International Journal of Engineering Research And Management (IJERM)
ISSN: 2349- 2058, Volume-07, Issue-11, November 2020

Banking Governance Facing Stakeholders - Case study of the External Bank of Algeria (BEA)

Dr SENOUCI Kouider & Dr MERAD BOUDIA Mohammed Djamil [1]

Abstract - The banking governance is different from that of enterprises. The equal satisfaction of the different concerned organizational parts (internal), economic (external) and societal (NGO) is not an easy task, yet realizable. The performance of enterprises in general and that of banks in particular usually should go through the integration of governance within a framework of relationship between enterprises and concerned parts at large. The different models and theoretical and universal empirical concepts have almost dealt with this timely topic on scientific basis. Governance has become a culture, if not a guide, providing the enterprise with basic principles to improve its performance. Additionally, in Algeria the strict prudential regulating laws are implemented gradually to meet the universal standards. However, the Algerian banks still lag behind, this presents a real risk for the whole sector. Thus, the credit rationing is gaining ground in Algeria for no obvious reasons at the expense of the national economy. The objective of this paper is to know how good governance of the bank can improve its performance.

Index Terms - Governance-management – Bank – performance – financial indicators.

I. INTRODUCTION

Governance remains a hot topic, attracting the attention of many researchers and users (companies, organizations, institutions). The existence of several problems such as asymmetric information, fraud, money laundering, financial scandals and misappropriation, requires the existence of a corporate governance system which, by virtue of its universal principles while adapting them to the reality of each entity, can put an end to the various conflicts of interest or at least reduce them to a minimum. The objective of governance does not focus on specific points, but affects all areas of activity and without exception, since it has become a culture for both developed and emerging countries.

Particular importance has been given to corporate governance in many developed and emerging economies in the previous decades, especially during the financial crises experienced by the countries of East Asia, Latin America and Russia in addition to the various crises that affected the United States of America (Enron collapse in 2001 following a problem of information asymmetry - Mortgage crisis). The new governance is no longer focused on the expectations of shareholders alone or on purely economic issues, but favors the inclusion of all stakeholders as well as social and environmental issues.

Indeed, only the mobilization of all stakeholders - whether organizational, economic or societal (Non-Governmental Organizations: NGOs) - will lead to sustainable growth.

Given these considerations, we pose the following problem: How can good governance of the bank improve its performance?

Our work is based on the descriptive and analytical methodology using the principles of governance and the most commonly used economic and financial indicators and this according to the structure which is composed of two parts; the first reserved for the theoretical approach and the second for the empirical study having as a case study the bank BEA Algeria. Based on this, the benchmarks of our research plan are as follows:

II.THE THEORETICAL FOUNDATIONS OF BANKING GOVERNANCE

Corporate governance is both a managerial philosophy and a set of practical measures aimed at ensuring the sustainability and competitiveness of the company through the definition of the rights and duties of stakeholders and the sharing of the resulting prerogatives and responsibilities. The topic of corporate governance or corporate governance is not particularly recent. It has emerged as the most discussed management topic in recent years in the world of political and academic affairs. The question that arises is in its novelty (novelty of the subject) which lies in the globalization of stock exchange operations and the importance taken by institutional investors and particularly by pension funds. The major obstacle for those working on corporate governance lies essentially in the diversity of stakeholders, in the variety of topics addressed and academically in the breadth of disciplinary fields.[1]

The most famous theoretical models of corporate governance based on the different analyses are those of Berglof[2] (market-oriented and bank-oriented systems), J.R. Franks and C. Mayer (open and closed systems of government)[3], P.W. Moerland[4] and A. Moerland. Hyafil and Yoshimori.

And on a practical level, the most widely used corporate governance systems in the world can be summarized in Yoshimori's models[5], which classify governance systems into three main categories:

-The Anglo-Saxon Model (United States and United Kingdom) is associated with a monistic vision of the firm which must ensure the sole protection of shareholders.

-The German-Japanese Model, different from that of the Anglo-Saxon countries. Through the concept of universal banking, these two countries have fostered the emergence of a very large and strong banking sector, capable of financing economic agents. Most of the allocation of the financial

resources needed to finance the economic sector is assumed by the banks.

-And finally, the Hybrid Model (France and Italy), which lies between market systems and network systems. France and Italy have adopted this system; also called mixed governance system. In this framework, firms have the choice between the monistic and the dualistic structure. This model is characterized by the intervention of the state to conform the system of governance.

Moreover, we cannot overlook the major contributions to corporate governance made by Gérard Charreaux (1987 and 2002)[6], Gomez P.Y. (1996), Richard Bertrand-Miellet Dominique (2003), Ebondo Eustache-Mandzila Wa (2005), Meier Olivier-Schier Guillaume (2005), Pige Benoit (2008) and Igaliens Jacques-Point Sebastien (2008).

It turns out that the academic work was ahead of events, it was followed by widely circulated reports, and laws were passed in several countries following financial and stock market scandals.

Among these academic works were those of M.Jenson and W.Meckling in 1976, which profoundly renewed Coase's[7] older approach to the nature of business by laying the foundations of agency theory. Agency theory equates the firm with a knot of contracts. Corporate governance analysis is based on the assumption of conflicts of interest between the firm's managers and partners[8].

In France, the work of economists plunged this research, particularly on the incentives to be put in place to resolve the agency conflict. And following G. Charreaux, French researchers in management inclined towards the functioning of governance bodies.

Thus, we cannot do without the principles of good governance of the Organisation for Economic Co-operation and Development (OECD) countries (2004 report), the United Nations Development Programme (UNDP), New Partnership for Africa's Development (NEPAD 2007), the International Monetary Fund (IMF), the World Bank and the charter of good governance in Algeria.

Many public reports, notably those of the English (Cadbury 1992, Greenbury 1995 and Hampel 1998) and French (Pébereau 1991, Vienot 1 1995, Martini 1996, Arthuis, Vienot 2, the law relating to new economic regulations 2001 and Bouton 2002) committees, have been added to the debate and have enriched the field of corporate governance.

The British reports, in particular that of the Cadbury Commission, which published its first conclusions in the form of a white paper and a code of good conduct, the Greenbury Committee, which demanded a certain number of recommendations on the rules relating to executive compensation and aimed at the institution of the production of reliable information and the inclusion in the board of directors of the opinion of independent personalities, and the Hampel Committee, which is a continuation of the Cadbury report while introducing some innovations, dealing with the separation of the functions of Chairman and Chief Executive Officer and Chief Executive Officer, the shareholders' right to precise information on executive compensation and the obligation of the resigning director to justify this act in the year-end report, and the obligation of all new directors to receive specific training on their role and duties.

The French committees for their part having drawn up several reports. The two Vienot reports; the first devoted to the Board of Directors and the second, broader, relating to corporate governance. The Bouton report, named after the Chairman of Société Générale (French bank), entitled "For better governance of listed companies". The Martini report, produced by Senator Martini at the request of Prime Minister Alain Juppé (France), covers a broader horizon than that of Marc Vienot (the creation of specialist committees (audit, compensation, selection). The Arthuis report studies the application of corporate governance mechanisms within public companies, as well as the optimization of relations between the State, as a shareholder, and the managers of public companies. This is achieved through the appointment of directors of public companies on the basis of their skills.

In the wake of the Enron and Worldcom scandals, corporate governance laws were passed. In the United States, the so-called "Sarbanes-Oxley" law (SOX), which introduced a number of new obligations concerning the certification of accounts by the chairmen and Chief Financial Officers and the appointment of independent directors to the Audit Committee and the Board of Directors, and the supervision of a certain number of special benefits for executives. Two laws have been passed in France, the "New Economic Regulations" Act of May 2001 and the Financial Security Act of August 1, 2003. These two laws introduce numerous changes to the French corporate governance system.

Nevertheless, a distinction must be made between the two major schools; on the one hand, the American school based on shareholder governance where shareholders are considered as the only unique stakeholder and, on the other hand, the European school focused on partnership governance where all stakeholders are taken into account.

From these reports and laws, one understands that the concept of governance refers to a free and voluntary approach by the company with a view to introducing greater rigor and transparency into its management, administration and control.

This corporate approach focuses on the respective rights, obligations and responsibilities of its internal and external stakeholders and their reciprocal relationships.

When the practice of corporate governance becomes widespread in the business world, it does not fail to promote the widespread dissemination of the conditions of a healthy and dynamic market economy with a fabric of quality enterprises.

The challenges of corporate governance are therefore indeed of a strategic nature and go well beyond the microeconomic scale of the company itself and its environment, to affect the quality of the market economy model.

Algerian companies must convince themselves that it is in their interest to commit to it. Private small and medium enterprises (SMEs) in particular are called upon to both protect themselves from the serious but avoidable difficulties to which they are exposed, and to put on their side the advantages of transparency, stability, rigor and a good image.

In view of all these advantages, it is to be expected that a significant number of companies will adhere to the pproach, which will make it possible, by a mass effect, to improve the image of the Algerian company and the attractiveness of the national economy in terms of capital and skills and, consequently, to diversify the sources of accumulation of the latter.

Generally speaking, the content and modalities of corporate governance in Algeria are set out in a code (charter of good governance in Algeria) which serves as a reference text for all interested parties. This code represents the work elaborated by GOAL 08 (allusion to governance Algeria 2008) between November 2007 and November 2008. Within this framework, the taskforce was able to measure the stakes and urgency of a corporate governance approach in the Algerian context and referred to the OECD's Principles of Corporate Governance (2004) while taking into consideration the Algerian context.

Corporate management through a system of corporate governance determines the fate of companies and the fate of countries' economies. In this era of globalization and especially with the current procedures of liberalization and internationalization of the economy focusing on information and communication technologies (ICT) and complementarity between financial markets and the transformation in the forms of equity capital of companies with the increase in the number of investors.

The banking sector is distinguished from other sectors by the considerable importance of regulation in the conduct and management of credit institutions and by its multilateral relations with all economic agents. The bank is a company like any other, applying the same principles. However, certain particularities are added through regulations in conformity with the orientations of the banking commission and the various laws relating to money and credit and at the universal level the respect of prudential regulations, in particular those referring to the Basel Committee. Achievement of the targeted objectives remains limited in the supervision of certain risks which are even taken into account in the performance contracts of the banks' Chief Executive Officers (CEOs).

The problem of the extreme passivity of the financial market in Algeria causes the economy and banks and financial institutions to lose many opportunities. To this end, the role of governance must emerge in order to bring its added value and enable banks to further improve their performance.

The bank has a very particular specificity since it has to ensure the trust of its customers in a permanent way, but this is very difficult because the banking activity is by expansion very volatile and very risky that the bank cannot manipulate them with the traditional tools of governance. It is for this reason that the banking industry must be structured by strict rules to mitigate the occurrence of the risks it incurs, because the bank is the main core of financing the economy.

III-THE IMPLEMENTATION OF A NEW GOVERNANCE :

Banks do not govern like other companies. They are closely linked to each other through their exchange of information and cross-transactions. The failure of a banking company leads to the generalization of a system of bank regulation that also incorporates standards of good governance, which is why the banking sector has a specificity. Whatever the legal form of a bank, there is a specific concern for governance that guides its action. In a way, it is a question of reinforcing the balance in the exercise of management and control functions. The managers and shareholders of a banking company must apply rules that are in line with those of other industrial and commercial companies and with the specific constraints of the banking system.

In general, Basel I, Basel II and Basel III follow the same objective. The Basel I Capital Accord concluded in 1988 in Basel, Switzerland, by the central bank governors of the G10 countries. This agreement was then revised in 2004 (Basel II) and finally strengthened in December 2010 (Basel III). Basel I and Basel II deal exclusively with solvency and not more generally with financial indicators such as liquidity. These indicators make it possible to measure the sound financial health of a bank or, more generally, of a company. As of the recent crisis, Basel III now pays equal attention to the solvency and liquidity of banks[9] .

Applied to financial institutions, governance is even more important in countries where banks are the main source of funding. Bank governance can lower the cost of capital for firms, accelerate capital formation, and boost productivity growth[10]. However, this type of governance has a number of specificities that complicate its implementation.

Bank governance is broader and more comprehensive than that of other sectors. The interests of all stakeholders must be safeguarded without distinction. The main difficulty remains in defending the interests of minority shareholders and depositors. Thus, the interests of depositors and shareholders are important and the problem of information asymmetry is acutely relevant for both parties.

The banking activity is complex and more controlled. Banks remain an important source of taxes and duties for the state budget and are decisive in the application of economic policies.

Sometimes, state intervention can cause difficulties, especially if the political priorities of the state do not correspond with the maximization of value for the banks. This can limit risk-taking by banks and their clients and favor certain interest groups.

Banking governance is influenced by the high opacity of banks, which explains a lack of transparency in banking transactions. For this reason, the analysis of governance cannot be discussed without knowledge of the managers of these banks, their remuneration and the mechanisms of their control. These factors lead us to a better understanding of this specificity, which leads us to apprehend and appreciate the major purpose of governance, which is to provide strategic direction, ensure that objectives are achieved, that risks are properly managed and that resources are used wisely.

The relative opacity of banking activities is linked to the difficulties of measuring performance and identifying risks.

3.1 International prudential supervision standards:

Prudential regulation is the set of measures that reduce or better assume the risks generated by the various components of the financial system[11]. These rules are necessary to achieve two key objectives: system stability and depositor protection.

Faced with the rise in banking risks, the international authorities have implemented the Basel standards, namely Basel I, Basel II and Basel III.

The Basel Committee, through the new reform of the solvency ratio, aims to make regulatory capital and economic capital converge and to make credit distribution more sensitive to risk by encouraging banks to gradually use the most advanced internal methods. The Basel agreements are not perfect and pose certain problems

despite the increased efforts of their members. At times, one notices the growth of regulatory opacity, which disrupts the comparison between different banking institutions, which was one of the original objectives of the Basel Accords. The Basel II Accord is called a revised, not a new Basel Accord because it came to address the shortcomings of Basel 1[12].

3.1.1 The Basel I agreement (the Cooke ratio): The Cooke ratio is the first ratio aimed at covering counterparty and liquidity risk. It is a capital requirement to be included in the calculation of financial costs, which represents 8% of the risky loans granted.

Applying this weighting to the amount of loans granted produces the denominator of the ratio.

$$\text{Solvency ratio (Cooke)} = \frac{\text{Prudential Equity}}{\text{Weighted credit amount}} \geq 8\ \%$$

This ratio can be translated as follows:

$$\text{Solvency ratio}^{13}\text{ (Cooke)} = \frac{\text{Prudential Equity}}{\text{Credit risk+Market risk}} \geq 8\ \%$$

Capital equity is made up of various types of items**:**

a- regulatory capital
- Tier One capital = book equity
- Complementary equity or (Tier Two)

The creation of the FGBR (fund for general banking risks) has helped to strengthen ' equity capital. The following ratio must be respected :

$$\frac{\text{Additional equity capital}}{\text{Core capital}} \leq 100\ \%$$

- Tier three additional equity capital

b- Economic capital (corresponds to capital requirements defined by the institution itself based on internal models to cope with exceptional losses).

Since the application of the Basel I agreement, many dou bts have been expressed by users (De Servigny A. and Zelenko I. 2007).

In general, the relentless development of advanced credit portfolio management techniques has necessitated the revision of the Basel I agreement.

3.1.2 The Basel II agreement (the McDonough ratio) :

The second Basel Agreement, also known as Basel 2, is based on three pillars. Pillar 1 is the direct result of Basel 1 and the subsequent amendments: they are still minimum capital requirements. This time, however, the formula for the ratio to be complied with does indeed include various risks (Quenti H. 2017).

The Cooke ratio considers that banking risks are exclusively made up of credit risk and market risk. The McDonough ratio integrates these two classes of risk but also a third, namely operational risk[14].

$$\text{Solvability ratios} = \frac{\text{Equity capital}}{\text{Credit risk+market risk+operational risk}} \geq 8\ \%$$

Calculation of Equity capital according to Basel II (Rates given to the different risks)

Credit risk = 6.6%.

Market risk = 0.4

Operational risk = 1%.

Total = 8%.

To conclude on the subject of the Basel 2 agreements, the global economic and financial crisis of 2007-2008 could not be prevented and directly questions us about the future of this regulation, namely the Basel 3 agreements.

3.1.3 The Basel 3 agreements :

The Basel 3 agreements, which are the direct successors to the Basel 2 agreements, are the result, like their predecessors, of the Basel Committee. This third series of agreements on global banking and financial regulation, focused on stability, is a direct response to the economic and financial crisis we have experienced since 2007[15].

This third series of agreements will focus its directives on another major point of banking risks, namely: market and liquidity risks, because this crisis comes from the markets. Basel 3 has added additional measures for systemically important institutions and measures to address liquidity risk. The objective of the first pillar is to improve the quality of the equity capital necessary for the security of banking institutions.

Thus, we first find a modified regulatory capital requirement, just like the Basel 2 Ratio: we move from Tier 1 and Tier 2 equal to 8% of the risk weighting to the Core Tier 1 ratio: the core capital previously 4% is now 4.5%, to which we must now add 2.5% of "safety cushion" that can be directly mobilized in case of crisis. Tier 2 increases from 4% to 3.5%, which results in the modification of the ratio. We thus arrive at a total of : 10,5 %.

4,5 % + 2,5 %+ 3,5 % = 10,5 %

$$\frac{\text{Equity capital (Tiers 1 \& 2)}}{\text{RWA}} \geq 10{,}5\ \%$$

RWA : Risk Weighted Assets

IV. CREDIT RATIONING AND PRUDENTIAL REGULATION :

The problem of credit rationing is relatively old. Already Jaffee and Modigliani[16] (1969) had noted that in the case of interest rate rigidities, the bank was led to ration credit. This concept of credit rationing initially corresponded to macroeconomic research. It was used to evaluate the impact of a monetary policy on the real sector, despite investment demand being weakly elastic to interest rates, Bernanke (1983, 1988)[17].

Based on the model of Stiglitz and Weiss[18] (1981), equilibrium credit rationing is based on the existence of asymmetric information (explaining how asymmetric information leads to credit rationing), but other researchers, as Williamson S.D[19] (1986) points out, his model is based on the existence of asymmetric information. With this approach, Williamson fills the void in the work of his predecessors who were interested either in credit rationing or in the role of financial intermediaries, by integrating credit rationing as a function of the financial intermediary.

According to Williamson, credit rationing comes in two forms; the first is rationing based on the granting of a limited volume of credit (the quantity to be granted is less than the desired volume) and the second is that credit rationing is explained by the unfavourable agreement of some lenders in granting credit and favourable agreements for others. The files processed are sanctioned by two different opinions; favorable or unfavorable.

The credit framework is a regulation that limits the banks' power of monetary creation by defining, in relation to the previous volume of credit granted to customers. It is generally accompanied by sanctions for banks that violate the rule, it is often an increase in reserves at the central bank, and a higher cost of refinancing when the offending bankers have to obtain central bank money[20].

In view of the above and compared to reality, i.e. the application of Law 90-10, relating to money and credit (Algeria), we can deduce that the phenomenon of centralization of certain banking operations (credit) contradicts the transition to a market economy. The operation of privatization of banks has been slowed down by the public authorities, which means that the phenomenon of the existence of the credit framework remains to this day, all the more so as the said law was abrogated in 2003 by the ordinance 03-11 of August 26, 2003. As a result, bank management cannot be assessed according to generally accepted rules and the needs of economic agents will never be satisfied. In this respect, the exercise of good governance cannot take place and the expectations of stakeholders will not be met equitably. By way of indication, we can say that certain sectors of the economy are favored to the detriment of others for the realization of the economic policy mapped out by the government.

V-IMPACT OF THE EXERCISE OF BANKING GOVERNANCE ON PERFORMANCE, THE CASE OF THE BEA BANK (EXTERNAL BANK OF ALGERIA):

5.1 Summary overview of this bank (Data taken from the bank's website):

Company per share with a capital of: 230 000 000 000 Algerian dinars (around : 1 643 000 000 Euros).

Bank created on : 01/10/ 1967. It took over the activities of the French banks operating at that time in Algeria, namely: Crédit Lyonnais - Société Général - Barclay Bank Limited - Banque Industrielle de l'Algérie et de la Méditerranée (BIAM).

- Activity: Banking production and financing of all sectors of activity.

- Branch network: important exceeding 120 branches in 2020.

5.2 Evaluation of BEA's performance from the financial statements :

5.2.1 Presentation of balance sheets and off-balance sheet items and analysis of their evolution:

Table 1: Balance sheet (Assets) Unit : millions of Algerian dinars

Code	Assets	2014	2015	2016	2017	2018
1	Cash, central bank, postal cheque accounts.	517 010	365 815	458 781	749 185	512 760
2	Financial assets held for trading	18 795	75 978	46 103	40 859	27 254
3	Financial assets available for sale.	32 236	24 565	88 121	82 970	48 223
4	Due from financial institutions.	753 788	518 948	90 584	133 685	283 435
5	Due from customers.	877 653	1 234 798	1 589 152	1 825 634	2 112 245
6	Financial assets held at maturity.	259 323	251 291	236 805	207 628	217 176
7	Curret taxes-assets.	13 832	11 512	13 271	12 23 6	18 871
8	Differed taxes-assets.	1 134	1 047	1 191	1 004	901
9	Other assets.	62 862	72 080	1 720	1 861	4 153
10	Regularization accounts.	3 944	4 014	5 522	19 578	24 340
11	Shares in subsidiaries, co-entreprises or associated entities.	22 492	24 916	25 166	29 765	29 985
12	Investment properties.	0	0,00	0,00	0,00	0
13	Net tangible assets.	18 090	17 569	17 287	17 248	17 390
14	Net intangible assets.	234	279	303	525	592
15	Acquisition difference.	0	0,00	0,00	0,00	0
	Total assets	**2 581 393**	**2 602 812**	**2 574 006**	**3 122 178**	**3 297 325**

Source: Taken from the BEA bank website (Date of site visit: 25/03/2020).

Table 2 Balance sheet (Liabilities) Unit : millions of Algerian dinars

Code	Liabilities	2014	2015	2016	2017	2018
1	Central Bank.	0	0,00	55 162	0,00	0
2	Due to financial institutions	1 954	1 656	20 729	2 269	8 276
3	Due to customers	2 095 068	2 074 079	1 992 943	2 507 092	2 565 901
4	Debts represented by security	42 418	43 629	38 033	35 522	36 894
5	Current taxes-liabilities	13 250	15 372	14 699	23 075	29 827
6	Differed taxes-liabilities	8	3	6	134	78
7	Other liabilities	77 180	9 4 752	28 836	54 709	76 111
8	Regularization accounts	34 157	31 958	56 892	77 211	98 870
9	Funds for risk and charges	6 189	4 891	5 397	4 569	5 776
10	Equipment grants-other investment grants.	0	0,00	0,00	0,00	0
11	Funds for general banking risks.	18 515	22 874	29 315	36 685	43 013
12	Subordinated debts.	67 277	67 276	67 277	67 277	67 277
13	Share capital	100 000	100 000	150 000	150 000	150 000
14	Premiums on share capital.	0	0,00	0,00	0,00	0

15	Réserves	62 064	76 872	43 790	68 363	100 729
16	Evaluation differential.	9 889	12 414	12 739	14 290	14 180
17	Revaluation differential.	12 456	12 456	12 456	12 456	12 456
18	Profit or loss carried forward (+/-)	11 160	11 160	11 160	11 160	11 161
19	Net profit (+/-)	29 808	33 420	34 572	57 366	76 776
Total liabilities		**2 581 393**	**2 602 812**	**2 574 006**	**3 122 178**	**3 297 325**

Source : Taken from the BEA bank website (Date of site visit : 25/03/2020).

5.2.2 Evolution of the different asset classes :

Table 3 Assets (by class) Unit : millions of Algerian dinars

N°	Wording of classes	2014	2015	2016	2017	2018
1	Cash and interbank transaction accounts	1 321 829	985 306	683 589	1006 699	871 672
2	Customer Operating Accounts	877 653	1 234 798	1 589 152	1 825 634	2 112 245
3	Portfolio accounts - Securities and prepayments and accrued income	341 095	339 944	258 509	242 307	265 441
4	Fixed asset accounts	40 816	42 764	42 756	47 538	47 967
Total assets		**2 581 393**	**2 602 812**	**2 574 006**	**3 122 178**	**3 297 325**

Source: Established by us on the basis of BEA's balance sheets.

The totals of the various balance sheets are very large and only saw significant improvements in 20017 and 2018, thanks to the improvement in activity (see customer transaction accounts). This improvement was followed by very significant results for the year (see income statement tables).
We note that at the level of the balance sheets, monetary items predominate, to the detriment of fixed assets and shareholders' equity, this is due to the nature and specificity of the banking activity. In this situation, the two classes 1 and 2 represent the major part of the assets and especially the class of customer accounts (class 2) which continues to grow.

5.2.3 Evolution of the different classes of liabilities :

Table 4 Liabilities (by class) Unit : millions of Algerian dinars

N°	Wording of classes	2014	2015	2016	2017	2018
1	Cash and interbank transaction accounts	1 954	1 656	75 891	2 269	8 276
2	Customer Operating Accounts	2 095 068	2 074 079	1 992 943	2 507 092	2 565 901
3	Portfolio accounts - Securities and prepayments and accrued income	167 013	185 714	138 466	190 651	241 780
5	Equity capital and similar	317 358	341 363	366 706	422 166	481 368
Total liabilities		**2 581 393**	**2 602 812**	**2 574 006**	**3 122 178**	**3 297 325**

Source: Established by us on the basis of BEA's balance sheets.

In terms of liabilities, a predominance of class 2 to the detriment of the other three classes, resulting in an increase in resources from year to year, which is beneficial for the bank and allows it to meet the financing needs of its customers and achieve its objectives.

5.2.4 Evolution of the different items of commitments by signature

Off-balance-sheet items :

Table 5 Off-balance sheet Unit : millions of Algerian dinars

	Commitments	2014	2015	2016	2017	2018
A	**Given commitments**	**828 968**	**1 573 661**	**1 588 495**	**1 347 337**	**1 126 209**
1	Funding commitments in favor of financial institutions	-	-	-	-	-
2	Financing commitments in favor of customers	570 228	978 789	1 015 661	773 584	567 508
3	Commitments of guarantees by order of financial institutions	50 707	0,00	-	-	-
4	Commitments for guarantees by order of Customer	208 033	233 468	257 769	287 794	317 050
5	Other given commitments	**0**	361 404	315 065	285 959	241 651
B	**Received commitments**	**823 232**	**1 141 702**	**1 161 212**	**1 115 884**	**964 718**
6	Funding commitments received from	0	0,00	97 951	173 398	184 720

	financial institutions.					
7	Commitments for guarantee received from financial institutions	816 390	1 135 120	1 046 226	925 893	764 434
8	Other received commitments	6 842	6 582	17 035	16 593	15 564

Source: Taken from the site of the BEA bank (Date of visit of the site: 25/03/2020).

Commitments by signature do not give rise to cash flows, but present a risk for the Bank Off-balance sheet operations are remunerated by commissions.
In our case, the bank has given more commitments than it has received (see table above), so it has received more commissions and interest than it has disbursed.
It should be noted that off-balance sheet activities have become increasingly important for the bank since the year 2015.

5.3 Calculation of some of the most used performance indicators (Key ratios of the financial diagnosis with the desirable rates)[21]:

5.3.1 ROE (Return On Equity): Results / Average Equity > 15

This indicator indicates the result obtained by the bank from the investment of one unit of equity capital. Also called the financial profitability ratio.

Table 6 Evolution of ROE :

Year	**2014**	**2015**	**2016**	**2017**	**2018**
Results	29 808	33 419	34 572	57 366	76 776
Average equity capital	317 358	341 363	366 706	422 166	481 368
ROE	**9,39 %**	**9, 79 %**	**9,43 %**	**13,59%**	**15,95 %**

Source: Established by us on the basis of BEA's balance sheets.

In this case, and despite the various changes from year to year, the bank was only able to reach the desirable rate of 15% in 2018. Therefore, the bank needs to further improve its fiscal year results in order to return on equity.

5.3.2 ROA (Return On Asset): Results /Average Total Assets > 1

The overall rate of return on bank assets (Return 0n Asset)) measures the result obtained from the investment of assets. Also called the return ratio.

Table 7 Return On Asset (ROA)

Year	**2014**	**2015**	**2016**	**2017**	**2018**
Results	29 808	33 419	34 572	57 366	76 776
Total average assets	2 581 393	2 602 812	2 574 006	3 122 178	3 297 325
ROA	**1,15 %**	**1,28 %**	**1,34 %**	**1,84 %**	**2,33 %**

Source: Established by us on the basis of BEA's balance sheets.

In our case, this ratio exceeds the desirable rate of 1%, which is favourable for the bank. Thus, this rate is improving from year to year, reaching its highest level in 2018 (i.e.: + 102.60% in 2018 compared to 2014) and this is due to the importance of the profits made (importance of the rates despite the increase in assets).

5.3.3 Financial leverage: Average total assets / Average shareholders' equity :

Based on this ratio, a comparison of assets to equity is made, so this ratio is considered as a measure of profit and risk. The result of this ratio is in number of times.

Table 8 Evolution of financial leverage

Year	**2014**	**2015**	**2016**	**2017**	**2018**
Average total assets	2 581 393	2 602 812	2 574 006	3 122 178	3 297 325
Average equity capital	317 358	341 363	366 706	422 166	481 368
Financial leverage	**8,13 times**	**7,62 times**	**7,02 times**	**7,39 times**	**6,85 times**

Source: Established by us on the basis of BEA's balance sheets.

This ratio is improving, especially in 2018; a decrease of almost twice that of 2014. This is due, on the one hand, to a few accounting entries relating to provisions for doubtful receivables (decrease in assets) and efforts made in the collection of receivables, and on the other hand to the strengthening of shareholders' equity. This justifies the solidity of the equity capital and gives more confidence to agents with financing capacity (depositors).

5.3.4 Financial Strength Ratio: Fonds propres / Total de bilan > 2 %

Table 9 Evolution of financial strength ratio

Year	2014	2015	2016	2017	2018
Equity capital	317 358	341 363	366 706	422 166	481 368
Balance sheet total	2 581 393	2 602 812	2 574 006	3 122 178	3 297 325
Financial Strength Ratio	**12,29 %**	**13,11 %**	**14,25 %**	**13,52 %**	**14,60 %**

Source: Established by us on the basis of BEA's balance sheets.

This ratio is favorable for the bank and far exceeds the desirable rate of 2 percent. It has increased compared to 2014 (i.e. +18.79% in 2018 compared to 2014). This explains the importance and strength of the bank's equity capital. In a way, depositors' money is protected against various risks, hence the importance of the financial surface.

5.3.5 Ratio of solvability: Equity capital / Weighted commitments > 10 %

Table 10 Evolution of solvability ratio

Year	2014	2015	2016	2017	2018
Equity capital	317 358	341 363	366 706	422 166	481 368
Weighted commitments	1 631 441	1 753 746	1 679 736	1 959 319	2 395 680
Ratio of solvability	**19,45 %**	**19,46 %**	**21,83 %**	**21,55 %**	**20,09 %**

Source: Established by us on the basis of BEA's balance sheets.

This ratio is acceptable and far exceeds the desirable rate of 10%. There is a small improvement in the rate over the study period compared to 2014. The increase in this ratio depends on two key factors; the first is related to the strengthening of equity capital and the second is related to the bank's efforts to collect receivables from its customers.

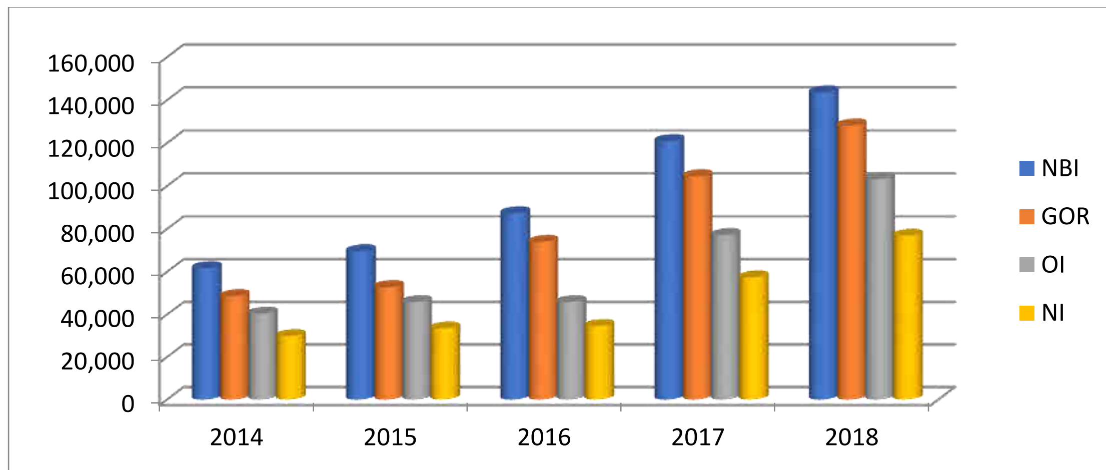
5.3.6 Calculation of intermediate management balances :

Table 11 Intermediate management balances Unit : millions of Algerian dinars

Description of the accounts	2014	2015	2016	2017	2018
Operating revenues	96 380	135 607	114 217	**174 974**	**178 437**
–operating expenses	34 717	66 033	26 951	54 107	34 925
= Net Banking Product (NBP)	**61 663**	**69 574**	**87 266**	**120 867**	**143 512**
– general operating expenses	11 924	15 555	12 261	15 498	14 473
– depreciation and amortization	1 172	1 137	1 152	895	879
= Gross Operating Income (GOI)	**48 567**	**52 882**	**73 853**	**104 474**	**128 160**
– Cost of risk	8 186	7 031	28 011	27 424	24 974
= Operating Result (OR)	**40 381**	**45 851**	**45 842**	77 050	103 186
+/- gains/losses on fixed assets	47	4	22	10	1
= Profit from ordinary activities before tax	**40 428**	**45 855**	**45 864**	**77 060**	**103 187**
– Income Taxes	10 620	12 436	11 292	19 694	26 411
+/- other income and expenses					
= Net Result (NR)	**29 808**	**33 419**	**34 572**	**57 366**	**76 776**

Source: Established by ourselves on the basis of the various profit and loss account tables of this bank.

Figure 1 Evolution of the various essential items in the BEA's income statement tables from 2014 to 2018.



Source: Established by us on the basis of the various profit and loss account tables.

We notice that there is an improvement in the different aggregates and especially in the GNP and the results of the financial year, which continue to grow from year to year, which shows that this bank achieves success even in these times of crisis.

5.3.7 Some financial indicators concerning BEA's management accounts:

5.3.7.1 Bank margin: NBI / Average total assets

This indicator represents the rate of net banking income for each unit of assets. Note that there is an intermediation margin and a no intermediation margin.

Table 12 Evolution of Bank margin Unit: Millions of Algerian dinars

Year	**2014**	**2015**	**2016**	**2017**	**2018**
Net banking income(NBI)	61 663	69 574	87 266	120 867	143 512
Total assets	2 581 393	2 602 812	2 574 006	3 122 178	3 297 325
Bank Margin	**2,39 %**	**2,67 %**	**3,39 %**	**3,87 %**	**4,35 %**

Source: Established by us on the basis of the various profit and loss account tables.

The bank margin is clearly improving and especially if we compare, for example, that of 2018 with that of 2014, we find an increase of 82%, despite the parallel increase in the-bank's assets. This is a sign of revenue growth and good performance.

5.3.7.2 Bank Profit margin: Net income / Net banking income (NBI)

The profit margin determines the share of the bank margin retained by the banks after recognition of management fees. This rate demonstrates the bank's ability to control and master its expenses.

Table 13 Evolution of profit margin Unit: Millions of Algerian dinars

Year	**2014**	**2015**	**2016**	**2017**	**2018**
Net income (loss)	29 808	33 419	34 572	57 366	76 776
Net banking income	**61 663**	**69 574**	**87 266**	**120 867**	**143 512**
Profit margin	**48,34 %**	**48,03 %**	**39,62 %**	**47,46 %**	**53,50 %**

Source: Established by us on the basis of the various profit and loss account tables.

Year-over-year results are improving, leading the bank to increase its profit margin and reach its highest performance in 2018. This implies that the company is increasingly able to control its expenses.

5.3.7.3 Bank The operating ratio: Operating ratio=General expenses / NBI

A bank's performance indicator is the cost-to-income ratio. The reference rate must be less than 65%.

Table 14 Evolution of Bank margin Unit: Millions of Algerian dinars

Year	**2014**	**2015**	**2016**	**2017**	**2018**
General expenses	11 924	15 555	12 261	15 498	14 472
Net banking income	61 663	69 574	87 266	120 867	143 512
Cost/income ratio	**19,34 %**	**22,36 %**	**14,05 %**	**12,82 %**	**10,08 %**

Source: Established by us on the basis of the various profit and loss account tables.

This rate is a good sign for the BEA (it is very far from reaching 65%), since it is decreasing from year to year, which proves that this bank is increasingly controlling its bank production costs.

Based on our study, we have arrived at some important results, of which we cite the most crucial, namely :

-All the financial aggregates we tested are evolving favorably, which means that the bank has performed well, reaching its highest levels in 2018;

-This entity, thanks to the dedication and experience of its staff, has been able to establish itself in the banking market. Thus, the quality of its customers, has prompted it to make enormous efforts to address their concerns, this presents an opportunity for the bank to significantly improve its turnover;

-The performance evaluation process is based on criteria and indicators that clarify the extent to which the bank succeeds in achieving the objectives targeted in this activity ;

The use of modern methods of financial analysis in banks gives a clearer picture of the conditions of these banks, their strengths and weaknesses, and the follow-up of actions undertaken, leading to more appropriate monitoring.

External stakeholders must be integrated into a "win-win" relational dynamic. By improving its relations with its environment, the bank does not fail to increase its credibility and attractiveness, to positively change the way third parties look at it and, thus, to favorably transform its environment instead of being subjected to it.

Conclusion

In this paper, we have emphasized the crucial role that governance plays in the bank-stakeholder relationship. The popularization of certain theoretical and empirical approaches has enabled us to better understand the governance-performance equation in order to master business management in general and bank management in particular. This particularity would only make sense if the financial and banking sectors were to equip themselves with all the necessary tools. The need to build efficient information systems to keep pace with the economic and financial development of developed and emerging economies without neglecting the major role that the people who are at the origin of change must play.

The Algerian public banks are in perpetual change especially since 1988, after the various laws and ordinances, some of which have been repealed and others modified and completed. All these banks have complied and still comply with the various prudential rules of the Bank of Algeria even if it is to the detriment of the economy and banking activity in some cases. Bank managers are in most cases much more vexed by the respect of the Cooke ratio while manipulating its denominator which is represented by the weighted commitments of the bank without worrying about the level of banking activity. To this end, instead of improving their turnover and making significant profits that will serve as a contribution to strengthen their equity capital, the banks reduce their commitments. This distribution policy begins first by rationing credit and financing non wealth-creating activities. Finally, governance in the banking sector must begin with the respect of generally accepted management rules and the satisfaction of the bank's various stakeholders.

REFERENCES

[1] - Ebondo Wa Mandzila E.(2005) « La gouvernance de l’entreprise, une approche par l’audit et le contrôle interne »Edition L’Harmattan, Paris, page 12-13.

[2] - Berglof E. (1990) « Capital structure as a mechanism of control: A comparison of financial system » In Masahico Aoki, Bo Gustavsson and Oliver Eaton. Williamson (eds), the firm as a Nexus of treaties London, European sage publications, pp. 237-262 (www.ebrd.com/pages/research/economics/researchers/erik_berglof).

[3] - Franks J.R (1992), Mayer C. « A synthesis of international evidence », London Business School, papier de recherché IFA, London Business School et City University Business school, 1992, pp. 165-192(www.abebooks.fr/rechercher-livre /auteur /FRANK-C-MAYER).

[4] - Moreland P.W (1995) « Alternative disciplinary mechanisms indifferent coroprates Systems » journal of Economic Behaviour and Organisation, Vol 26 PP. 17-34 (www.ingentaconnect.com/content/els/...art 00018-Pieter w.Moreland).

[5] - Yoshimori M. (1995) « Whose company is it? The concept of the corporation in Japan and the west » Long Range Planning. Vol. 28 n°4, -46 (www.sciencedirect.com/science/article/pii/002463019500025E).

[6] - Charreaux G. (2002) « A la recherche de nouvelles fondations pour la finance et la gouvernance d’entreprise », Finance contrôle stratégie-volume 5, n° 3, Septembre pp.21- 22.

[7] - COASE Ronald, (1937), « the nature of the firm » economic, november 1973 N.S. traduction française (1987.la nature de la firme” revue française d’économie, n°11 p.133-163.

[8] - Jenson M. (1976), Meckling W. "Theory of the firm: Managerial behavior, agency costs, and capital structure", Journal of Financial Economics,Vol 3, pp305–360.

[9] - Verboomen A. (2011), De Bel L. « Bâle II et le risque de crédit-Les règles actuelles et leur évolution sous Bâle III », édition Larcier, Belgique, p. 3.

[10] - Levine R. (2004) « The corporate governance of banks : A concise discussion of concepts and evidence » World Bank Policy Research Working paper 3404, September.

[11] - Pfister C. (1997) « Politique monétaire et aspects prudentiels »; Bulletin de la Banque de France, n°43, juillet, pp 1-9.

[12] - LAMARQUE E. (2001), « Management de la banque, risques, relation client, organisation », édition Pearson Education, France.

[13] - Lamarque E.(2008) « Gestion bancaire », 2e édition, éd. Dareios Pearson Education, France, pp. 90-94.

[14] - Desmischt F. (2004), « Pratique de l'économie bancaire », édition Dunod, France.

[15] - Desmischt F. (2004), « Pratique de l'économie bancaire », édition Dunod, France.

[16] - Jaffe D. (1969), Modigliani F. « A theory and test of credit rationing », American Economic Review, American Economic Association, vol. 59 (5).

[17] - De Servigny A. (2010), Zelenko I. « Le risque de crédit face à la crise » 4e Edition, Dunod, p.75.

[18] - Stiglitz J.E (1981), Weiss A. «Credit rationing in markets with imperfect information », American Economic Review pp. 393-410.

[19] - Williamson S.D. (1986), « Costly monitoring, financial intermediation and equilibrium Credit rationing », Journal of Monetary Economics, Vol. 18. Page 159 à 179.

[20] - Bremond J. (1984), Geledan A. « Dictionnaire économique et social » édition Hatier, p.281.

[21] - De Coussergues S. (2010), Bourdeaux G. « Gestion de la banque- du diagnostic à la stratégie » 6e Edition, Dunod, France, p. 134.