

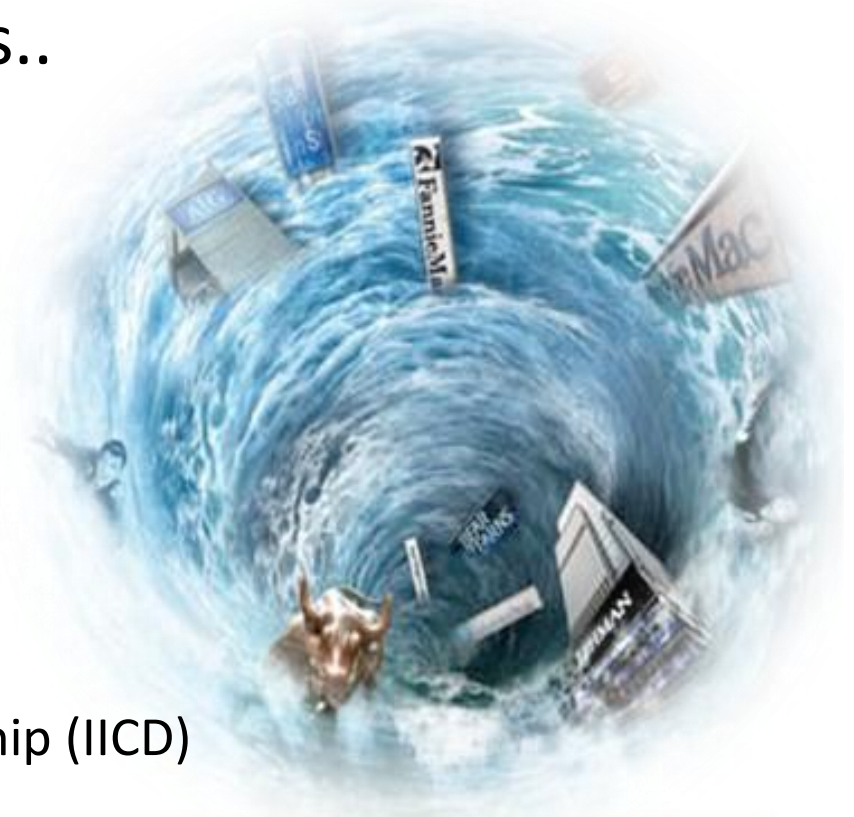
Corporate Governance Implementation

....in Facing Global Financial Crises..

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Seminar GCG,
The Indonesian Institute of Corporate Directorship (IICD)

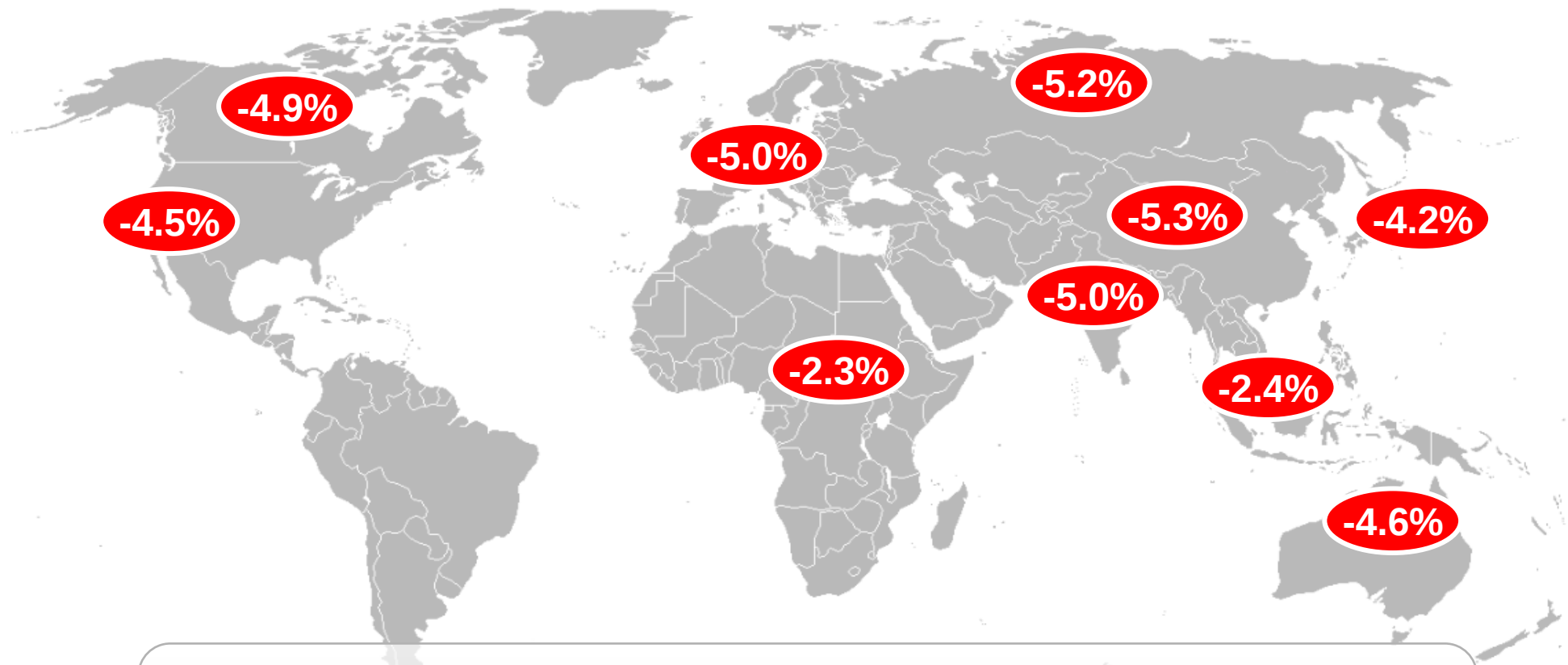


Agenda

- The Global Financial Crises
- The Importance of GCG
- GCG Implementation:
 - Some Stories about GCG Implementation
 - Paradigm Shift
 - Creating an Environment for GCG Implementation
- CIMB Niaga Practices: GCG as an Integrated System

The global financial crises has been weaken the global economic growth. The growth rate of the global economy is projected to shrink by 0.9% in 2009 from 3% in 2008. Some changes of GDP Growth (2008 & 2009) in many regions are..

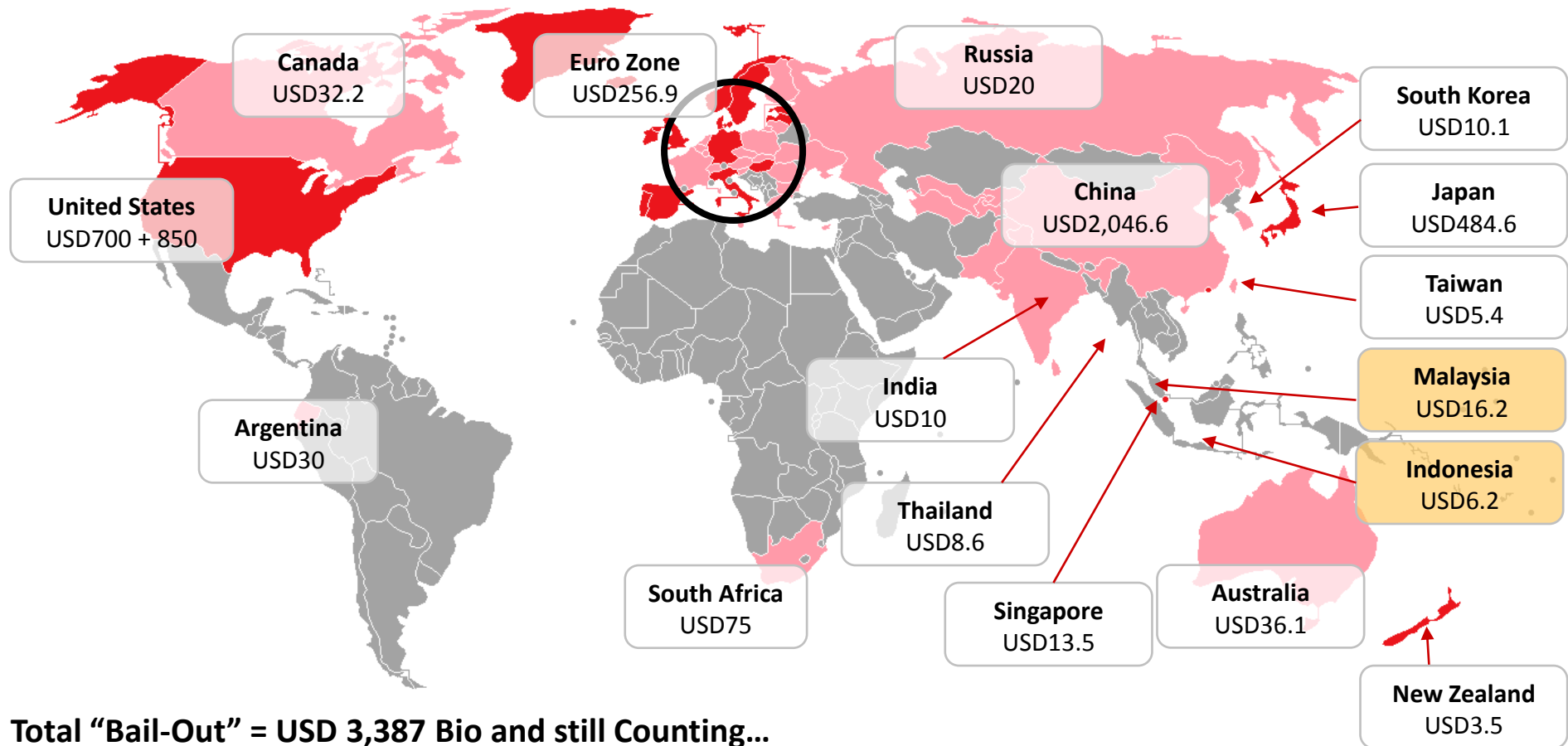
The current global financial crisis is unprecedented in scope and scale in recent times...



- Can only be compared with the Great Depression – 1929-33
- Global government bailout & incentives reach USD 6 trillion;
- So far caused loss of wealth valued at more than US\$7.3 trillion

Despite a historic coordinated intervention of all major central banks and a series of unprecedented, wide ranging and extensive government intervention through their “stimulus package” – the financial sector still remains fragile and a return to normality is slow. Damage assessment is underway..

In USD bio



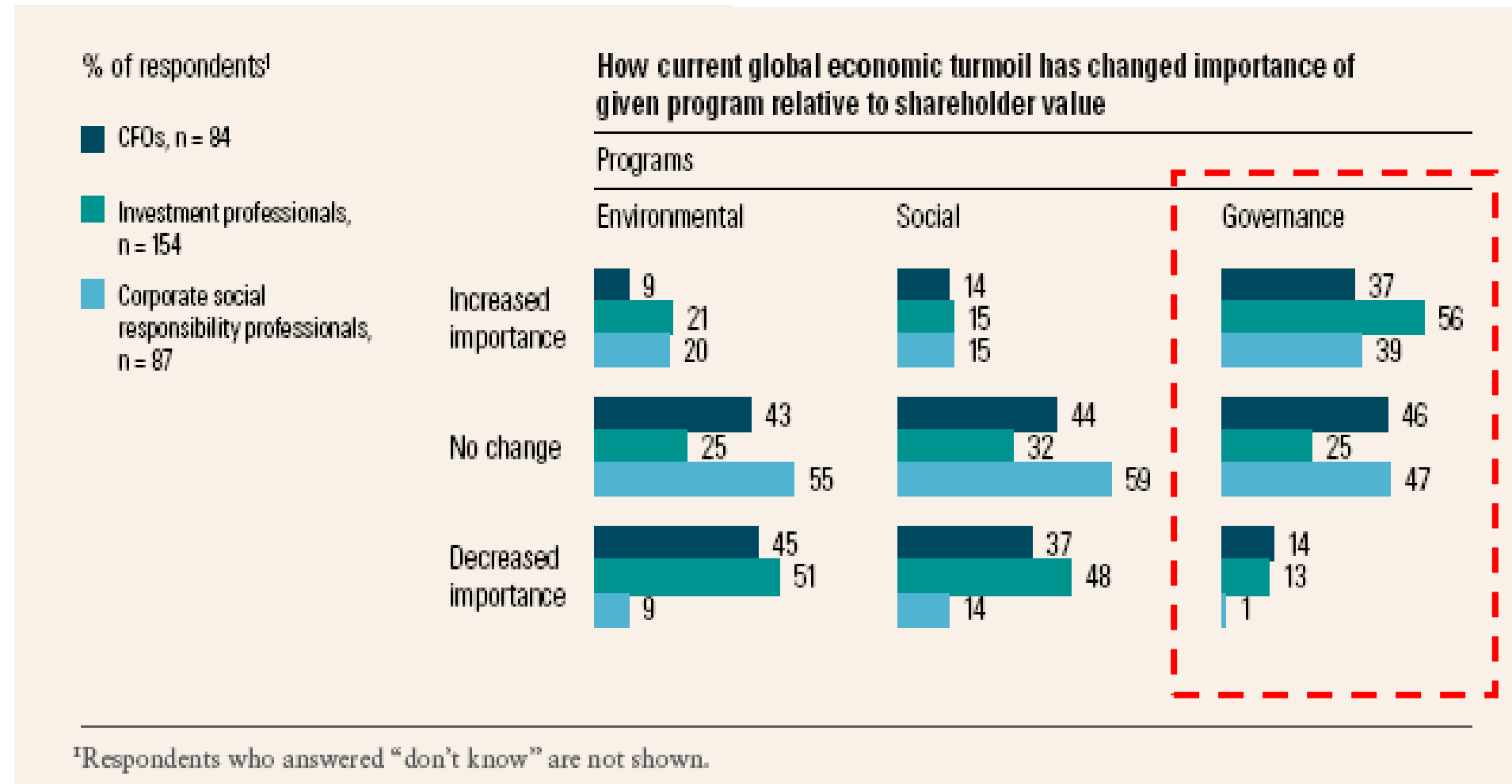
Total “Bail-Out” = USD 3,387 Bio and still Counting...
(only some countries, Obama plan to add USD 850 Bio in 2009)

At present, nobody can be sure for how long markets will remain dysfunctional and what results the stimulus packages will produce..."The Stimulus Package is not Enough!" What the world also needed is to revisit the implementation of Corporate Governance...

"...Underlying much of the credit crunch has been a fundamental failure in corporate governance. While the financial institutions involved may have been in compliance with local requirements and codes, they have ignored the key point – Good Corporate Governance is about boards directing and controlling the organizations so they operate in their shareholders interests....

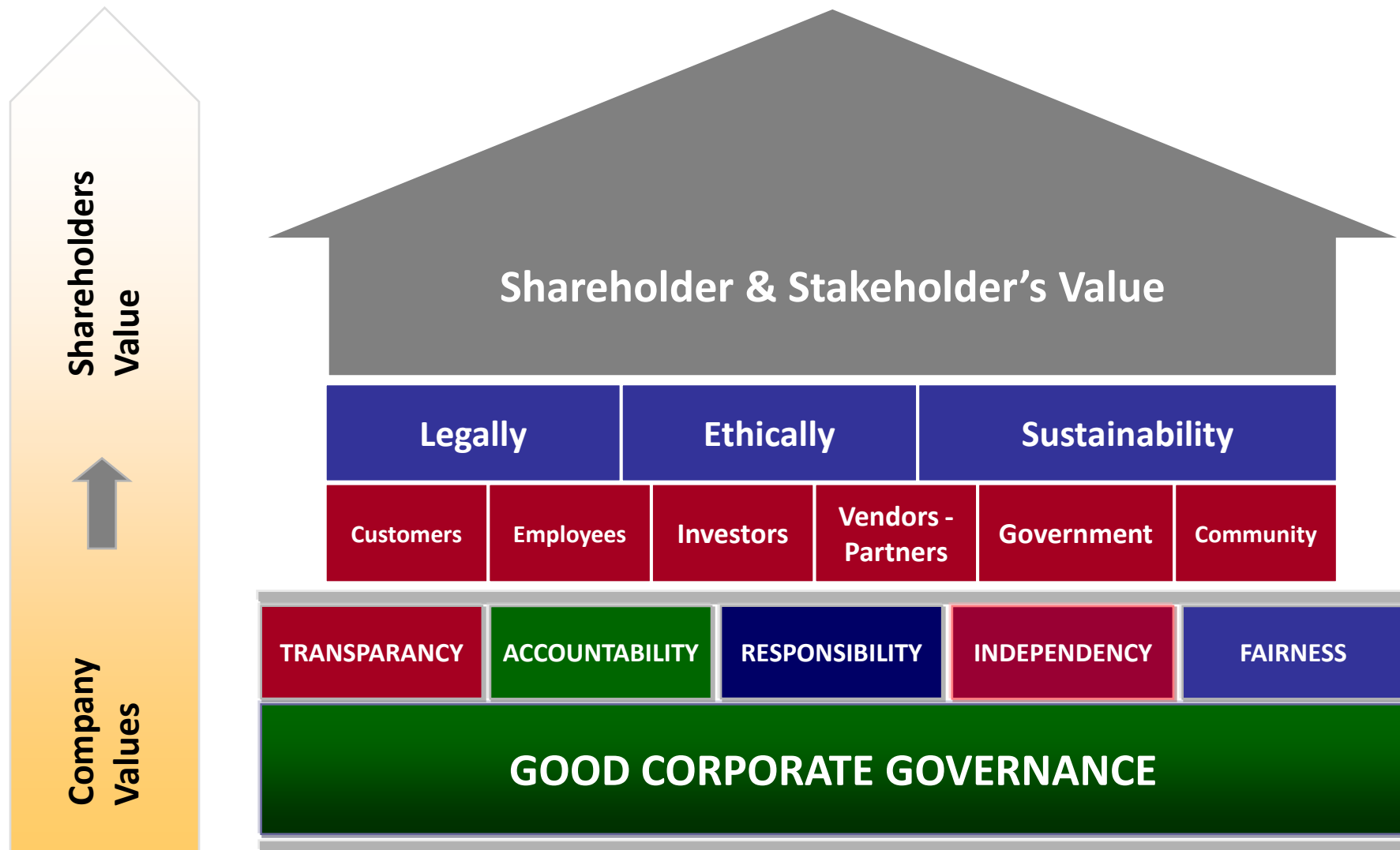
(Association of Chartered Certified Accountants "Climbing out the Credit Crunch", September 2008).

..a recent survey in December 2008 shows that Investment Professionals generally agree that the global economic turmoil has increased the importance of governance programs..



Source: Boston College's Center for Corporate Citizenship, December 2008 and includes responses from 238 CFOs, investment professionals, and finance executives from the full range of industries and regions

..this is simply because corporate governance plays a very important role in transforming corporate values to maximize shareholders and stakeholders value. Every crises is different and unique but all crises are the same in terms of their effects, namely: Loss of Shareholders Value!



.. recent instances of ineffective GCG implementation that led to shareholders value loss, collapses, even filed to bankruptcy and their key executives faced subpoena and go to the court...(1)

Satyam System Corp.

IT Company based In India,
Listed in India
and New York Stock Exchange

CEO has **manipulated** the Numbers in their Annual Report. In Q3-2008 their Cash reported 94% bigger than actual; their actual Operating Margin only 3% from the revenue of \$434m – but reported as 24% from \$554m revenue (deviation \$100m). The difference of short-debt is \$ 253m from actual.

- Share Prices –
Dropped 77.5%
- Index Dropped 7.2%
- CEO was fired
- NYSE will investigate

Bernard L Madoff

Investment Company

As a “credible” person, ex Chairman Nasdaq, Madoff collected \$64.8b from various investors incl. big investment banks. He used “Ponzi Scheme” – a money game which is forbidden. **No transparency** until the crises hit US, he was rushed and collapse..

- Madoff jailed 150 years
- The money must be returned
- Company filed to bankrupt

..recent instances of ineffective GCG implementation that led to shareholders value loss, collapses, even filed to bankruptcy and their key executives faced subpoena and go to the court...(2)

CEO Merrill Lynch

John Alexander Thain

John was forced to resign by CEO BOA after losses of Merrill proved to be far larger than the BOA due diligence team. He asked bonus \$10m for himself, and accelerated bonus payment \$4bn for employees days before merger with BOA. He was speculated using “bailout” fund.

- John was fired
- John and other Execs charged of criminal-fraud..

AIG

Executive Compensation

CEO Edward Liddy announced \$160m for Bonuses of AIG execs. Public angry – because **it's not fair**. They think AIG now is supported by US Taxpayers. Total bailout for AIG was \$90bn. AIG was asked to be more **responsible**

- Obama to block payouts
- CEO faced subpoena and being investigated
- Many AIG Execs resigns and returned the bonus

..some stories below shows that strong and consistent GCG Implementation will lead to the sustainable growth of the company, will be able to protect the management from any conflict of interests...

NB Liquor Corp.

A large wine producer
in Canada

CEO

Dana Clendenning

Clendenning was alleged by O'Donnel for violating Conflict Of Interest Act, April 09. Before being CEO (2006), he was an Execs Director of New Brunswick Liberal Party and being paid \$4000/m as a lobbyist by O'Donnel. After becoming CEO, his wife still invoiced O'Donnel for the past works. This case become controversy. The Premier Graham as state-shareholder defends the CEO, for his **accountability** is clear and has been **disclosed** at the beginning.

- Clendenning still being a CEO and the company grows.
- Professionalism first, political supports is an advantage
- GCG protected the CEO and the company from Conflict of Interest.

TELSTRA

The biggest telco operator
in Australia

CEO

Solomon Trujillo

Trujillo is the most controversy CEO in Australia. Gov't to sell their 51.8% shares at Dec 2005, but postponed as the prices dropped. They thought its because of Trujillo – delayed the infrastructure development & failed to negotiate with Regulators. The profit Q3-2005 down 26%, Share prices also dropped 27% since he was – named to be CEO. Meanwhile, he still got a huge bonus A\$8.7m. Gov't "angry" with him. But the BOC supported him. **The BOC was very independent** tough the chairman was a "friend" of Prime Minister John Howard

- Trujillo still become a CEO till June 2009 (terminate).
- Strong GCG protected him from any political influence
- Trujillo was paid A\$11.7m at 2007, increased A\$3m from 2006

...for more effective implementation of GCG principles in the face of global crises, firstly what we need is...shifting our paradigm on GCG implementation. It will change the way we work and we think..

Soft Law

from comply or explain requirement

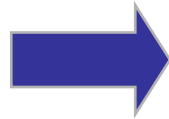


Hard Law

to mandatory compliance requirement with governance practices strictly supervised by the regulator

Checklist

from checklist (“box-ticking”) of regulations



Mind Set

to behaviour and “way of thinking” that GCG pays

Reactive and Compliance Mode

from “reactive and compliance mode” of corporate ethics



Integrity Mode

where the functions of the entire organization are completely align with its value system

“Corporate Culture is what determines how people behave when they are not being watched”

Tom Tierney, Bain Consultant

...secondly, we must address the basic cause of corporate malfeasance (*the lack of a strong environment for good governance within the corporation*). My belief is any system is as good as the people who use it. Hence, the focus has to move toward creating an environment where respectability matters, such as....

- **Better board preparedness and balance of power:**

We must select informed people with integrity and independence of mind for boards positions. We must create an effective balance of power between shareholders, management and board of directors. They also must have “sense and understanding of crises” in doing business “unusual”.

- **Corporations must integrate their value systems into their HR programs.**

They have to create system, structures and incentives to promote transparency and fairness.

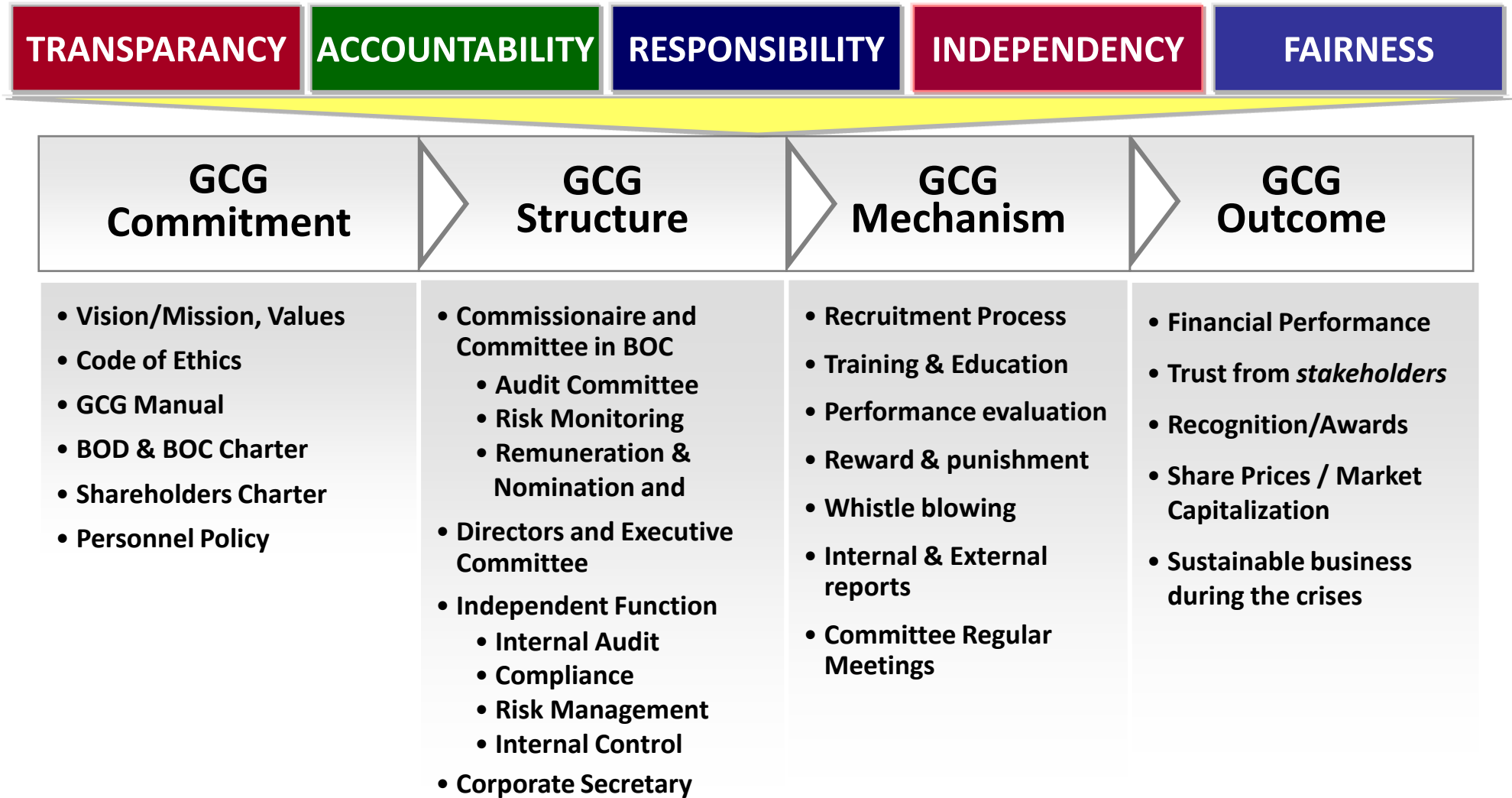
- **Business leaders must “walk the talk”.**

We need business leaders who are men and women of integrity –because employees watches them carefully and imitates them. All great scandals generally demonstrated by a group of people with their leaders.

- **Business leaders must follow simple business rules.**

Great corporate leaders are expert simplifiers. They operate on simple business rules which are easy to understand, easy to follow and easy to communicate.

...to share the experience of corporate governance implementation at Bank CIMB Niaga, we have translated all basic principles of the Good Corporate Governance (GCG) into integrated system, from GCG Commitment of all levels to the GCG Outcomes. As a merged-bank from two big banks with it's unique culture, GCG implementation is a must..



Thank You