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Evaluation of Corporate Governance of Banks in a Developing Economy of Mongolia

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ABSTRACT:
The objectives of this paper is to assess the amount of information transparency and disclosure across Mongolian commercial banks in order to see if there is a correlation between the level of information transparency and disclosure and bank characteristics indicators.
Within the framework of the study, theory and principles of corporate governance, including the principles of information transparency and disclosure, methods and approaches to assess information transparency and exposure have been examined according to theoretical and internationally accepted principles. The level of transparency and disclosure of influential banks in the Mongolian banking system such as Golomt bank, Xac bank, State bank and Ulaanbaatar city bank was assessed along the information must be made transparent and disclosed following laws and regulations of Mongolian banking sector and the Standard & Poor's institutional transparency assessment indicators, which are widely used by researchers in their study and assessment at the international level. The evaluation is based on the public's information through the banks' website and annual reports. The story of information transparency and disclosure of six significant banks in the Mongolian banking system was evaluated at 76% by the indicators that must be fully complied with legal requirements and 34% by Standard & Poor's. To determine the correlation between transparency level and characteristics of the banks, the 5-year transparency level of six banks was assessed. The results were correlated with the Bank's size, profitability, the board size, and share concentration and analyzed through a multivariate regression model based on the experts who researched the research work and models.
According to the results of the correlation analysis, the level of transparency and disclosure of bank information is significantly positive (+0.49) from the bank size, weakly positive from the board size (+0.44), and significantly inversely related to the share concentration (-0.50). There is little or no correlation between banks' profitability and information transparency. Analysis results of the regression model with the t-criterion showed that the explanatory variable coefficient "bank size" is significant, which implies it will determine the level of transparency and disclosure of bank information. The analysis results of the current status of information transparency and banks' exposure show that banks' transparency and disclosure are insufficient. Improving the banking sector's governance and information transparency will positively impact the financial sector's stability, increase foreign investment and access to low-cost foreign sources, and reduce high-interest rates in the banking sector. Regulators and banks should improve their laws and regulations to improve information transparency, establish accountability in this area, and approach governance and information transparency under legal requirements and international best practices.
KEY WORD*: Corporate governance, information transparency and disclosure, level of information transparency and disclosure*

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I. INTRODUCTION

In the context of corporate governance, there is a growing tendency to prioritize the transparency and disclosure of corporate information. Transparent and disclosed reporting of accurate and factual information plays an essential role in enhancing an organization's reputation, reducing capital cost, and increasing stock trading. Differences in the flow of information between a company and its shareholders and investors, or the fact that one or more information is less than the other, are among the causes of conflict between them, leading to a further negative impact on the company's long-term strong growth. Keeping information transparent and disclosed will gain investors' trust and attract foreign investment, whereas company information confidentiality can lead to financial fraud and loss of investors' confidence.

On the other hand, in a globalized and rapidly changing business environment, where the key competitive advantages are productivity, adaptability, and transparency, and good corporate governance, for banking business which depends on the trust of investors, customers, and depositors, accurate reporting is crucial not only for protecting the interest of investors, customers and depositors but creating fair competition in the financial sector, promoting the stability of the financial system, and the country's society and economy.

1.1 Research Status of The Topic

In countries worldwide, good corporate governance has become one of the critical determinants of an organization's competitive advantage. In the Mongolian banking sector, the Central Bank and commercial banks are doing a lot to improve corporate governance, information transparency, and disclosure, but implementation is unsatisfactory

Many studies have been conducted at the international level to assess the transparency and disclosure of information and its importance, including the following research and articles.

- Determinants of Disclosure in the Commercial of Banks of Pakistan (Arif Hussain, Institute of Business Studies and Leadership Abdul Wali Khan University, Ahmad Bilal Hussain, Northern University, Nowshehra, Yasir Khan, Qurtuba University, Peshawar)
- Measuring Transparency of the Corporate Governance in Slovenia, 2015, (Danila Djokic, Mojca Duh, University of Maribor, Faculty of Economics and Business, Slovenia)
- Measuring Transparency: Towards a greater understanding of systemic transparency and accountability, 2009, (Andrew Schnackenberg, Department of Organizational Behavior, Weatherhead School of Management, Case Western Reserve University)
- Transparency and Disclosure: Overview of Methodology and Study Results, 2002, (Standard and Poor's)
- Transparency and disclosure scores and their determinants in the Istanbul stock exchange, 2006, (Mine Aksu and Arman Kosedag)

1.2 Purpose of The Research

The purpose of this research is to examine the correlation between corporate governance, information transparency and disclosure, methods and approaches for assessing information transparency and exposure, and indicators of corporate identity within the framework of theoretical and academic research and internationally accepted principles, to evaluate the information transparency and disclosure of six commercial banks that have an impact on the Mongolian banking system, and to analyze the relationship between indicators that characterize the level of information transparency and disclosure of Mongolian banks.

1.3 Methodology

Theoretical research will be carried out using documentary methods and secondary sources. Sources of information include academic-level articles, research, and the application of internationally accepted practices and principles.

The information transparency and disclosure will be assessed and compared within the internationally accepted methods, Banking Law, and the Mongolbank's Procedures for implementing good banking governance. The correlation between information transparency and its characteristics will be based on the former research work in this field and the previously studied model.

For data collection, I will use the annual reports of six influential banks in the banking system as an object of the research and publicly transparent and disclosed information related to the Bank through its website.

II. CORPORATE GOVERNANCE

2.1 Historical Development of Corporate Governance

Shortly after the Great Depression of Wall Street in 1929, a group of lawyers, including Adolf Augustus Berle, Edwin Dodd, and Gardiner Means, studied modern companies' changing social roles. Since Jensen and Meckling's work in 1976, this field has been intensively studied. The work examines the distribution of ownership in U.S. companies. Corporate governance has been studied in Japan, Germany, the United Kingdom, and Eastern Europe since the 1990s. The topic has been well studied in developed countries, but it has not been scanned at a high level and has not been implemented in practice in developing countries.

The first documented example of a historical situation is The South Sea Bubble in the 1700s. As a result, major changes in business law and principles have taken place in the U.K. (IFC, 2010). Similarly, in the United States, most securities legislation was enacted following the 1929 stock market crash (IFC, 2010).

The global financial crisis has led to a focus on corporate governance, which include the United Kingdom's banking crisis in the 1970s, the savings and loan crisis of the United States during the 1980s, the financial crisis of Russia in 1998, the Asian financial crisis in 1997-1998, financial problems of Indonesia, South Korea and Thailand, which began in 2008. (IFC, 2010)

The issue of corporate governance has evolved over the centuries and has been shifting rapidly since the late 20th century. The foundations of the governance principles in the world since the 1990s have been laid.

The historical development of corporate governance shows that major financial crises and financial scandals have significantly impacted corporate governance development and led to progress. This can be seen as good corporate governance, which can support its stability, ensure stakeholders' interests, and prevent potential risks and crises.

2.2 Corporate Governance Theories

Company-related conflicts are that the company itself has economic and social responsibilities.Therefore, theoretical trends have emerged due to their social and economic aspects (Tsend-Ayush, 2012).

Representation theory

The theory of representation originates from the economic theories developed by Alchian and Demsetz and later by Jensen and Meckling. Representation theory is defined as the relationship between an owner or a shareholder and a representative or an executive. It is limited to the owner and representative of the stakeholders, and the representative is considered to have his / her interests (Tsend-Ayush, 2012). The representative theory assumes that shareholders or owners expect the representative to act in the best attractions. In contrast, the representative does not necessarily have to make decisions that respect the owners' interests (Padilla, 2000).

Stakeholder theory

This theory, which criticizes a company's definition as an organization responsible for maximizing shareholder profits based solely on the idea of representation, has been developing rapidly in recent years, especially after the crisis and company scandals (Tsend-Ayush, 2012). According to stakeholder theory, "For a company to survive and thrive, it is not possible to prioritize the interests of its shareholders alone; (Tsend - Ayush, 2012) is a manifestation of the company's view as a social institution rather than an economic institution.

Stewardship theory

This theory assumes that the Board and the executive management work together as a team at the company's head, a link management theory, and representation theory. However, there is no clear distinction between responsibilities. The loss of the ability to hold accountable between the Board and the executive leads to a lack of accountability on the executive branch (Tsend-Ayush, 2012).

Although these theories differ in their interpretation of the role of the company, the parties to corporate governance, the relationships, responsibilities, interests of the parties, in all theories, whether a company is considered a social institution or an economic institution, the issue of corporate governance is the same as the relationship, cooperation, and interrelationships between the key stakeholders of a company aimed at the success of the company's operations.

2.3 Basic Principles of Corporate Governance

Fairness

Corporate governance must protect shareholders' interests, including the equality of small shareholders and foreign shareholders. All shareholders should have equal access to compensation for damages resulting from violations of their rights (IFC, 2010). The size of their shares limits investors' rights, but the company's approach to them should not be the same or discriminatory (FRC, 2007).

Responsibility

Corporate governance must recognize stakeholders' legal rights and encourage active cooperation between the company and stakeholders in creating wealth, creating jobs, and creating a financially sustainable company (IFC, 2010). There are three levels of corporate responsibility. At the first level, a company has material duties to its shareholders, employees, consumers, and creditors, as well as legal obligations to pay taxes and accomplish its statutory obligations. The next level of responsibility is the company's responsibility to achieve its core objectives, including the full use of human resources and environmental damage prevention. The company also has a duty to a specific segment of society regarding training, hygiene, safety, and current and future employees' training.

Transparency

Corporate governance requires the disclosure of timely and accurate information on all material matters relating to the company, such as the company's financial condition, governance structure, performance, and ownership (IFC, 2010). Regularly providing accurate information about the company to shareholders and other stakeholders maintains trust between the company and shareholders, creates additional investors, and allows shareholders to exercise their right to participate in the company's management, thus stabilizing its operations and form the basis.

Accountability

Corporate governance must ensure the company's strategic direction, effective oversight of the Board's executive management, and accountability to the Board of directors and shareholders (IFC, 2010). Company executives must report to their subordinates to evaluate and monitor their performance. In contrast, the company's executive management is accountable to the Board, and the Board is responsible to shareholders or equity holders.

2.4 Corporate Governance of Banks

While the main goal of non-financial companies is to protect and increase the assets of shareholders, the banking sector goes hand in hand with the notion of economic interests not only for shareholders but also for depositors and the financial system (Oyuntsatsral, 2013). Although corporate governance can be applied to the Bank as a whole, the simplest factors that make banking governance so important need to be mentioned (Oyuntsatsral, 2013). These include:

- The role as financial agent in the economy
- Specific financial structure and system vulnerability to risk
- Attitudes toward government-guaranteed management risks
- articipates in the development of governance of other business entities

III. INFORMATION TRANSPARENCY AND DISCLOSURE

3.1 Theories And Approaches To Information Transparency And Disclosure

The following theories explain the role and importance of information transparency differently. Still, all views express the idea that it is one of the basic principles of corporate governance that information transparency is essential to the company and stakeholders and affects its operations and results.

Agency theory

Jensen and Meckling, in their 1976 work on the agency theory, argued that the owner always strives to maximize ownership and property and to maximize the company's economic interests, while the agency representing the owner of the property, or the management of the hire, is considered to have a vested interest in pursuing his or her interests. Transparency of information is essential in any dispute between the owner and the agent. It is believed that information transparency and disclosure will significantly impact reducing the costs of any owner-representative conflict in the company (Earnest Uchenna Nweke, 2017).

Signaling theory

The main reasons for the information transparency and disclosure are the successful operation of the company and the services of an extensive audit company. Some companies make their information transparent and disclosed to make the public aware that they are operating in a highly dependent and highly indebted environment (Earnest Uchenna Nweke, 2017). A signaling theory approach is a theoretical approach that emphasizes the need to signal information to stakeholders to maintain information balance between stakeholders. (Earnest Uchenna Nweke, 2017).

Stakeholder theory

In a modern management approach, it is essential that the company serves the economic interests and fulfills its obligations to many stakeholders. It states, "The company is requiredto be accountable, transparent and disclosed in fulfilling its obligations to others in pursuing its economic interests (Gray et al., 1996).

Legitimacy theory

This theoretical approach emphasizes that a company seeks to demonstrate that it operates legally by fulfilling its obligations to stakeholders and society, and the environment to secure its economic interests in a competitive market. Therefore, voluntary information disclosure is considered beneficial to the company because it indicates that it operates within generally accepted norms or the legal framework (Deegan, 2009).

3.2 What Is Information Transparency and Disclosure

Organizational transparency is defined as the degree to which information about a company is clear and transparent to investors and other stakeholders. (Bushman, Piotroski, & Smith, 2004; Herdman, 2001). To maximize investors' trust, joint-stock companies need to provide the public with clear, complete, and reliable information on all financial conditions and performance (Herdman, 2001). In their 2002 work, Patel demonstrated that micro-level transparency and disclosure are an integral part of effective corporate governance.

3.3 The Role And Importance of Information Transparency and Disclosure

Transparency of information has many positive effects on the company, such as gaining a competitive advantage, increasing market share, developing products and services, and reducing resource costs, by providing relevant information to stakeholders, such as investors and shareholders (Botosan, 1997). Only by providing accurate and clear information about its operations, vision, financial situation, beliefs, and management values and employees. By being transparent and disclosed, a company can gain investors' trust and investment (Tsend Ayush, 2012).

Transparency of information is essential to protect small shareholders' interests and build trust and confidence among investors and the public.

Depending on the banking sector's nature, good governance is an essential guarantee of a bank's survival. The better, more transparent, and open the Bank, the stronger the confidence of investors, customers, and depositors, and the more positive the Bank's operations.

Transparency of information can be defined as the timely and accurate delivery of accurate and objective information about a company's finances, operations, and governance to shareholders, investors, and other stakeholders. Transparency is essential to protect contacts and depositors and small shareholders' interests and increase investor's and public banks' confidence and reliability.

Appropriate information, such as the Bank's level of risk, financial performance, and condition, should be availble to shareholders, depositors, and other stakeholders. ("Corporate governance principles for banks" Guidelines of Basel Committee on Banking Supervision, 2014) The Basel Committee's Good Governance Recommendation also states that "Banks shall disclose to the public the key indicators of risk, risk management, and strategy."

IV. CURRENT SITUATION OF THE SECTOR

4.1 Current Situation Of The Mongolian Banking Sector

The banking sector alone accounts for 95 percent of Mongolia's financial sector. As of October 2017, 14 banks are operating in the banking sector with 1770 branches, and the number of duplicate customers has reached 8.9 million, and the number of borrowers has reached 880 thousand. (Mongol Bank, 2017)

According to the Mongolbank, the most influential banks in the banking sector are Khan Bank, TDB, Golomt Bank, Xac Bank, State Bank, and Ulaanbaatar City Bank, which account for 94 percent of the banking system (Economic Policy, Competitiveness Research Center, 2017).

4.2 Regulation of The Mongolian Banking Sector

The principal legal regulations for banks operating in the Mongolian banking system are the Company law of Mongolia and the Banking law. The purpose of the Company law is to regulate relations related to the establishment, registration, reorganization of a company, management, organization, control structure, rights and obligations of shareholders, and liquidation (Parliament, 2011). The purpose of the Banking law is to regulate the issuance and revocation of banking licenses, establish the basic principles of bank management, organization, and operations, monitor banks and banking associations' activities, and impose coercive measures on them (Parliament, 2010).

The Corporate governance code sets out the appropriate balance of interests between stakeholders such as investors, financiers, business partners, and employees and the management of the company creating a favorable external and internal environment for the company to operate, and has established appropriate procedures for the direction of the company, such as the board of directors and executive management. This code is designed specifically for publicly traded, open, or joint-stock companies and can be used by limited liability companies and other legal entities to suit their specifics (Oyuntsatsral, 2013).

4.3 Key Financial Indicators Of The Mongolian Banking Sector

As of October 2017 the banking sector's :

- Total assets increased by MNT 3.1 trillion to MNT 27.7 trillion compared to the same period of the previous year. Considering the whole assets structure, 45.1 percent are loans, 19.4 percent are cash, 24.4 percents are government and central bank bills, and the remaining 11.1 percent are other asset.
- Total sources increased by 12.3 percent compared to the previous year's same period, reaching 24.4 trillion MNT. Other sources, such as project financing and bank securities, account for the remaining 13.5 percent
- Equity, which determines the banking system's risk-bearing capacity, reached MNT 3.2 trillion, an increase of 13.3 percent or MNT 372.0 billion from the end of the previous year (Mongol Bank, 2017).
- The ratio of Tier I capital and risk-weighted assets of the banking sector is 13.3 percent, and the percentage of equity and risk-weighted assets is 17.4 percent, which fully meets the criteria set by the Mongolbank (Mongolbank, 2017)

- Total profit was 196.6 billion MNT. However, the return on equity, which is an indicator of profitability, has been declining in recent years, reaching 8.2 percent and 0.9 percent. (Mongolbank, 2017).
- The banking system's liquidity ratio reached 42.2 percent, an increase of 2.2 percentage points from the previous year and 17.2 percentage points higher than the minimum prudential rate set by the Mongolbank (25 percent) (Mongolbank, 2017).
- Commercial banks' loans to individuals and businesses reached MNT 13.3 trillion, increasing 6.4 percent compared to the previous year's same period. Total non-performing loans reached MNT 1169.0 billion (8.8 percent of total loans) at the end of October 2017, increasing by MNT 32.9 billion or 2.9 percent compared to the same period of the previous year. It reached MNT 965.3 billion (7.3 percent of total loans) and increased by 8.9 percent (Mongolbank, 2017).
- According to the leading financial indicators of commercial banks compiled by the Mongolbank, the banking sector's deposit and loan ratio of October 2017 was 131 percent, which is a decrease of 21 points compared to the previous year.

4.4 Mongolian Banking Sector Loan Interest Rate

Interest rates in Mongolia's banking sector have been steadily declining from 2000 to 2012 but have been increasing in the last five years, averaging about 20 percent per year (Gan-Ochir, 2016). This interest rate is relatively low compared to low-income countries.

The average interest rate paid in real terms in the Mongolian banking sector in 2008-2016 is about 14 percent. More than 60 percent, or about 8.5 percentage points, was the average interest rate paid by the bank in real terms, while about 5.5 percentage points were the difference in interest rates. It can be seen that there is an opportunity to reduce the interest rate to some extent if we can reduce the cost of resources that make up more than 60 percent of commercial bank lending rates. Also, if the interest rate can be reduced, the percentage of non-performing loans will decrease to a certain level, which will lead to an increase in the actual interest rate paid to banks that may further reduce the interest rate.

4.5 Information Transparency And Disclosure Of Mongolian Commercial Banks

For commercial banks, information transparency, disclosure, and accountability are the most critical governance dimensions (National corporate governance council, 2015). It is essential for a commercial bank's stakeholders, such as bank shareholders, current account holders, and depositors, to safely, securely, and efficiently (National corporate governance council, 2015).

To improve and regulate good governance of commercial banks, the Mongolbank has developed and approved "The regulation on the implementation of the corporate governance principles for banks," "Recommendations on the implementation of the corporate governance principles for banks," and "Sample form for disclosure of the bank's financial statements and other information to the public." At present, the Mongolian banking system regulates commercial banks' information transparency and disclosure through these laws, regulations, recommendations, and forms.

The 2015 National corporate governance report of Mongolia provides for the transparency, disclosure, and accountancy of commercial banks following the Banking Law, the Regulation on setting and monitoring prudential ratios, the Regulation on the implementation of the corporate governance principles for banks and others. It is assessed based on the banks' mandatory reporting to the public following laws and regulations.

According to the evaluation, three banks are rated as applicable in terms of information transparency and reporting; three banks rated as average, five banks rated as insufficient, and two banks rated as inadequate. More than half of the information on the information transparency and disclosure from 13 banks was assessed as insufficient or inadequate by mandatory indicators of transparency and disclosure, which indicates the need to continually evaluate and improve the transparency of information of Mongolian commercial banks.

The assessment results show that information transparency and disclosure are insufficient or inadequate. Moreover, the fact that banks do not strictly follow the provisions of the law and regulations shows that banking governance and law enforcement are poor. Therefore, it is essential to understand the principles, role better, and importance of corporate governance and information transparency in the bank's executive management, shareholders, and board of directors to improve the formal regulation of corporate governance, information transparency, and disclosure establish accountability system. If commercial banks' control enhances openness and exposure, it will positively impact their stability.

V. RESEARCH METHODOLOGY

5.1 Research Framework and Design

This thesis aims to assess the level of information transparency and disclosure that is one of the essential principles of corporate governance in the banking sector. For this purpose, I selected six commercial banks that impact the banking system, which accounts for 94% of the Mongolian banking sector. I calculated the information transparency and disclosure level based on the information disclosed on their websites and annual reports.

The theoretical part states that information transparency and disclosure are based on sound corporate governance principles. There are many methods and indices for assessing corporate governance and information transparency. The evaluation criteria vary depending on the developer's governing principles, the social and cultural situation in the country, the legal environment, and enforcement regulations. Most research works that evaluate information transparency at the international level are based on Standard & Poor's 98 evaluation criteria. Theoretical research aims to cover corporate governance, information disclosure theory, methodology, and internationally accepted principles and methods and compare banks' transparency and openness and calculate using the implementation procedure parameters.

To calculate the level of information transparency and disclosure, if the information or criteria to be made transparent is transparent and disclosed, it is regarded as yes, otherwise as no, then counted the total yes, and compare the result with the total number of indicators.

Suppose the bank cannot disclose the required information transparently or does not have the required information for this indicator. In that case, it means that it is not possible for the needle. When calculating a bank's value with at least one hand, that is impossible. The number of indicators with a value of yes is converted to a percentage by subtracting the number of considered impossible indicators from the total.

The correlation between the information transparency and banks ' to study the correlation between the level of information transparency and the indicators that reflect the company's characteristics.

$$TDS_i = a_0 + a_1BS_i + a_2ROA_i + a_3BOM_i + a_4SHS_i + e_i$$

5.2 Methodology On Data Collection and Analysis

The information used in the research was obtained from secondary sources or the websites of 6 influential banks in the system and financial statements, and annual reports. The two assessments ' evaluation methods and results will be compared and evaluated based on the information or indicators that need to be made transparent and disclosed. A variety of research papers and index indicators were identified during the study. Standard & Poor's International transparency index was selected as an internationally recognized organization specializing in external evaluation. The correlation between the level of transparency and disclosure of the bank information and the indicators that reflect the bank's characteristics is based on researchers who have studied it before. The story of transparency and disclosure of banks is determined by the multi-factor regression model, such as bank size or total assets, bank profitability or return on total assets, board size or number of board members, stock concentration, or shareholder ownership; These indicators are designed to ensure that they are relevant to the level of transparency and disclosure of banks' information. Due to data constraints, it is essential to note that only annual reports do not fully reflect the level of transparency and disclosure of the bank's information for the year. It should also be noted that the correlation between the level of transparency and disclosure is due to the limitations and opportunities of the story, which makes it impossible to model some of the indicators studied. Therefore, the above four indicators were selected and formulated based on the researchers' studies.The level of information transparency and disclosure is assessed based on the 5-year annual reports of 6 banks and the banks' financial statements and annual report data, the total yearly assets, net profit, number of board members, maximum shareholding, and ownership percentage. The analysis used four indicators: the level of information transparency or explanatory variable (TDS), and the explanatory variables for total bank assets (BS), the real return on investment (ROA), board size (BOM), and stock concentration (SHS).

$$TDS_i = a_0 + a_1BS_i + a_2ROA_i + a_3BOM_i + a_4SHS_i + e_i$$

Here $a0$ is the weak term of the model, $a1$, $a2$, $a3$, $a4$ are the model coefficients, and ei is the regression error. The following hypotheses were observed to examine the correlation between transparency and disclosure of the bank information and the bank's characteristics.

Research hypotheses:

Hypothesis 1: The bank size, or total assets, is positively correlated to information transparency and disclosure.

Hypothesis 2: The bank's performance or return on total assets is positively correlated with information transparency and disclosure.

Hypothesis 3: The number of board members or the board's size is positively correlated with information transparency and disclosure.

Hypothesis 4: The concentration of shareholders in a bank, or the ownership of shares by one person, is negatively correlated to information transparency and disclosure.

Explanatory variables:
Five annual reports were selected from 6 banks' free yearly reports and based on their information to calculate the explanatory variable or banks' information transparency and disclosure. As far as possible, the last five years- the report was chosen. Since it was impossible to know when the information on the previous website was posted, and it is impossible to use the website information to calculate the annual transparency level, it is limited to annual report information.

$$TDS = \frac{\text{Number of information disclosed in the annual report}}{2a\text{Number of information to be disclosed following legal regulations}} x100$$

VI. EMPIRICAL ANALYSIS AND RESULT

6.1 Data Analysis

The research data or information disclosed to the public by commercial banks was collected and used by the banks' annual reports, financial statements, official websites, or secondary sources.

6.2 Analysis Result

Assessment and level of transparency and disclosure of 6 leading banks in the Mongolian banking system

The level of information transparency and disclosure of 6 leading banks in the banking system is assessed according to the information availability required to be disclosed within the framework of the Banking Law of Mongolia, Corporate governance principles for banks, and the results of the transparency level assessment as shown in table 1.

Table 1. Analysis result within Banking law and principles of Mongolbank

№	Transparency, disclosure	Khan bank	TDB	Golomt bank	Xac bank	State bank	UB City bank
1	**Rating**	**91%**	**65%**	**74%**	**87%**	**70%**	**68%**

Source: as developed by a researcher

Banks must fully, or 100 percent, disclose information required to be disclosed under the Banking law and Corporate governance principles for banks, but the level of transparency and disclosure of banks is as follows in terms of regulatory requirements. The average assessment of the level of transparency and disclosure of 6 leading banks in the banking system is 76 percent.

For the above six banks, information on 14 indicators, including mission and vision of the bank, organizational and legal form of the legal entity, shareholders of the bank, shares held by the bank, Chairman of the board, names of members, terms of the executive management team and authorized officials, Chairman of the board of directors, executive management-certified work report, audited year-end financial statement, bank quarterly financial report, independent audit report, bank structure, financial and accounting system, internal control, the form of bank reorganization, term, method of implementation, organization and legal form of the new legal entity, location, type of banking activity, primary documents of financial activity, bank loan to related parties and similar assets property information, general terms of banking products and services, interest rates, fees, were all disclosed on the bank's website and in the annual report, financial statements and information. However, not all banks disclosed the details of the bank's shareholder voting rights, loans to related parties, and similar assets, such as borrowers and loans. In other words, a total of 23 items of information should be made 100 percent transparent and disclosed within the legal framework. All banks disclosed 14 items of information, whereas none of the banks disclosed two information items. As for the remaining seven items, some banks announced, and some banks did not. The following is the list of 7 information items that some banks have made public.

- TDB and Golomt bank, if the shareholder is a legal entity, the final owner's information is not disclosed transparently.
- TDB, State bank, and Ulaanbaatar city bank did not disclose the bank's parent company's activities, briefings, and influential shareholders.

- TDB, Golomt, State bank, and Ulaanbaatar city bank did not disclose the parent company's governance principles, affiliates and subsidiaries, and authorized officials' and shareholders' information.
- TDB and State bank did not disclose information on the chairman and board members' professional skills, work experience, and experience.
- TDB, Golomt bank, State bank, and Ulaanbaatar city bank did not disclose information on the executive management team and officials' professional skills and work experience.
- Khan bank did not disclose the names of its branch managers, while Ulaanbaatar city bank did not disclose its corporate social responsibility

The results of the evaluation of the level of information transparency and disclosure of 6 leading banks in the banking system were evaluated by 98 information items or evaluation criteria with three groups by Standard & Poor's international professional evaluation organization. The results of the evaluation are shown in Table 2.

Table 2. Rating by Standard & Poor's criteria

Specification	Khan bank	TDB	Golomt bank	Xac bank	State bank	UB city bank
Ownership structure and shares rights of owners	17%	17%	17%	17%	17%	17%
Financial and information transparency	43%	40%	50%	43%	37%	37%
Board structure, functions, and processes	49%	24%	37%	51%	14%	43%
Rating	**40%**	**28%**	**37%**	**41%**	**23%**	**35%**

Source: as developed by a researcher

According to information transparency requirements off Standard & Poor's, the average rating of leading six banks was rated at 34 percent, according to information transparency requirements off Standard & Poor's, an international professional rating agency. This indicates that Mongolia's banking sector's transparency and disclosure are exceptionally insufficient in terms of international governance principles, transparency and disclosure principles, and requirements.

According to the evaluation results, six banks received the worst marks regarding ownership structure and shareholder rights. This is because our banks do not disclose to shareholders any information about the type of shares, the shares' voting rights, the nominal price per share, and the number of shares for each type of claim. The difference between Standard & Poor's and the regulatory framework is 2.2 times higher. The difference between these two assessment results is shown in Table 3.

The difference in valuation was 42 percent for the average of 6 banks, with the most considerable difference being 51 percent for Khan Bank and the smallest difference being 33 percent for Ulaanbaatar City Bank.

Table 3. The difference in the evaluation result

Evaluation indicator	Khan bank	TDB	Golomt bank	Xac bank	State bank	UB City bank
In terms of regulatory requirements	40%	28%	37%	41%	23%	35%
According to Standard & Poor's criteria	91%	65%	74%	87%	70%	68%
Difference	**-51%**	**-37%**	**-37%**	**-46%**	**-47%**	**-33%**

Source: as developed by a researcher

Correlation between the transparency level of Mongolian commercial banks and indicators of the bank characteristic

Table 4. Correlation analysis statistics

		TDS	BS	ROA	BOM	SHS
N	Valid	30	30	30	30	30
	Missing	0	0	0	0	0
Std. Error of Mean		.0151173	.1558829	.0012665	.386	.0513223
Std. Deviation		.0828011	.8538057	.0069367	2.116	.2811039
Variance		.007	.729	.000	4.478	.079

Range	.3419	3.4215	.0260	6	.8000
Minimum	.1364	12.2879	.0011	4	.2000
Maximum	.4783	15.7094	.0272	10	1.0000
Mean	.3472	14.6501	.0131	6.73	0.71

Source: as developed by a researcher

Based on the banks' disclosed reports for the last five years, the lowest level of transparency and disclosure of the information is 13.6 percent, and the highest level is 47.8 percent. This result is based solely on the annual report, although it does not fully determine the bank's level of information transparency for the year.

Table 5. Correlation analysis

	TDS	BS	ROA	BOM	SHS
TDS	1	.494	-.031	.439	-.498
BS	.494	1	.190	-.065	-.318
ROA	-.031	.190	1	-.281	-.268
BOM	.439	-.065	-.281	1	-.560
SHS	-.498	-.318	-.268	-.560	1

Source: as developed by a researcher

Table 5 shows the correlation analysis of the correlation between the bank's total assets, return on total assets, the board size, shareholding concentration, and the level of transparency and disclosure of bank information. The correlation analysis shows that the level of bank's information transparency is significantly positive (0.49) for the size of the bank, weakly positive for the size of the board (0.44), and inversely (0.50) for the shareholding concentration.

However, the results show little or no correlation between Mongolian banks' profitability and the level of information transparency.

Table 6. Results of regression analysis

Model		Unstandardize d Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	Constant	-.386	.287		-1.344	.191	-.977	.206
	BS	.046	.016	.479	2.983	.006	.014	.079
	ROA	-.751	2.131	-.063	-.352	.727	-5.140	3.638
	BOM	.014	.008	.363	1.676	.106	-.003	.032
	SHS	-.047	.066	-.160	-.709	.485	-.184	.090
a. Dependent Variable: TDS								

Source: as developed by a researcher

Table 6 above shows the regression model's evaluation results for the research. According to the regression model coefficients, checked by t-test, it is agreeable to Hypothesis 1 that the size of the bank, or total assets, is positively correlated to the level of information transparency and disclosure, but disagree with Hypothesis 2, the bank's performance, or return on total assets, is positively related to the level of information transparency and disclosure, Hypothesis 3, the number of board members or the size of the board is positively correlated to the level of information transparency and exposure, and Hypothesis 4, the concentration of bank shareholders, or the ownership of a single entity is negatively related to the information transparency and disclosure.

Table 7. Coefficient of determination

Model Summary				
Model	R	R Square	Adjusted R Square	Std. The error of the Estimate
1	.691[a]	.478	.394	.0644377
a. Predictors: (Constant), SHS, ROA, BS, BOM				

Source: as developed by a researcher

R Square denotes the coefficient of econometrics's determination to indicate what percentage of the estimated regression equation's actual value explains the value.

The coefficients of determination of many factors are:
0.01 – 0.09 Correlation between the explanatory and response variables is weak and has no theoretical basis
0.09 – 0.49 Correlation between the explanatory and response variables is average
0.49 – 1.00 Correlation between the explanatory and response variables is
Strong enough, the regression correction is considered theoretically applicable to the study.

The coefficient of determination of the regression model evaluated in the study is 0.48, which means that the selected model can explain banks' transparency level by 48%. See table 7.

Table 8. F-criteria

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.095	4	.024	5.721	.002[b]
	Residual	.104	25	.004		
	Total	.199	29			
a. Dependent Variable: TDS						
b. Predictors: (Constant), SHS, ROA, BS, BOM						

Source: as developed by a researcher

F-test: This criterion's value indicates that all the regression equation parameters assume that all parameters are equal to zero. If the critical value is exceeded, the model parameters as a whole or one of them differ from zero. See Table 8. The F-test results show that the multivariate regression model selected is significant.

VII. CONCLUSION

The thesis examined the theory and principles of corporate governance, including information transparency, methods, and approaches of its assessment, evaluated the level of information transparency of top 6 banks in the Mongolian banking system, and the level of information transparency of Mongolian commercial banks, and analyzed whether the indicators reflect the characteristics of the bank and whether these indicators determine the information transparency and disclosure of the banks. Good governance is an essential guarantee for banking business survival, and information transparency and exposure are the fundamental measures of banking sector governance. This is due to the banking sector's unique structure and the essentials of its business, high role, importance, and need for information transparency and disclosure.

From the top 6 commercial banks in the Mongolian banking system, no bank fully complies with the current level of information transparency based on information required to be transparent and disclosed, based on their annual reports and information disclosed on its website. Non-compliance (average rating 76 percent) indicates insufficient information transparency of Mongolian commercial banks, poor implementation of relevant laws and regulations governing bank governance and information transparency, and banks' poor attitude towards information transparency. In the case of these six banks, none of the banks provided information on loans and similar assets to the parties related to the information that was not disclosed to the borrowers, which may be due to the requirements of the Mongolbank's report template and the banks' reluctance to disclose such information. That is. It seems bizarre why borrowers do not disclose loan information to related parties for each loan disbursed, but this issue has not been addressed because it is not relevant to the study's purpose. On the other hand, the fact that banks do not meet the minimum regulatory requirements for information transparency and disclosure suggests that they are not paying enough attention to implementing sound governance principles.

The current level of information transparency and disclosure of the top 6 commercial banks influential in the Mongolian banking system was assessed by Standard & Poor's, an international rating agency, with an average of 34 percent, indicating that the level is insufficient. The results of the two assessments differ significantly, as the banking sector's governance is underdeveloped, the control of the banking sector, transparency, and disclosure is far from international governance principles and acceptable governance practices. The openness of Mongolian banks' voluntary information indicates that exposure is very weak. This highlights the need to improve the level of information transparency in Mongolian commercial banks, which will positively impact banking governance, sector stability, and performance, and the confidence of customers, depositors, and foreign investors in the bank. This can be a factor in attracting foreign investors to banks. This will increase the potential for foreign investment and low-cost resources in the banking sector. Increasing low-cost resources in the banking sector could provide an opportunity to reduce interest rates in the banking sector.

Whether the level of information transparency and disclosure is correlated to indicators such as bank size or total bank assets, bank profitability or return on total assets, the number of board members and shareholding concentration, and whether these indicators are related to bank transparency and the determination of disclosure were assessed using a multi-factor regression model based on the research work of scientists and researchers in this field. The transparency and disclosure indicators of the bank information used in the analysis were calculated based on the 5-year annual reports of 6 banks due to information constraints and opportunities. It should be noted that the results of the bank's information transparency level used in the regression analysis do not fully determine the bank's information transparency level for the year. This is because banks make bank-related information transparent and disclosed on their websites in addition to the annual report. It is impossible to use the information on the website to assess the transparency and disclosure of previous years. This was due to the fact that it was not possible to say when the information on the banks' websites was created or updated.

According to the correlation analysis results, the level of information transparency and disclosure of Mongolian banks is positively correlated with the bank's size, weakly correlated with profitability, positively correlated with the size of the board, and significantly negatively correlated with the bank's shareholders. As a result, Mongolian commercial banks' profitability does not affect the quality of the bank's annual report, but the larger the bank and the board's size, the better the bank's annual report and the higher the shareholding concentration of the bank. However, it should be noted that the level of information transparency of banks used in the survey model is based on the annual reports only, which makes it impossible to directly conclude that the level of information transparency of banks is related to the above indicators.

The model was statistically significant when F-test analyzed the regression model of many factors evaluated in the study. The coefficient of determination (R2) is 0.48 (more than 0.49 is theoretically applicable to the study), which means that the explanatory variables explain bank information transparency by 48%. In addition to these indicators, other indicators determine the information transparency and disclosure of Mongolian commercial banks. At the international level, some of our banks have not disclosed other indicators related to the information transparency and disclosure, which have been proven to determine the nature of banking, which has limited the ability to add variables to the model, expand and improve the model. In assessing the level of information transparency and disclosure, the discrepancy between the annual report-based assessment and the annual report and the assessment results based on the website's information can be considered the content and quality of the banks' yearly message are low.

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