the last section is only a first step toward a comprehensive assessment of a bank's disclosure practices. There are many disclosure items that are not included in the core set, which however may provide additional important information, on top of the core set items, to facilitate investors' and regulators' monitoring of banks. To provide a starting point, we have taken initiative to formulate an *encouraged set* of more advanced disclosure items that are important for evaluating bank risks and that we encourage banks to make available to the wider public. These disclosure items are listed in *Table 2*. The same checkbox approach will be followed to create the composite index, by measuring the level of details that banks provide on each dimension of disclosures in their published accounts. Most of the information on these items is not available in machine-readable formats. To codify them for a large cross-section of banks

⁴ Cordella and Yeyati (1998) as well as Boot and Schmeits (2000) point to the commitment effect of bank disclosure as its benefit. Banks that disclose more information choose lower default risk in equilibrium. The idea is that a bank that discloses its risk profile exposes itself to market discipline and will therefore be penalized by investors for choosing higher risk. The effect is absent if investors do not know the risk profile of the bank and weaker if the amount of information available to investor is limited.

⁵ Thus the transparency benefit of enhanced bank disclosure is likely to be a convex function of the number of banks subscribing to higher disclosure standard.



and countries, further and substantial amount of resources (funding, or labor) are required to support manual analysis of bank financial reports.

Starting from the preliminary list of encouraged set disclosure items, we hope to be able to build consensus through consultations with relevant parties and finalize a core and an encouraged set/checklist of bank disclosure items that can be accepted and used widely in Bank/Fund financial sector assessment operations. We are looking forward to inputs from related units within and outside the Bank. Specific comments and suggestions on the composition of the Encouraged Set are particularly welcome. We also believe that it would be helpful to engage national bank supervisory agencies, not only for verification of the factual correctness of data, but also to solicit feedbacks from the field, on country-specific obstacles to, and usefulness of individual disclosure items, and to build consensus. Nevertheless, experience (e.g. Doing Business) shows that completion of an internationally comparable index system first and increasing publicity of the index will help garner attentions from national authorities as a result of peer pressures.

Table 2 Checklist of Disclosure Items (*Encouraged set*)

	Disclosure Items	Details of Information / Breakdown by category	Basel Risk Category	IMF FSI [Usefulness Scores⁶ in brackets. Scale 1-4]
Credit Risk	Breakdown of Loans	By industry	Credit risk	sectoral distribution of loans to total loans [3.6]
		By region	Credit risk	geographical distribution of loans to total loans [3.1]
		By line of business	Credit risk	
	Breakdown of impaired loans	By industry / By Region	Credit risk	
	Loan classification	<i>Four level</i> (current, overdue, bad, dead), <i>Five level</i> (current, special-mention, substandard, doubtful, loss), <i>Nine level</i> [AA...H])	Credit risk	
		Expected loss rate and probabilities of default associated with each category	Credit risk	
	Asset risk weight	distribution of on-balance-sheet assets by Basel risk-weight category	Credit risk	
	Real estate lending	Percentage of lending to real estate sector, residential real estate lending, commercial real estate lending	Credit risk	Residential/commercial real estate loans to total loans. [3.2]
	Loan concentration	Top ten largest borrower	Credit risk	large exposure to capital [[3.5]
		Related entities	Credit risk	

⁶ Source: IMF’s “Survey on the use, compilation, and dissemination of macroprudential indicators”



Market Risk	Duration	Asset/Liabilities	Interest rate risk	Duration of assets/liabilities [3.4]
		Stress testing of interest rate sensitivity	Interest rate risk	
	FX exposure	Currency mix of asset	Market risk	foreign currency-denominated loans to total loans [3.1]
		Currency mix of liability	Market risk	foreign currency-denominated liabilities to total liabilities [3.1]
		Net FX open position (before and after hedging)	Market risk	net open position in foreign exchange to capital [3.4]
Market exposure	Net open trading position, Value-at-Risk (year-end, and daily distribution histogram)	Market risk	gross asset/liability position in financial derivatives to capital [2.8] net open position in equities to capital [3.0]	
Market Discipline	Reporting frequency	Yearly, Quarterly, Semi-annually	Transparency	
		Intraperiod number (high, low, median)	Transparency	
	Accounting policies	Income recognition, Provisioning plan, Valuation policy	Transparency	
	Corporate governance	Board structure	Transparency	
		Ownership structure, Names of beneficial owners	Transparency	
		Remuneration policy for directors and senior management	Transparency	
		Audit fees breakdown	Transparency	
	Market signals	Interbank borrowing costs	Market discipline	
		Proportion of liability that are insured	Market discipline	

III. Using Disclosure Index to do assessments and diagnoses

During Stage I of the project, a **Bank Disclosure Index (core set)** has been created for ~20,000 banks and ~180 countries around the world. The *core set* Index evaluates level of disclosure details on the seventeen items included in the *Core Set* (listed in *Table 1*) discussed previously in Section II. In the future, as resources become more available, we will gradually incorporate items from the *Encouraged Set* of disclosure items (listed in *Table 2*).

We judge the public information availability of a disclosure item based on entries in the *BankScope* Spreadsheet, compiled and used by *Fitch Ratings* itself (world’s largest credit rating agency specializing in financial institutions). The original sources of the data are



usually banks’ annual reports and regulatory returns. Fitch has developed 236 separate versions of spreadsheet Models specific to individual countries, to encompass a multitude of varying country and bank-type reporting philosophies and patterns within the same basic rubric. Fitch first collects and populates raw data into an “input sheet” accustomed to a country’s financial reporting format. The raw data are then transformed into a transnational format which has 153 lines of accounts, including the seventeen disclosure items in our *Core Set*. This transnational format prepared by Fitch is time-tested and presents a coherent approach to analysis of the reported figures of banks worldwide, and offers the best answer there is to cross-border comparison of these figures. It is possible that some information that does not show up in Bankscope database could be available from other sources, but it is understood that such information for one reason or another is not accepted by Fitch Ratings as reasonably internationally comparable and should be seen as an opacity problem too. When a bank files more than one set of financial statement (e.g., consolidated and unconsolidated), we always use the one that produces the highest Bank Disclosure Index for the bank.

The Index is prepared for c.20,000 individual banks in about 180 countries around the world. We are able to evaluate both public-traded and closely-held banks. Unlike in other industries, banks, because they take deposits from the general public, even when they are not listed on stock exchanges, are in most countries mandated by regulations to publicize financial reports and file regulatory returns. National index of bank disclosure is then constructed by averaging (weighted by a bank’s asset) bank-level disclosure indices, to evaluate the transparency and disclosure situation of the national banking system as a whole.⁷ Only traditional commercial banks, savings bank, and cooperative banks, according to the definition given by Fitch Ratings in the BankScope database, are included in the survey.⁸

Most Transparent ▲	Most Opaque ▼
HONG KONG	ARGENTINA
SWEDEN	FRANCE
ITALY	CZECH REP.
NETHERLANDS	MOROCCO
FINLAND	RUSSIA
NORWAY	CHILE
SWITZERLAND	LUXEMBOURG
SPAIN	CHINA
JAPAN	EGYPT
TURKEY	SYRIA

Notes: Based on Bank Disclosure Index 2004. Only the top fifty largest banking systems in the world are included here.

⁷ The index may overestimate disclosure level in some of the poorest countries. If some banks don’t file public reports at all, they are not included in the assessment instead of being assigned a zero score. In the future, we may try to obtain full directories of member banks from national bank supervisors and make adjustments to the national index accordingly.

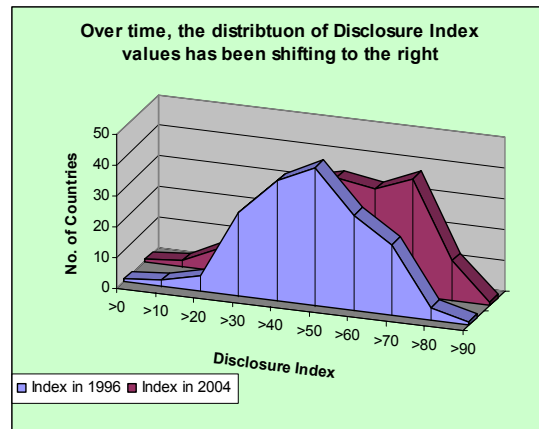
⁸ The Index may not appropriately reflect the different nature of operations of, for instance, investment banks, Islamic banks, governmental banks, and other specialized institutions. Excluded from the sample are Investment Banks and Securities Houses, Real Estate and Mortgage Banks, Medium and Long-term Credit Banks, Non-Bank Credit Institutions, Islamic Banks, and any specialized governmental financial institutions. Bank Holding Companies are also excluded because their subsidiary banks are already included in the sample, and thus the exclusion prevents double-counting of assets. In the Bankscope database, Goldman Sachs (UK) and UBS (UK) are misclassified as “commercial banks”, although these two large banks (subsidiaries) registered in UK mainly engage in investment banking business. We exclude them from the calculation of UK’s national Disclosure Index. DePfa plc is excluded from Ireland for a similar reason.



In the Annex of this document, the disclosure Indices for almost 180 countries, based on FY 2004 data, are tabulated in the form of a world ranking of nations by Disclosure Index. The Index values range *between 0 and 100*, with higher values indicating better transparency and disclosure practices of the banking systems. In general, a Disclosure Index value below 60 indicates serious deficiency and low level of compliance in disclosure practices and needs attentions and corrective actions from the national bank supervisor.

Besides the headline composite Bank Disclosure Index, six sub-indices are also created, which capture disclosure practices in different categories (Loans, Other Earning Asset, Deposits, Other Funding, Memo lines, and Income). These sub-indices further include a total of 17 sub-components (*The score of these sub-components are available in the Excel spreadsheet*). These sub-indices and sub-component scores can help us identify the strength and weakness of a banking system's disclosure practices, and formulate policy responds accordingly. The translation of the scores into policy prescription is straightforward, and national authorities can understand easily which specific disclosure items they fail to disclose that lead to their lower ratings than their peers, and thus what specifically they need to do to get their ratings upgraded. Hopefully, this standardized checkbox approach can create some sort of peer pressures through international benchmarking, and thus accelerate the process of improving banking sector transparency around the globe.⁹

Historical indices are back-created to 1994 on a yearly basis. Therefore, not only cross-country difference but also time series change (improvement) in bank disclosure practices can be documented and analyzed. The whole data set, which contains yearly disclosure indices (composite index, sub-indices, and component scores) for 180 countries during the 1994-2004 period, is stored in a Microsoft Excel spreadsheet, and is available upon request, for Bank/Fund



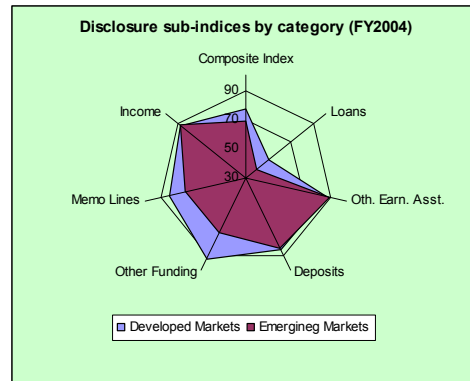
⁹ Bank transparency can be promoted by market-oriented mechanisms too. The OECD Bank Corporate Governance Task Force for example proposes an interesting scheme to encourage disclosures. The Task Force recommends that national authorities should develop a rating system to evaluate a bank's corporate governance and financial reporting practices, and differentiated deposit insurance premium charged on a bank should reflect its rating. This should provide incentive for banks to comply with the disclosure requirement, and make opaque banks pay for their implicit costs on the financial system as opacity has negative consequences on financial stability. International competition for investment and capital can create incentives too. For example, countries located in the same geographic area, such as Eastern and Central Europe, are usually substitute for each other as investment destinations for foreign investors, and the desire to attract investors will force countries downgraded by the Disclosure Index to reform, and individual banks to opt for higher standards than what are required by national regulations, in order to compete with their neighbors.



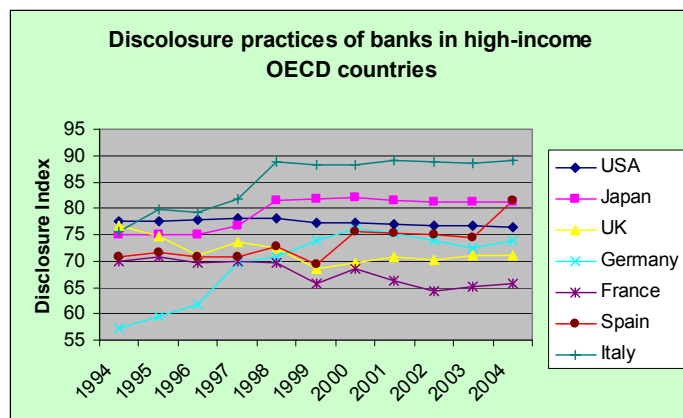
staff who are working on banking sector projects.

Over the past decade, significant progress has been made in raising the standard of bank disclosures, and the improvement is found across the board in both developed and emerging economies. As a result, the distribution of Disclosure Index values has shifted considerably to the right (higher values). Large number of countries that scored under 70 in Disclosure Index ten years ago has now surfaced above the opacity zone. Most of the improvement during the past 10 years was made in the areas of disclosures of Loans, Incomes (net trading income, net fee income, loan loss provision), and Memo Lines (capital adequacy, off-balance sheet, contingency, etc). Nevertheless, disclosures relating to loan composition still remain the greatest weakness among the six categories surveyed, and are critical in future reforms.

High-income OECD countries in general adopt better disclosure practices than other countries. On an absolute basis, the Disclosure Index value of US has remained rather stable over time. Among leading industrialized countries, US used to be awarded the highest value on the Disclosure Index, and even today is still positioned among the most transparent banking systems in the world, based on the Index. Nevertheless, several countries have overtaken US in the past ten years by further raising the disclosure standards of their banks. **Italy** and **Japan**, through implementation of data-intensive and standardized regulatory reporting framework, had dramatically improved the details of bank financial reporting (at least in terms of quantity) in the late 1990s. In these two countries, today there are virtually no within-country variations on disclosure practices and thus Disclosure Index values across individual banks, because the formatting of bank financial reporting is mostly prescribed by national regulations already.



In the past several years, the most salient improvement on the national Disclosure Index was seen in **Spain**, mainly driven by changes in BBVA and BSCH's practices and their expanding market share. Before 2000, Disclosure Index of Spain was among the worse in major OECD courtiers. Two discrete jumps took place for the reporting of FY2000 and FY2004, and as a



cumulative result, today Spain has placed itself among the most transparent banking sectors. Another example is **Germany**. During late 1990s, starting from the worst,



Germany had rapidly converged to the average disclosure standard of high-income OECD countries. From the beginning, private sector banks (Deutsche Bank, Dresdner Bank, HVB, Commerzbank) have been practicing good disclosures by international standards, but they never control more than half of the commercial banking market. The improvement on Germany's national Disclosure Index was thus mainly driven by public-sector banks, which used to be rather opaque. **France**, in contrast, experienced stagnation and even setbacks over time on disclosure practices.

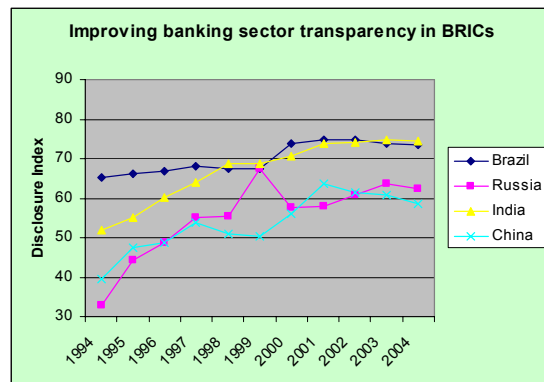
Finally, **UK's** Disclosure Index is not impressive. UK regulator traditionally dislikes hands-on approach on standardization of banks' financial reporting. The leading English banks, such as HSBC, are rather transparent by international standards, but the same is not true for many others that also control substantial market share, particular former building societies (e.g. Abbey) and trustee savings banks (e.g. Lloyds TSB), as well as banks historically from outside England (e.g. RBS, Bristol & West). Reporting of individual bank performance got even more opaque after some of them (e.g. NatWest, Cheltenham & Gloucester) were acquired and have become part of larger banking groups.

In the rest of the Report, using the Disclosure Index created in the project, we conduct preliminary assessment and analysis on several systematically-important developing countries and regions, and present some brief observations and findings from the analyses.

III.A. Banking sector transparency in the BRICs

For policymakers, country size is a good measure of importance. As far as banking sector is concerned, this rule is quite true. In 2003, Goldman Sachs dubbed the acronym BRIC for four systematically important developing countries (Brazil, Russia, India and China), which because of their growing economic size may reshape the global economic landscape in the next decades. The starting point of our analysis thus is these four BRIC countries, in which the payoff from improving banking sector transparency is likely to be the highest for policy-makers.

All of the four are middle income countries with large population (India and China alone are home to one third of world population), reasonably sound fundamentals, and most important, huge investment opportunities, and thus huge appetite for finance. They are so-called "growth centers" that require a lot of finance to realize tremendous pool of investment opportunities, and at this stage of development they all have to heavily rely on bank intermediation to channel domestic savings to the productive sectors of the economy. This creates a huge and common challenge for the banking sectors in BRICs. The key to their success thus lies in how we can make their banking system work more effectively, and how we can make the banks in

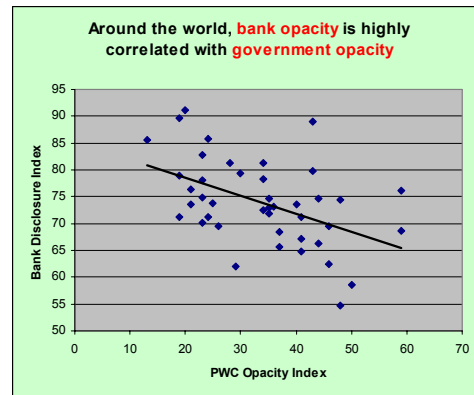




BRICs more stable, more accountable, and more efficient. Market discipline is a necessity for these to happen, and for market discipline to work effectively, the system has to be transparent enough and investors/stakeholders need to receive sufficient information from disclosures, by the banks themselves or through the regulators.

Relying on the database we put together, we can easily make international comparisons as well as analyze the progress of banking sector transparency in BRICs. Ten years ago, the BRICs started from very heterogeneous levels of transparency (opacity). Back then, **Russia** and **China** scored well under 40 in Disclosure Index. Both countries were in early stage of transition from planning to market economy, and both had inherited a monopolistic state-owned banking system from the old monobank regime. In China, the Big Four state-owned banks dominated the national market, while in Russia it was the old national savings bank, the Sberbank, and the foreign trade bank, Vneshtorgbank. These state-owned banks in general disclose much less than private sector banks.

Government opacity usually goes hand in hand with bank opacity. As the two governments become more transparent over time, banking sectors in these two former planning economies are also making considerable progress in disclosure practices. Nevertheless, it is understood that there is not much voluntary incentive from inside the state-owned banks to make more disclosures to the market, not least because they do not need to tap the capital market for funding. Today the two former planning economies still score similar Disclosure Index values compared with each other, albeit at a higher level than in the past. Reforms are on the agenda. Starting January 2004, Russian banks will be required to prepare financial statements in accordance with IAS, while China is also phasing in a new local GAAP that for most part in line with IAS. IFC surveyed 50 Russian banks in 2004, and found that half of them already converted to IFRS, while the other half planned to do it within two years, citing reputation gain, improving attractiveness for foreign investors, and less so, the regulatory requirement, as the lead driving factors. The survey however also discovered that Russian banks usually limit their disclosures to the minimum required by the law, because “additional disclosure is not required by law”.

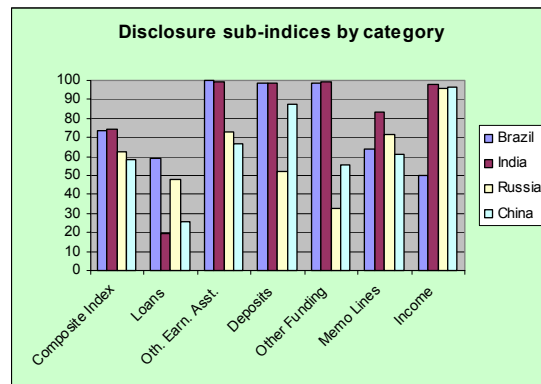


China seems to be heading for bigger improvement in the next years, after three of the four Big Fours have enlisted international reputable banks on board as minority shareholders and will all finish IPOs in Hong Kong by 2006/2007. Foreign investors have brought in better skills and technologies, and full foreign participation in local banking market starting from December 2006 under the entry agreement of WTO will bring further pressure on the local the banking sector to enhance their risk management and financial reporting systems. The International Finance Corporations (IFC) currently



holds minority equity stakes in a number of small Chinese banks¹⁰, and provides technical assistance in these areas. Most of the second-tier joint-stock national commercial banks are already listed domestically, and their improvement in transparency is also promoted by the ever-aggressive and market-oriented capital market regulator, the China Securities Regulatory Commission, which requires quarterly reporting and enforces protection of minority shareholders in the listed banks.

Compared to China and Russia, **Brazil** has had fewer problems from the beginning (of this Report’s survey period). Accounting information on Brazilian banks has been quite detailed and abundant (at least in terms of quantity) by international standards, thanks to Banco Central do Brasil (BCB)’s continuing efforts in requiring detailed collection and reporting of data from the banks it supervises. Among developing countries at similar development level, the Brazilian bank supervisor boasts one of the most data-intensive regulatory return filing systems in the world. BCB standardizes the presentation format (known as “Cosif”) that Brazilian banks must comply with, and reports are made on a monthly basis. IFRS was first introduced in 2002 to the banking system by the BCB, and it is expected that eventually the standard will be required for all Brazilian banks. BCB also requires more refined classification and publication of bank loan quality by nine buckets, compared to the typical five-bucket system in other Latin American countries.



After the 1999 financial crisis, Brazil has committed to and embarked on a serious bank privatization plan, with almost all federal- and state-owned banks, except Banco do Brasil (BB) and Caixa Econômica Federal (CEF), slated for privatization or exits. Several of the leading private sector banks, including Bandesco, Itau, and Unibanco, which are expanding aggressively through organic growth and acquisitions, have set up ADR programs in the US, and thus must file detailed regulatory returns as instructed by the US SEC. The local capital market regulator, Comissão de Valores Mobiliários also (CVM) further requires that any disclosure made in US markets must be made public in Brazil too. Finally, the domestic capital market reforms initiated by CVM also spill over to the governance of banks, with all of the three leading private-sector banks already enrolling in the Novo Mercado that demands highest standard of financial reporting and investor protection.

Ten years ago, the disclosure level of **India**’s banking sector fell in-between the two camps, significantly better than China and Russia, but substantially lagged behind Brazil. India has been a market economy democracy since independence, but the economy has a

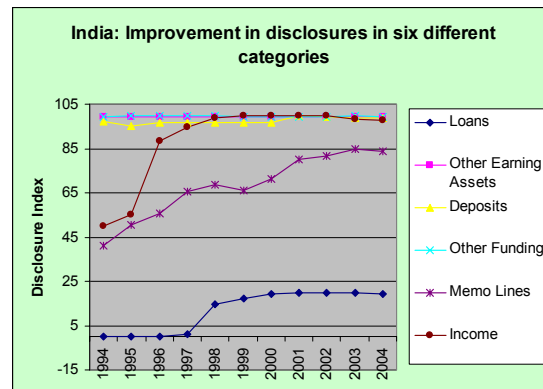
¹⁰ These include Bank of Beijing, Xian City Commercial Bank, China Mingsheng Bank, Industrial Bank, Nanjing City Commercial Bank, and Bank of Shanghai, and recently United Rural Cooperative Bank of Hangzhou



long history of being heavily intervened and run by the government. Starting from the market liberalizations in early 1990s, the government has gradually loosened its grips on the private sector, but the banking sector remains firmly state-owned (although minority shares are usually floated in local stock exchanges). Not much progress made among the public sector banks notwithstanding, the new private sector banks set up in the market reform have been gaining ground gradually, in both accounting transparency and market share. For example, several newly-transformed private-sector banks such as ICICI and HDFC, which are over time taking away market share from the public sector banks, boast state-of-the-art risk management systems, subscribe to international standards of financial reporting and corporate governance, and float shares in the US market.

Following the first Narasimhan Committee Report (on banking sector reforms) completed in 1991, RBI had been working on improving accounting disclosures of banks throughout the 1990s, as one of the key components of the overall reform package. In the first phase of reforms, since 1992 Reserve Bank of India (RBI) started to push banks to disclose additional accounting items such as CAR, percentage of NPAs, provisions for NPAs, net value of investment, ROA, interest income as percentage to working funds, among others. From 1996/1997, banks are required to disclose, separately instead of in aggregate form, details of provision for bad and doubtful debts, provision for diminution in the value of investments, provisions for tax. In the wake of Asian financial crisis, RBI seized the opportunity to further implement some of the more difficult recommendations made by the Narasimhan Committee II report newly completed. Effective April 2000, banks are required to disclose for the first time (1) movements in gross and net nonperforming assets; (2) the maturity patterns of loans and advances, investment securities, deposits, and borrowings; (3) their lending to sensitive sectors; and (4) amount of foreign currency assets and liabilities.

It is no accident that, over the past decade India's Disclosure Index value has been rising consistently, and today has reached the level of Brazil, although there has been less improvement in the disclosures of loan compositions (in which Brazil is particularly strong in). The observation of deficiency in loan composition disclosure can be straightforwardly translated into to a specific policy prescription for India's future banking sector reform. Recently, the RBI has issued several Master Circulars demanding banks to make specific form of disclosure to make financial reports more comparable, although responses so far are lukewarm, particularly among state-owned banks. Furthermore, commencing on January 1, 2006, India's listed companies must comply with a new set of *Sarbanes-Oxley-Act* style corporate governance rules which include mandatory certification by the CEO and chief financial officer of the company's financial statements. This should play a complementary role to the enhanced disclosure



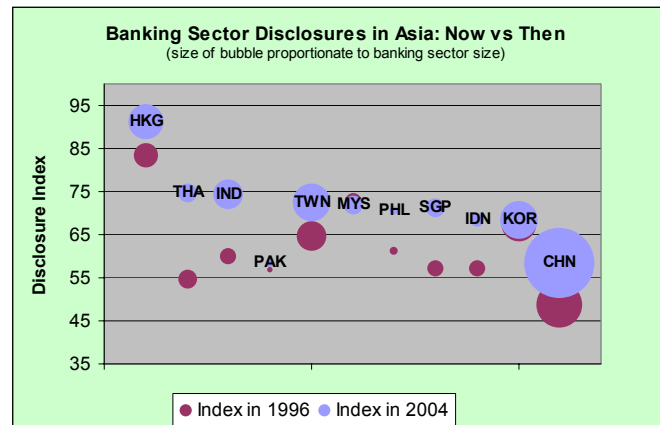


requirement, by increasing not only the quantity but integrity of the reported numbers. Finally, it is understood that, like other similar reforms in the past, there will always be lag between when the orders are made and when they are enforced to the fullest extent.

III.B. Banking sector transparency in Asia

Asia (including East Asia, Southeast Asia, and South Asia) is home to many of the fastest growing emerging markets. The region's household savings rate is much higher than Latin America. The stunningly high level of bank intermediation, particularly in East Asian countries, totally dwarfs Latin America. Even Vietnam, the least financially developed country in East Asia, has a private credit to GDP ratio higher than 50%. The region's growth has been mainly driven by capital investment. The four Tiger economies grew into their current status mostly by capital accumulation rather than productivity improvement. The growth model is currently religiously followed by other Asian countries, in particularly China. A transparent, stable, and efficient banking system thus is not only a key to the success of such a model, but also a cushion against potential financial crises, the last one of which had brought disastrous destructions to the region's economies.

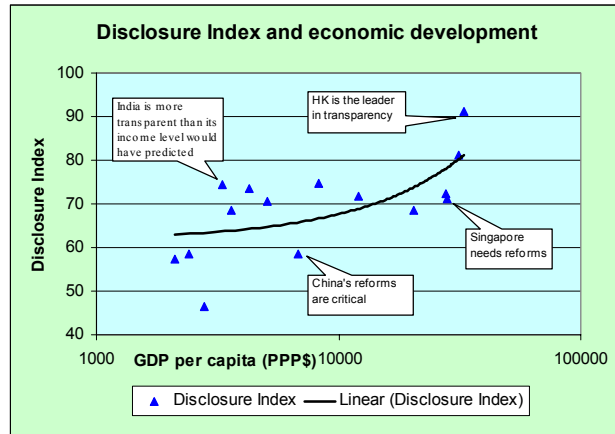
In the region, **Hong Kong** clearly stands out as the consistent leader in transparency and disclosures of banks. The territory has endorsed the principle of free market since very early days and in all walks of economic life. As early as 1994, the HKMA already published "Best Practice Guide on Financial Disclosure by Authorized Institutions" (BPG) to guide the financial disclosures of banks, and to make detailed provision for the form and content of financial statements and their audits. In their 1995 annual reports, banks started to disclose their capital adequacy ratios, liquidity ratios, and general and specific loan loss provisions. This was further improved in 1997 with the technical assistance from the IMF (during the Article IV consultation of that year), and from 1998 banks have been required to disclose their overdue and rescheduled loans in interim reports. The Hong Kong Society of Accountants also published an industry auditing guidelines on how auditors for banks should report to the HKMA. It is no accident that Hong Kong is now the undisputable financial center of the region, attracting numerous corporations from all over the region and in particular mainland China, to raise capital here because the higher level of financial reporting standards help them effectively lower costs of capital. Nevertheless, in terms of corporate governance, Hong Kong banks still leave a lot to be desired. According to information provided by Institutional Shareholder Services (ISS), ten of the eleven Hong Kong banks surveyed allocate majority board seats





to insiders and *affiliated* outsiders. Only four banks have audit committee comprised solely of independent outsiders. Eight do not disclose whether they pay their auditors for non-audit related services such as tax consulting.

The Disclosure Index for **Singapore** in 1996 confirms industry's perception that disclosure by Singapore banks was poor until a few years ago. Fitch Ratings' *Singapore Country Report* concludes that, before the crisis, disclosure practices in Singapore compared unfavorably even to regional counterparts. Loans and advances were stated net of loan loss reserves and loan loss reserves were clubbed together with "other liabilities including provisions". Severely lack of



information, investors and creditors mainly relied on the Monetary Authority of Singapore (MAS)'s extensive regulations to ensure that the banks were in good financial shape. After the Asian financial crisis, the MAS drastically raise the requirement on public disclosures, and investors today get direct access to banks' information in much more details. Nevertheless, even today, Singapore's approach to bank supervision remains heavily reliant on the power of official oversight, and thus still compares unfavorably to Hong Kong on the Disclosure Index, which rewards bank supervisors that embrace public information disclosure and market discipline as opposed to secrecy.

The other major economies in the region lag considerably behind Hong Kong. Today their Disclosure Index values are very similar, most of them falling into a narrow range between 65 and 75. They were however quite different back in 1996 prior to the financial turmoil that swept through the whole region. Back then, as indicated by the positions of the red bubbles in the chart, banks in Thailand, India, Philippines, Singapore, and Indonesia were much more secretive in presenting their balance sheets, compared to those located in Malaysia, Korea and Hong Kong. Subsequent to the crisis, shocked by the devastating effect of the turmoil and the scandals revealed in investigations, public consensus was quickly formed in these countries on the importance of a more transparent system. National regulators thus were able to push forward large reform packages with relatively little resistance. Today, these previously opaque systems have significantly closed their gap with the better systems in the region.

The main challenge in the region remains **China**, which has the largest (and also currently most problematic) banking system in Asia (excluding Japan). The sheer size of the Chinese banking system makes the problems not only domestic, but also regional and international, and attracts keen attention from international investors and policy-makers. Any improvement or deterioration in the information environment of Chinese banking system will certainly dramatically alter the judgment and confidence of observers on the

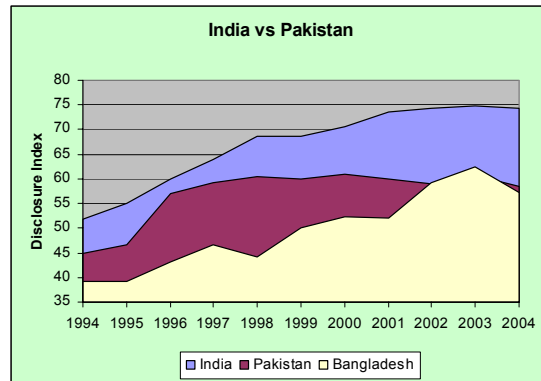


situation. Without comprehensive balance sheet information of the system and of individual banks, analyses are always done by estimations and educated guesses, such as the headline NPL number produced (and later withdrawn) by Ernst & Young. Better disclosures of information can keep investors updated of the current health of the Chinese financial system, and reduces the uncertainty and risks which usually cause investors to demand higher cost of capital or to under-invest. The move to list three leading state-owned banks in Hong Kong Stock Exchange and prepare financial reports conforming to IFRS is certainly an encouraging step. China's Disclosure Index is expected to move upward noticeably in the next years, after completion of the mega IPOs in Hong Kong, which will force them to make regular financial reports in accordance to international standards. Particularly important is the IPO of ICBC (*Disclosure Index: 30*), which currently drag down the national Disclosure Index.

Bank Name	Market share %	Listing Status	Disclosure Index
ICBC	21.7	Oct-06 HK	30
Bank of China	18.4	Listed HK	75
Agricultural Bank of China	17.3	Unlisted	50
China Construction Bank	16.8	Listed HK	70
Bank of Communications	4.9	Listed HK	80
China Merchants Bank	2.5	Listed CN	85
China CITIC Bank	2.2	Listed CN	70
Shanghai Pudong Bank	2.0	Listed CN	80
China Minsheng Bank	1.9	Listed CN	90

Note: IFC hold minority stake in China MinSheng Bank

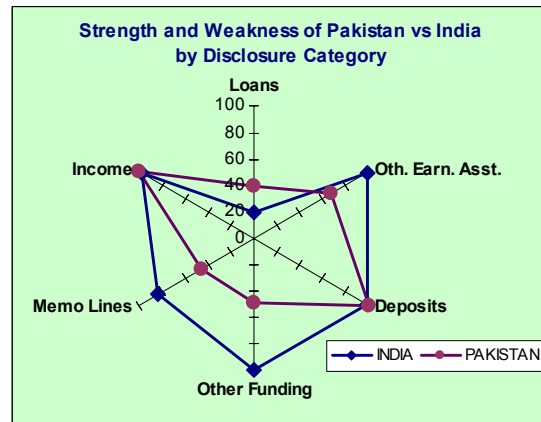
An interesting comparison in Asia is that between **India** and **Pakistan**. The two countries separated half a century ago from the former British Indian colony. Both countries adopted some strong element of central planning in economic management in the decades after independence. In both countries, the government still actively intervenes in the banking sector through directed and concessional lending schemes. Pakistan is however well ahead of India in handing over banks back to the private sector through restructuring (with the help of expatriate Pakistani bankers) and privatizations, and now private-sector banks control more than 80% of the system's assets, up from just 8% in 1990.



The Disclosure Index reveals that India has been making consistent and significant progress over the past decade, while Pakistan, starting from not much worse than its neighbor, has not made many strides in improving bank accounting disclosure practices since 1998, despite the initiation of a series of banking reforms accelerated by the crisis of G-7 sanction. Unlike in India, banks in Pakistan are not required to submit an income report according to any format prescribed by the State Bank of Pakistan (SBP), although Pakistan has adopted 39 of the 41 International Accounting Standards (IAS). Based on the sub-index scores, the checkbox diagnosis shows that, by disclosure category, Pakistan

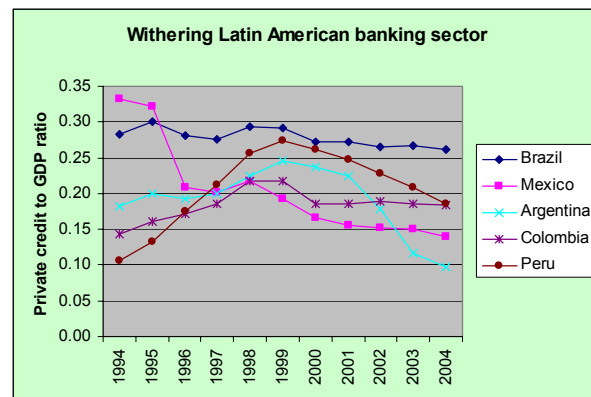


is relatively weak (compared to India) in the disclosures of Memo Lines (capital position, contingent liabilities, etc), Other Funding, and Other Earnings Assets, while at par with India in the disclosure of composition of Income, and Deposits. The diagnosis may help SBP to draw up a priority list in the next wave of reforms related to financial reporting requirements of banks, as well as the World Bank to formulate a Country Assistance Strategy for Pakistan’s banking sector reforms. To raise the overall transparency of Pakistani banking sector, the several weakness areas identified by the diagnosis will need to be emphasized in such reforms.



III.C. Banking sector transparency in Latin America

Latin America used to be the most exciting place for foreign investment, before the rise of Asia. Today local capital markets dry up, and money escapes from the formal sector and from the intermediation of banks. Observers are asking “Whither the Latin American capital markets?”, “Whither the Latin American banking sector?” The local financial system is probably *withering*. In Mexico, a higher mid-income country, private credit to GDP ratio drops to as low as 17% (a ratio usually characterized by Sub-Sahara nations), and entrepreneurs rely mostly on inter- and intra-corporate credit to finance investment. Argentina is even worse, with the ratio being 11%, barely enough for normal cash transaction and currency circulations. Things are not getting better. Foreign investors have become more cautious; local entrepreneurs got their hands burned in hard currency borrowing and became more hesitant; and there is still no guarantee that the governments can commit to fiscal responsibility. Nevertheless, in such an environment, development of a transparent and trustworthy local banking sector becomes all the more important an urgent task.

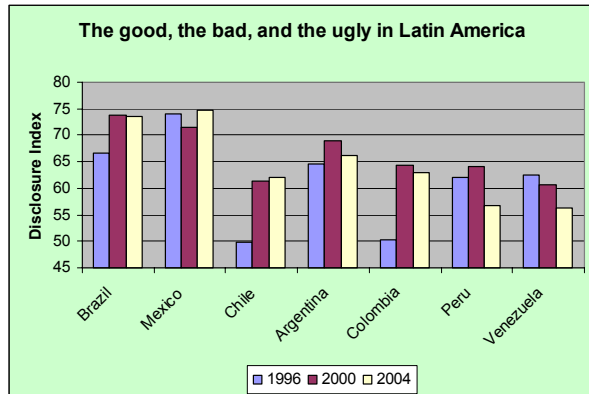


In the region, banking systems in **Brazil** and **Mexico** are always ahead of their neighbors on standards of information disclosures. They, in particular central bankers in Brazil, have been imitating their northern neighbor, the United States, in setting up their own regulatory framework, although many of the rules are certainly not enforced to the full extent. Accounting standards consistent with International Accounting Standards were adopted as early as 1997 in Mexico. Dating back to mid 1990s, both markets have been



highly concentrated in the hands of large national and foreign conglomerates. This usually helps improve disclosure practices because larger banks can better afford the costs of preparing more sophisticated financial reports. A number of large banks further commit to higher standards of financial reporting and corporate governance by issuing ADRs in the United States. Also, recent milestone capital market reforms taking place in these two countries have added further strength to the banking sector by leveraging market disciplines from the private sector. Finally, foreign banks dominate the Mexican market, and they are also making inroad in Brazilian market by M&As and bidding in the privatization of state-owned banks. They usually bring with them better practices of financial reporting. Furthermore, these large foreign banks may influence the direction and pace of reforms in host countries toward the more rigorous standards imposed by OECD regulators. Nevertheless, the potential downside is that information and market discipline may be compromised if foreign parents choose to fully consolidate the subsidiaries into their financial statements and stop reporting individual performance of these subsidiaries.

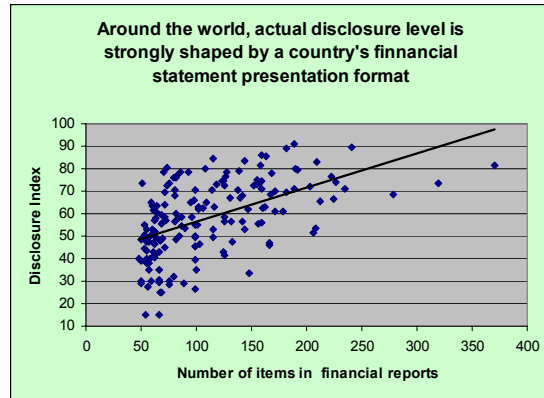
Back in 1996, **Chile** scored much lower in the Disclosure Index than her regional peers. Subsequently situations improved significantly. The passage of the General Banking Act in 1997 raised the standard of financial reporting, imposing more stringent loan loss classification and reserve requirements on Chilean banks. Also, banking sector consolidation after waves of mergers concentrated assets into several large banks (some in the hands of foreign banks such as BSCH, BBVA, and Scotiabank) that practiced better financial reporting. At the turn of century in 2000, Chile's Disclosure Index was already at par with Peru, which was previously one of the regional leaders in public disclosures¹¹. Between 2002 and 2004, three leading Chilean banks (Banco de Chile, Banco Santander Chile, Corpbanca) went on to offer ADRs in NYSE, which further raised the bar of disclosure standards and it was no accident that Chile's Disclosure Index rose further.



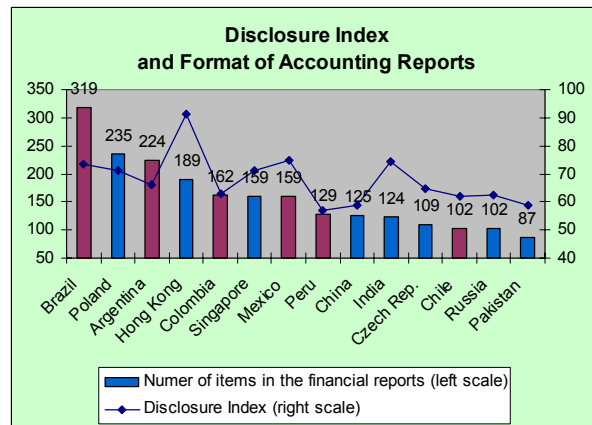
¹¹ In the 1990s, Peru was one of the region's leaders in bank disclosures. Fujimori administration carried out a package of radical banking sector reforms. New Basel-style prudential regulations were introduced. All state-owned commercial banks were re-privatized, and state development and mortgage banks were abolished. Deposit insurance was eliminated. Barriers to entry for both domestic and foreign investors are removed. In 1996, Peru's Disclosure Index was at par with Brazil and Argentina, and significantly better than Chile and Colombia. Over the past several years, however, Peru experienced a significant decline in the level of accounting disclosures. Its Disclosure Index has been downgraded to one of the lowest in Latin America. After Fujimori's departure, the nation fell into a state of political instability, economic sluggishness, and severe financial distress. The deterioration in disclosure practices was across the board seen in most major Peruvian banks, and the setback in disclosures was particularly acute in the area of other earnings assets and market funding. The setback may be explained by the bank supervisor's lack of authority and enforcement power vs private sector, in the midst of political turmoil and absence of strong leadership in the government.



The progress being made notwithstanding, it has to be noted that even today the level of public disclosures by Chilean banks does not stand out favorably among Latin American countries, although Chile has been embracing market-oriented reforms enthusiastically in many other areas and is frequently referred to as the model country in the region. It is clear that Chilean regulator has not been actively pushing for more mandatory public disclosures by banks. We can use a rudimentary measure to illustrate this point. For each country, Fitch Ratings (for its own information procession purpose) formulates a list of accounting items relevant and used by the country’s banks in their financial reports. The number of items in the list thus reflects the best possible practices in a country, and is influenced by many factors, the most of important of which usually include government or industry regulations on how financial reports should be formatted (the case in point is Brazil). We find that, in the list for Chile, there are only 102 items, while in the list of Brazil, there are as many as 328, one of the highest in the world.



The gap between **Brazil** and **Chile** could reflect the different philosophies of the two countries’ policy makers. It is also noted that in the list for **Poland** there are much higher number of items than in the list for the **Czech Republic** (235 vs 109). The Poland vs Czech Republic comparison has become a classical story known as “*Coase vs the Coasians*” (Glaeser, Johnson, and Shleifer [2002]). Since the start of the transition, the Czech policy-makers have been pursuing a more free market fundamentalist approach to regulation. They believe that if the market and the investors demand better disclosures or better corporate governance, then the invisible hands will force firms to provide them without government intervention. Polish policymakers have less faith in this approach. They believed that heavy-handed intervention by the government is necessary at least in the short run, and introduced specialized regulators to standardize the financial reporting and corporate governance practices of listed firms and banks.



The experience so far has not indicated clearly which approach works better. On the one hand, in the Czech Republic, plagued by weak law enforcement, corporate frauds and

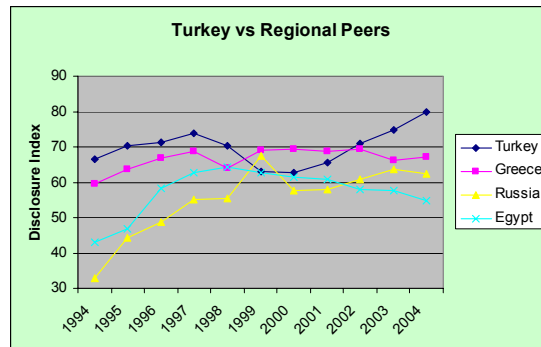


“tunneling” activities¹² are more prevalent than in Poland, where the regulator takes a more active position in prosecuting violators. On the other hand, those Czech corporations that have survived the “trials and errors” do prosper and get stronger and investors do get smarter over time, and as of today Czech stock market is still larger (scaled by economy size) than its Polish counterpart. The gap between Chile and Brazil thus could be explained by the same story, and it is possible that Chile is the Latin Czech Republic, and Chilean banks could voluntarily upgrade their disclosure practices without government intervention, motivated by their own desire to raise capital in US and domestic markets. Time will tell whether the Chilean approach or the Brazilian approach to bank supervision may yield better results for Latin American banks.

III.D. Turkey: a successful reformer in Europe and Central Asia

In the wake of 2000/2001 financial crisis, a “Banking Sector Restructuring Program”, which includes “financial reporting” as one of its main pillars, was initiated in Turkey in May 2001 to strengthen privately owned commercial banks. The establishment of the Banking Regulation and Supervision Agency (BRSA) in 2000 and the convergence of prudential supervision to EU standards (motivated by the strong desire to join the EU) has dramatically improved the transparency of the banking sector. Self-regulation also plays a complementary role. In Turkey, banks have to keep their financial reports according to the uniform formats set by the Turkish Banking Association, which enhances comparability and usefulness of financial statements.

The impact of the reforms is clearly seen in Turkey’s Disclosure Index, which received one large upgrade after another over the past few years. Today, in bank disclosure practices, Turkey has already clearly distinguished herself from all of her major regional peers including Russia, Egypt, and her richer neighbor Greece, which several years ago still had a ten point lead over Turkey on the Bank Disclosure Index.

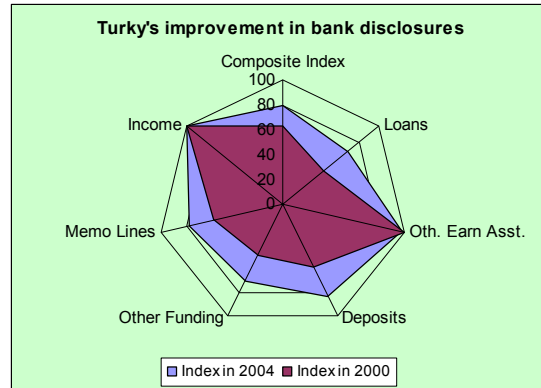


A country can effectively raise the value of its *asset-weighted* national Disclosure Index in two different (but not mutually exclusive) ways. One is by improving disclosure practices of the most opaque banks that currently drag down the value of the national index (in the case of Turkey it is the T.C. Ziraat Bank). The other avenue is by expanding the market share of the more transparent banks at the expense of the more opaque banks, with disclosure practices of individual banks unchanged. Either way, the *asset-weighted* average national Disclosure Index will improve as a result.

¹² A World Bank study by Ernesto Aguirre showed, that between 1993 and 2003, among the 21 banks that collapsed in the Czech Republic, nine failed because of related party lending.



The experience of Turkey seems to be a nice combination of both approaches. First of all, the improvement made in disclosure practices is across the board in all the large banks, except the largest bank, the state-owned T.C. Ziraat Bank (TCZ). The simple average of composite Disclosure Index of the largest seven banks rose from 66 to 81 within just four years. Significant progress was made in all of the weakness categories of disclosures, including Loans, Deposits, Other Funding, and Memo Lines. The remaining two categories were already strong from the beginning.



In 2004, the top seven Turkish commercial banks control 77% of the system's assets, which is a little lower than four years ago. The allocation of market share between them however experienced a reshuffle. TCZ, which did not make any progress in disclosure practices, was losing market share to others, although it is still the largest bank in Turkey. Further commercialization and restructuring, and eventually a share-issue privatization of TCZ, is necessary to further upgrade the transparency of the system.

Turkiye Is Bank (IS bank), owned by its own pension fund as well as the Republican People's Party, followed a completely different reform path than the state-owned banks. Four years ago, IS Bank was the worst player among the largest banks in terms of transparency and disclosures, even worse than TCZ. But

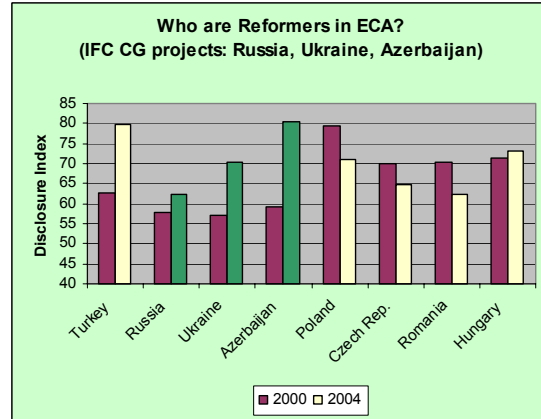
Bank Name	DISC '00	DISC '04	Share % '00	Share % '04
T.C. Ziraat Bank	60	60	23	19
IS Bank	55	90	12	14
Akbank	65	90	10	11
Vakiflar Bank	75	85	4	8
Yapi Ve Kredi Bank	65	90	10	8
Garanti Bank	80	80	5	8
Halk Bank	60	75	15	8
<i>Average/Sum</i>	<i>66</i>	<i>81</i>	<i>80</i>	<i>77</i>

subsequently it managed to drastically revamp its financial reporting practices and raised Disclosure Index discretely from 55 to 90. At the same time, IS bank expanded market share by 5%, and overtook the state-owned Halk Bank and became the second largest bank behind TCZ. Helped by its asset size, the action of IS Bank alone had made the single largest overall impact on the national Disclosure Index of Turkey. The third largest bank Akbank (controlled by the Sabanci family) made substantial improvement too, although the impact is less than half of that by IS Bank.

The experience of Turkey indicates to us the importance of focusing World Bank efforts on the reforms of the largest dominant banks in a country (e.g. Raiffeisen Bank in Albania, IBRA in Azerbaijan, BelarusBank in Belarus, Raiffeisenbank in Bosnia, Zagrebacka Banka in Croatia, CSOB in the Czech Republic, OTP bank in Hungary, PKO in Poland, BCR in Romania, Sberbank in Russia, and T.C. Ziraat Bank in Turkey). The

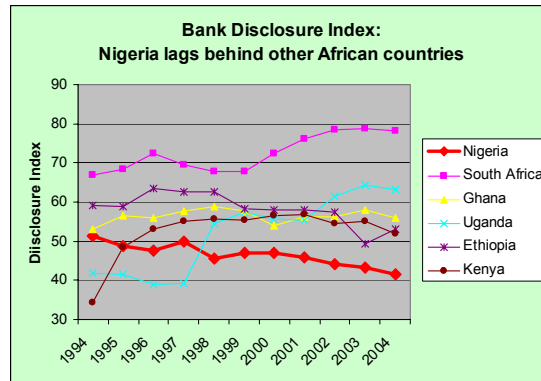


payoff is equally high by pursuing and assisting the fastest growing banks in a country when the largest incumbent banks (are very likely to) resist to changes. The transformation of these banks, because of their sheer (existing and incremental) market share, can dramatically reshape the landscape of “asset darkness” in a system, and bring the assets controlled by them into the scrutiny of sunlight. The role model effect of the largest or fastest growing banks cannot be underestimated. In particular, in countries experiencing economic and financial instability, the “flight to quality” by depositors can play a very effective disciplining role in forcing opaque banks to follow the market leader to improve on their disclosure practices. Finally, the new wave of acquisitions of local banks by foreign banks in 2005/2006 following the stabilization of the Turkish economy and their higher standards of financial reporting have introduced new sources of pressure on local banks, and the spillover impact will be seen in the years to come.



III.E. Nigeria: bank disclosure practices need an overhaul

In a research report published in 2005, investment bank Goldman Sachs outlined a scenario in which Nigeria grows to become the 12th largest economy in the world by 2050. The projection does not in any way affirm Nigeria’s current fundamentals, but simply recognizes the potential of this country due to its large population and reserve of natural



Rank	Country
15	Turkey
30	Mexico
32	India
35	Brazil
48	Philippines
55	Indonesia
56	Korea
76	Russia
87	Pakistan
88	China
93	Bangladesh
106	Egypt
135	Vietnam
146	Nigeria
171	Iran

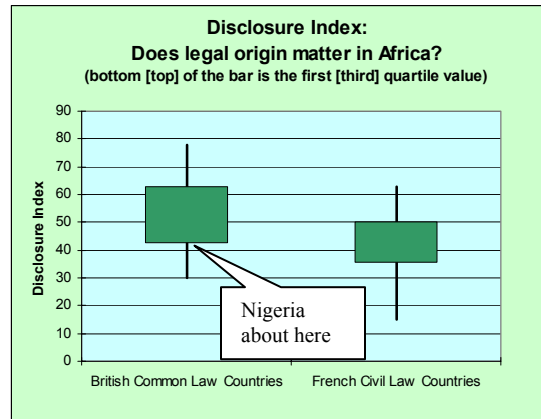
resources. Nigeria’s banking sector is currently too small and does not live up to such a high expectation. For example, South Africa’s Standard Bank alone has roughly an equal amount of shareholder funds and three times the assets of the whole Nigerian sector.

To overhaul the banking sector, the Central Bank of Nigeria (CBN), under the leadership of Charles Soludo, has forced a wave of consolidations in the banking sector, by raising the absolute minimum capital requirement (for a bank to hold government deposits) by more than ten times to 190 million USD. The goal is to create bigger, more efficient, better capitalized banks.



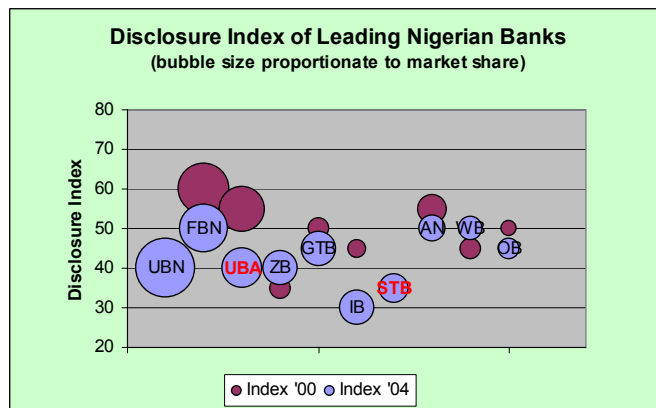
The reform package however has not effectively addressed the problems in financial reporting transparency. Over the past several years, Nigerian banks have not made much progress in making accounting information more available to the general public, and remain opaque even by regional standards. For example, Nigeria is placed 146th out of 178 countries on the Bank Disclosure Index, the lowest among any countries of significant size (unless it would like to be grouped with Iran).

Among African countries, former British colonies usually perform better than French ones in financial reporting. The reason is that the common law systems facilitate the protection of shareholders, and thus African countries inheriting common law systems from their former colonizers are usually blessed with better accounting standards than others that adopt French civil law systems. Nigeria however is a striking counter-example. Nigeria scores significantly lower on the Bank Disclosure Index than other former English colonies and does not compare favorably to the French ones.



Inaccurate reporting and non-compliance with regulatory requirements aside, late or even non-publication of annual reports are not unusual. As concluded in a recent report by Fitch Ratings: “Accounting disclosure by Nigerian banks has been historically poor and the reliability of financial information rendered by some banks in the system has often been questionable, as some banks have been known to falsify returns to the CBN or misrepresent their financial statements to their auditors.” The “Code of Corporate Governance for Banks in Nigeria Post Consolidation” recently issued by the CBN was quick to recognize inadequacy of information disclosure as one of the sixteen main challenges faced by the banking sector.

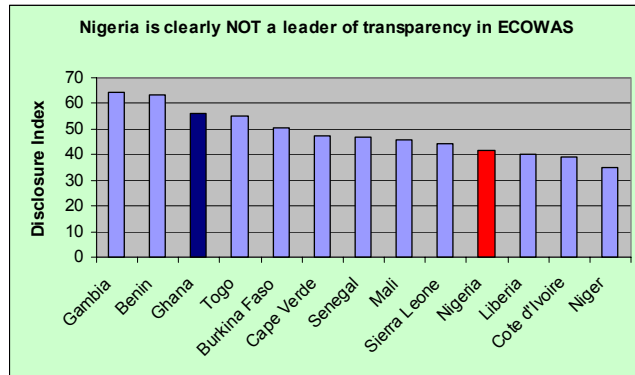
By the end of 2005 (the deadline set by CBN), Nigeria’s banking sector has gone through an unprecedented wave of consolidations, with the number of banks slashed from 89 to 25. The merger of the United Bank for Africa (UBA) and Standard Trust Bank (STB) for example helped UBA firmly secure its Big Three dominance position (immediately after the merger, largest by shareholder’s capital and second largest by assets) in Nigeria. In many other countries (particularly in Latin America), it is usually the case that the absorption of smaller banks





by more reputable (domestic and foreign) banks leads to better disclosure practices. We hope this will be the case in Nigeria too. Yet, based on evidence gathered so far we suspect that the opposite could be true. The publication of the first post-merger audited financial statement has been delayed. The prospect of a magic improvement is bleak, in the absence of external pressure from the market, regulator or significant investors. Neither bank has a track record of transparency. Before the merger, based on Bank Disclosure Index 2004, UBA’s disclosure practice was the worst among the top five Nigerian banks, while the acquisition target, STB, was actually more opaque than UBA, according to the same Index.

The newly-merged UBA bank holds explicit ambition to expand in West Africa and aims to become a regional leader, in expectation of the boom of business opportunities generated by free flow of goods (coming into effect by 2007) within ECOWAS (*Economic Community of West African States*). Nevertheless, UBA needs to realize, that Nigeria actually lags behind her small neighbor,



Ghana, on Bank Disclosure Index. To become a regional leader and dominate regional market, Nigeria needs to distinguish itself by adopting international standards in financial disclosures. We believe that, for Nigerian banks, the desire to be regionally active, get access to more offshore lines of credit, and attract borrowers in the certain up-market segment, will ultimately drive them to improve their public disclosure practices. But it is crucial that this salient weakness is taken seriously and addressed sooner than later.

Our research also finds that Nigerian banks rarely make annual reports truly publicly available. Principle VE of World Bank’s Corporate Governance Assessment Template requests that “*Channels for disseminating information should provide for equal, timely, and cost-efficient access to relevant information by users.*” This principle has not been well followed in Nigeria. Most leading Nigerian banks are already equipped with Internet web sites that are modern by standard of poor countries. On these high-tech and sophisticated web sites, however, annual reports are rarely made available in electronic format for

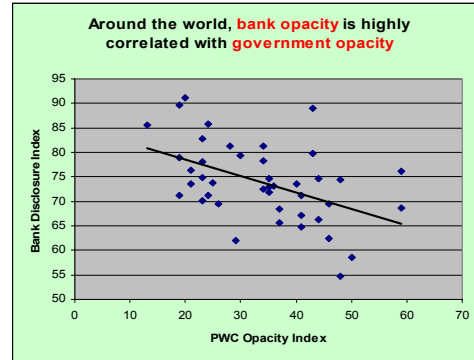
the public to download (except Guarantee Trust Bank since recently). Take the *First Bank of Nigeria* as an example. On the bank’s website, we managed to piece together twenty-two A4 pages of extracts from the annual reports. Among them, only two pages

Financial Statements Found on Web Sites?	
Bank Name	Details?
Union Bank	Summary
First Bank	Summary
United Bank for Africa	None
Zenith Bank	Summary
Guaranty Trust Bank	Full Report
Intercontinental	Summary



contain financial information; while the other twenty contain for example the chairman's analysis of Japanese economy. Other banks disclose merely one page of financial summary, or, none at all (e.g. United Bank for Africa). We have to assume that this is all the financial information that an ordinary investor could obtain without incurring substantial costs.

President Obasanjo's second and final term will end soon and a new government will be formed in 2007. The sustainability of the current reform programs depends on whether the Obasanjo administration can institutionalize the reforms through legislations. Equally important, Obasanjo may also push for further reforms, and get things right in the beginning. Transparency has been emphasized in the reform package. After all, Nigeria is notorious for opacity. *Transparency International* places Nigeria **152nd** out of 158 countries on its global corruption perceptions index. And unsurprisingly, around the world, bank opacity always goes hand in hand with government opacity. So far, progress has been seen mostly in the extractive industries and the government's budgeting process. The same needs to be done in the banking sector too.



After slashing the number of banks from 89 to 25, the CNB should turn its attention to improving the disclosure practices of these banks. The consolidation has created an unprecedented opportunity as well as challenge for CNB to create a modern banking sector of international standards. Bank ownership has been diluted (after banks resorted to public offering and FDI to raise capital), and now all of the locally-owned banks are listed on the Nigerian Stock Exchange. Previously, block shareholder did not have incentive to improve on public disclosures, because they usually had other channels of direct access to the management and the information. The new, relatively widely-held ownership structure, however, needs to be matched by better public disclosures. Furthermore, post-consolidation overcapitalization will inevitably take its toll on ROE, and bankers who got used to 50% ROE a year may be tempted to venture into untested business such as SME lending, which makes comprehensive disclosure of asset risk profile all the more urgent and important. The sector is in general on a potentially promising track. Nigerian banking sector is already largely private, most of the leading banks have investment grade rating, and government ownership shall be limited to less than 10% by the end of 2007. Foreigners are also entering the market: twenty percents of the new investment into the banking sector was foreign direct investment.¹³ If CBN can get good policies in place, there is indeed a chance that Nigeria could develop a model banking sector in Africa.

¹³ Citigroup, Standard Chartered, and Stanbic injected capital (\$93m, \$140m, and \$180m, respectively) into their Nigerian subsidiaries. South Africa's ABSA, which is controlled by UK's Barclays Bank, is acquiring three merged Nigerian banks.



The disclosure reform could be implemented using market-oriented mechanisms. The *OECD Bank Corporate Governance Task Force* has proposed an interesting scheme to encourage disclosures. The Task Force recommends that national authorities should develop a rating system to evaluate a bank's corporate governance and financial reporting practices, and differentiated deposit insurance premium charged on a bank should reflect its rating. This should provide incentive for banks to comply with the disclosure requirement, and make opaque banks pay for their implicit costs on the financial system as opacity has negative consequences on financial stability. This should sound familiar to President Soludo. In hiking minimum capital requirement, Soludo did not threaten to revoke licenses of Banks that was not able to meet the requirement. Rather, such banks would be excluded from taking government deposits and conducting forex business. This has created heavy pressure on banks to raise their equity base, as Nigerian banks heavily rely on government deposits for funding and forex business as the easiest profit-generator. The same mechanism can work for disclosure requirement too: banks that do not make sufficient disclosures in their annual reports and publish them on Internet web sites could be, for example, required to pay higher premiums or denied participation in the deposit insurance scheme¹⁴.

IV. Product and Services

In the future, on the basis of the Bank Disclosure Index introduced in this Report, we plan to develop an umbrella or related products, for the goal of promoting awareness of the importance of transparency and disclosure in banking organizations, as well as catalyzing reforms in member countries through peer pressure. Below we introduce some of the plans on our agenda.

Indices: The headline Disclosure Index released in the first stage of the project will be a starting point. The indices are intended to be updated every year and become a routine practice. In the long turn, given sufficient resources in place, we may be able to implement the advanced version of Disclosure Index which covers the Encouraged Set of disclosure items discussed in Section II B. In the short term, many variants of the core set Index can be created to meet individual demands, for select interest group of banks, e.g. state-owned banks, large banks, or for special type of banking organizations, e.g. cooperative banks, savings banks, Islamic banks. Disclosure Index can also be assigned to individual banks, to be used in investment evaluation works. Bank failures always create reputation risks by hurting large number of stakeholders such as depositors. Such costs need to be taken into account. For example, IFC can use this Index as an input in evaluating her investment portfolio of financial institutions as well as the results of IFC-led reforms. IFC should be particularly glad to see that Azerbaijan, a country in which

¹⁴ This also gives a role to NDIC (Nigerian Deposit Insurance Corporation), an autonomous regulatory body independent of CBN and equipped with statutory power to inspect banks. With lower public confidence in the private sector banks, NDIC's ability to raise premium or deny participation in the insurance scheme for a bank could prove to be a powerful tool in demanding banks to raise standards of public disclosures.



IFC launched a three-year bank corporate governance improvement program, ranks very favorably on the Bank Disclosure Index in recent years.

Reports and analytical pieces: A comprehensive flagship report titled “*Back to Basic: bank transparency and disclosures around the world*” is being produced to summarize and disseminate the main results of the efforts, as well as to discuss perspective and policy directions on bank accounting disclosure issues. We also plan to invite experts in related fields to contribute to the reports and/or to participate in a potential conference we may organize on the topic of transparency and disclosures. There will be a number of follow-up reports that discuss research findings related to bank disclosure practices, based on the Bank Disclosure Index created. In-depth special country reports will also be produced for a number of systematically important economies, or as requested by the Regions which show interest.

Customized service: On an as requested basis, it is possible to refine the indices and cover more details of disclosure practices, both financial and non-financial, such as ownership structure and corporate governance provisions of banks. This may involve looking into specific disclosure items that are not yet included in the basic indices, for a large cross-section of countries, for benchmarking purpose. It can also involve researching banking sector of a specific country of interest, and provide a more detailed review and analysis of bank accounting disclosure practices in the country. It is expected that such requests may come from the Regions in their FSAP operations or other financial-sector-related projects. Given interests and demands from the Regions, the team can also be sourced for specific country analysis. Substantial financial and labor resources need to be used to respond to these research requests, and thus inter-department charging are necessary. Requests for service from outside the Bank are also expected, and industry sponsors may also be sought for.

Background research: To support the use, interpretation, and persuasiveness of the Bank Disclosure Index, background research is needed in relation to the determinants and consequences of banking sector transparency and disclosure practices. Economic effect (e.g., valuation, stability, information asymmetry, capital adequacy cost of capital...) of bank disclosures can be investigated academically and provided as background papers to support the main policy efforts.¹⁵

¹⁵ FSE researchers are currently studying the determinants of variations in accounting disclosures of banks. Standard & Poor’s (2005), in a transparency and disclosure survey of Russian banks, finds that, for a common list of material items, Russian banks make much less disclosure than do nonfinancial Russian corporations. This suggests that banks may not be intrinsically opaque, but that insiders choose to withhold information and reduce transparency. As a matter of fact, most of the disclosure items we include in the list are what the bank management should have already collected, and thus it is clearly a disclosure and not an internal risk management deficiency problem. According to an IMF survey, 82% (100% for industrial countries and 75% for the rest) of respondent countries to the survey say they (i.e. national authorities) compile (but not necessarily disseminate publicly) “distribution of loans by sector” at aggregate level. Disclosure rate of this item at bank level however is far lower, as discovered in our research.



Policy on rating disputes: Some countries may dispute the Bank Disclosure Index assigned to them. The Bank Disclosure Index is calculated based on solely the information collected and processed by the Fitch Ratings. The database is used by Fitch Rating itself in its operations and has been recognized as the most authoritative sources of bank accounting information worldwide. We believe that when Fitch does not include certain information, there should be reasonable cause behind the decision. Fitch Ratings has its own policy for data dispute, and is willing to add to their database additional information provided by the banks. We thus recommend that disputing countries or banks contact Fitch Ratings first to resolve the problems, and then we are glad to update the Indices based on the new data once the public information availability on a certain disclosure item is verified by Fitch Ratings.

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Annex: World Ranking of Bank Disclosure Index (core set)

Table notes:

The Disclosure Indices are first created for individual banks based on their disclosure practices, using a checkbox approach, and then national Indices are created by taking the asset-weighted average of the bank-level Disclosure Indices. A total of more than 20,000 banks are included in calculating these indices. The headline Bank Disclosure Index is a composite disclosure index that aggregates information from six sub-indices, each of which measures the level of disclosure details in a certain category of disclosures.

These six categories include: (1) *LOANS*: breakdown of loans by maturity, type, counterparty, credit risk, problem loans, etc; (2) *OTHER EARNIGN ASSETS*: breakdown of securities by type, and hold purpose; (3) *DEPOSITS*: breakdown of deposits by maturity, type of customer; (4) *OTHER FUNDING*: breakdown of money market funding, and long-term funding; (5) *MEMO LINES*: disclosures of capital ratio, reserves, contingent liabilities, off-balance-sheet, etc; (6) *INCOMES*: breakdown of non-interest income and disclosure of loan loss provisions. These sub-indices further contain in total seventeen sub-components, which are listed in the Table 1 of this document.

The index and sub-index values presented here are based on financial year 2004 data. To obtain index values for earlier years back to 1994, and for the seventeen sub-component scores, please contact the author for an Excel spreadsheet that contains all of this information.

Rank	Country	Disclosure Indices						
		Composite Index	Loans	Other Earning Assets	Deposits	Other Funding	Memo Lines	Income
1	HONG KONG	91	73	94	100	93	99	100
2	SWEDEN	90	62	99	99	96	100	99
3	ITALY	89	59	100	100	97	99	100
4	NETHERLANDS	86	66	78	99	99	94	97
5	FINLAND	85	63	86	71	100	99	100
6	BAHRAIN	84	75	98	53	67	96	98
7	NORWAY	84	60	70	96	92	98	98
8	QATAR	83	76	93	67	33	100	100
9	SWITZERLAND	83	62	99	63	94	90	99
10	OMAN	82	64	100	50	67	96	100
11	SPAIN	81	61	86	72	91	90	100
12	JAPAN	81	40	100	95	88	94	100
13	AZERBAIJAN	80	81	90	84	49	77	100
14	MICRONESIA	80	60	100	50	100	100	50
15	TURKEY	80	73	98	77	67	75	100
16	ISRAEL	79	40	100	100	50	98	100
17	DENMARK	79	46	94	88	87	86	100
18	UAE	79	75	78	75	73	78	100
19	SLOVAKIA	79	70	92	76	88	71	98
20	NEW ZEALAND	79	40	99	99	70	94	87
21	SOUTH AFRICA	78	48	75	84	96	90	99
22	AUSTRIA	78	60	91	80	83	82	84
23	ICELAND	77	50	91	98	88	91	52
24	SLOVENIA	77	52	97	98	55	80	100
25	USA	76	53	99	48	98	93	58



Bank Disclosure Index: Global Assessment of Bank Disclosure Practices

26	LEBANON	76	61	73	95	63	81	100
27	KAZAKHSTAN	76	52	89	73	64	86	100
28	CANADA	75	25	99	53	98	98	93
29	THAILAND	75	40	100	46	69	94	100
30	MEXICO	75	20	99	99	86	88	99
31	JORDAN	74	55	95	39	36	96	100
32	INDIA	74	19	99	99	99	84	98
33	GERMANY	74	51	82	92	89	69	99
34	GEORGIA REP. OF	74	66	91	80	53	68	98
35	BRAZIL	74	59	100	99	98	64	50
36	AUSTRALIA	73	50	99	50	97	88	50
37	SRI LANKA	73	40	67	47	97	97	100
38	HUNGARY	73	56	97	63	94	65	93
39	PORTUGAL	73	56	73	81	96	69	95
40	LITHUANIA	73	54	96	67	71	70	100
41	NEPAL	73	44	96	49	24	99	100
42	TAIWAN	72	20	100	100	49	92	100
43	MALTA	72	59	93	68	86	65	85
44	MALAYSIA	72	0	97	95	95	97	94
45	SINGAPORE	71	38	99	49	99	74	100
46	POLAND	71	47	96	98	80	59	95
47	UNITED KINGDOM	71	45	73	85	95	70	98
48	PHILIPPINES	71	40	100	80	89	62	100
49	LATVIA	70	34	97	82	66	75	100
50	UKRAINE	70	54	80	61	47	80	99
51	NAMIBIA	70	27	71	98	77	85	98
52	BELGIUM	70	49	99	77	98	52	99
53	IRELAND	70	45	78	98	88	64	88
54	SAUDI ARABIA	69	63	67	53	50	94	53
55	INDONESIA	69	19	98	98	82	70	100
56	KOREA REP. OF	68	36	100	73	96	59	99
57	ESTONIA	68	49	100	50	51	69	100
58	CYPRUS	68	48	82	51	65	74	99
59	GREECE	67	34	72	82	96	67	98
60	ECUADOR	67	59	98	66	83	42	100
61	ARGENTINA	66	47	99	96	67	45	100
62	KUWAIT	66	68	100	6	38	65	100
63	FRANCE	66	38	70	90	97	60	88
64	PALESTINIAN TERRITORY	65	0	100	100	50	83	100
65	PAPUA NEW GUINEA	65	0	67	100	50	100	100
66	TAJIKISTAN	65	40	33	100	0	100	100
67	CZECH REPUBLIC	65	51	72	63	77	60	93
68	GAMBIA	64	40	80	96	50	59	100
69	UGANDA	63	45	67	45	49	93	47
70	BELARUS	63	24	89	57	62	74	100
71	BULGARIA	63	41	82	67	51	64	99
72	BENIN	63	31	98	100	29	59	100
73	ALBANIA	63	41	88	61	47	63	100



Bank Disclosure Index: Global Assessment of Bank Disclosure Practices

74	COLOMBIA	63	20	81	98	83	59	100
75	MOROCCO	62	45	100	100	59	34	100
76	RUSSIAN FEDERATION	62	48	73	52	32	72	96
77	ROMANIA	62	38	71	94	47	61	99
78	TUNISIA	62	34	93	49	50	65	100
79	CHILE	62	20	67	99	96	59	100
80	BOTSWANA	62	17	66	51	50	92	98
81	TRINIDAD AND TOBAGO	62	44	100	50	54	51	99
82	LUXEMBOURG	61	40	65	100	87	44	96
83	SAN MARINO	61	30	100	88	87	41	87
84	NICARAGUA	61	40	67	57	100	50	100
85	MALDIVES	60	0	67	50	50	100	100
86	MOLDOVA REP. OF	59	29	70	50	39	76	100
87	PAKISTAN	59	40	67	100	48	46	100
88	CHINA-PEOPLE'S REP.	59	25	73	87	46	61	97
89	HONDURAS	59	19	67	95	96	50	96
90	UZBEKISTAN	58	26	51	53	43	83	100
91	MOZAMBIQUE	58	72	33	72	30	50	100
92	EL SALVADOR	58	20	69	61	52	71	100
93	BANGLADESH	57	32	66	95	14	77	50
94	JAMAICA	57	25	67	100	69	62	50
95	PERU	57	20	59	100	70	53	100
96	DOMINICAN REPUBLIC	57	20	93	50	53	58	98
97	CROATIA	56	43	99	50	58	34	99
98	PANAMA	56	48	79	70	46	36	98
99	VENEZUELA	56	20	88	99	48	61	50
100	GHANA	56	47	66	50	50	48	100
101	ANDORRA	56	20	67	89	45	61	89
102	ZAMBIA	56	22	67	50	36	72	98
103	HAITI	55	20	100	100	50	33	100
104	TOGO	55	20	100	100	0	50	100
105	BOLIVIA	55	20	67	100	48	50	100
106	EGYPT	55	9	93	80	45	55	95
107	LIECHTENSTEIN	54	27	67	99	48	52	67
108	ALGERIA	53	39	67	100	51	33	85
109	MACEDONIA (FYROM)	53	10	66	98	86	41	100
110	ETHIOPIA	53	2	94	93	4	62	100
111	MACAU	53	35	80	56	28	46	97
112	COSTA RICA	53	2	94	100	51	44	100
113	MAURITIUS	52	1	67	60	55	70	94
114	KENYA	52	17	66	47	74	52	99
115	MONACO	52	25	61	97	37	44	97
116	BARBADOS	51	24	67	9	59	77	50
117	BELIZE	51	13	67	58	82	50	83
118	YEMEN	51	7	57	96	42	55	100
119	BURKINA FASO	50	40	33	100	12	48	99
120	BHUTAN	50	20	67	100	0	50	100



Bank Disclosure Index: Global Assessment of Bank Disclosure Practices

121	SERBIA AND MONTENEGRO	50	24	77	47	36	46	99
122	TANZANIA	50	25	70	93	38	47	58
123	PARAGUAY	50	21	67	90	50	50	53
124	MALAWI	49	19	82	32	15	60	94
125	CAMEROON	49	40	67	85	31	40	52
126	KYRGYZSTAN	48	20	58	50	34	55	100
127	SWAZILAND	48	36	67	11	36	50	95
128	CAMBODIA	48	16	38	93	40	51	98
129	CAPE VERDE	48	20	45	100	50	47	67
130	ZIMBABWE	47	25	67	44	50	55	50
131	BOSNIA-HERZEGOVINA	47	28	71	43	48	37	93
132	MONGOLIA	47	20	41	34	72	56	85
133	CONGO, DEMOCRATIC REP. OF	47	23	67	100	30	30	94
134	SENEGAL	47	20	65	99	14	44	74
135	VIETNAM	47	29	63	97	27	31	82
136	RWANDA	46	20	67	83	19	43	80
137	GUATEMALA	46	39	77	93	41	20	49
138	MALI	46	5	94	100	18	32	88
139	ARMENIA	45	20	65	50	36	39	100
140	ST. KITTS AND NEVIS	45	20	100	40	50	50	10
141	SIERRA LEONE	44	0	67	0	45	67	100
142	SEYCHELLES	44	0	67	90	50	47	55
143	GUYANA	43	12	67	93	0	57	35
144	GABON	43	40	67	100	0	28	46
145	NETHERLANDS ANTILLES	43	6	45	95	14	48	91
146	NIGERIA	42	20	71	18	46	49	49
147	URUGUAY	41	20	67	50	0	38	100
148	ANGOLA	41	27	67	44	39	19	100
149	BURUNDI	40	20	54	90	40	27	60
150	ANGUILLA	40	20	100	0	0	50	50
151	GIBRALTAR	40	20	0	50	50	50	100
152	LIBERIA	40	0	67	50	0	50	100
153	IVORY COAST	39	5	33	100	0	46	95
154	LESOTHO	39	20	67	50	0	46	50
155	SURINAME	38	0	77	100	0	28	83
156	BERMUDA	38	23	67	28	27	37	56
157	SAINT LUCIA	38	20	100	50	25	17	50
158	NIGER	35	24	33	84	0	25	84
159	CENTRAL AFRICAN REPUBLIC	35	40	67	50	0	17	50
160	SYRIA	35	20	65	100	1	33	2
161	CUBA	34	21	14	99	51	4	100
162	MADAGASCAR	32	23	26	82	23	23	50
163	GRENADA	32	9	67	50	28	22	50
164	SUDAN	30	20	51	64	0	8	88
165	BAHAMAS	30	5	65	57	41	17	42
166	ANTIGUA AND	30	0	69	47	50	32	3



Bank Disclosure Index: Global Assessment of Bank Disclosure Practices

	BARBUDA							
167	WESTERN SAMOA	30	0	67	0	50	17	100
168	IRAQ	30	31	67	50	0	15	23
169	BRUNEI DARUSSALAM	29	19	32	48	24	24	48
170	LIBYAN ARAB JAMAHIRIYA	29	15	82	56	7	19	8
171	IRAN	28	3	67	96	0	18	25
172	CAYMAN ISLANDS	28	2	72	42	89	8	8
173	MAURITANIA	26	15	24	68	0	16	73
174	DOMINICA	25	20	33	50	0	17	50
175	LAOS	25	0	67	50	0	0	100
176	CHAD	15	20	0	100	0	0	0
177	TONGA	15	0	0	50	0	0	100



Annex: Ranking of AFR countries by Bank Disclosure Index

Ranking	Country Name	Lending Status	Disclosure Index
1	SOUTH AFRICA	IBRD	78
2	NAMIBIA	IBRD	70
3	GAMBIA	IDA	64
4	UGANDA	IDA	63
5	BENIN	IDA	63
6	BOTSWANA	IBRD	62
7	MOZAMBIQUE	IDA	58
8	GHANA	IDA	56
9	ZAMBIA	IDA	56
10	TOGO	IDA	55
11	ETHIOPIA	IDA	53
12	MAURITIUS	IBRD	52
13	KENYA	IDA	52
14	BURKINA FASO	IDA	50
15	TANZANIA	IDA	50
16	MALAWI	IDA	49
17	CAMEROON	IDA	49
18	SWAZILAND	IBRD	48
19	CAPE VERDE	IDA	48
20	ZIMBABWE	Blend	47
21	CONGO, DEMOCRATIC REP. OF	IDA	47
22	SENEGAL	IDA	47
23	RWANDA	IDA	46
24	MALI	IDA	46
25	SIERRA LEONE	IDA	44
26	SEYCHELLES	IBRD	44
27	GABON	IBRD	43
28	NIGERIA	Blend	42
29	ANGOLA	IDA	41
30	BURUNDI	IDA	40
31	LIBERIA	IDA	40
32	IVORY COAST	IDA	39
33	LESOTHO	IDA	39
34	NIGER	IDA	35
35	CENTRAL AFRICAN REPUBLIC	IDA	35
36	MADAGASCAR	IDA	32
37	SUDAN	IDA	30
38	MAURITANIA	IDA	26
39	CHAD	IDA	15
40	GUINEA	IDA	0