

The background features a collage of financial data and business scenes. On the left, a blue-tinted image shows a stock market ticker board with various numbers like 38.69, -0.62, and -3.49. On the right, there are three smaller images: the top one shows hands pointing at a document with charts; the middle one shows the word 'Bank' in large 3D letters in front of a modern building; the bottom one shows a hand using a calculator.

# GUIDE TO ISSUING A SUCCESSFUL BANK IPO

## TIPS FOR BANKS IN EMERGING MARKETS

**GBRW**  
CONSULTING

*For twenty years GBRW Limited, London has been working with domestic and international banks, many of them in emerging markets. A number of these banks, either state or privately owned, have sought to make an Initial Public Offer (IPO) of their shares on the Stock Exchange. This Briefing Paper is a distillation on what GBRW Limited has learned over the years in making the IPO successful and obtaining the best possible price for the shares. We hope that it will be helpful to shareholders, directors and management of banks that are considering such a move.*

*Note: While every care has been taken to ensure the content is useful and interesting, this document does not constitute professional advice in respect of any individual transaction.*

LONDON

WASHINGTON DC

SINGAPORE

**GLOBAL EXPERIENCE, PRACTICAL EXPERTISE**

*Making an IPO is a major step for any bank. It is a "game changer" and will propel the bank into a different league where it will be able to trade its shares, raise new capital and obtain cheaper and longer-term funding. As a publicly listed company, the bank will also be subject to a greater level of general comment and scrutiny.*

*To make this step, and also to obtain as high a price as possible for the shares being offered for sale, requires a good deal of preparatory work. This template outlines what the stakeholders in the bank need to consider and what needs to be done in advance of the IPO.*

## **1. Run the bank as if it were a public company in advance of an IPO**

- ⇒ The bank will get used to all the systems and procedures of a public company and consider them normal and standard.
- ⇒ Investors will be impressed and see what they expect to see, thus they may be prepared to pay a higher price for a stake in a professionally run business.
- ⇒ Becoming a public company will not be a shock nor require any significant change to systems, procedures and practices.
- ⇒ The costs of becoming a public company will be spread over a longer period.
- ⇒ The bank will be better and more consistently run prior to the IPO.

## **2. Recognise the legitimate concerns that investors may have**

- ⇒ They may have a concern that the Information Memorandum for the IPO does not tell the whole story or glosses over significant issues.
- ⇒ There may be hidden problems that will only come out once they have invested, such as additional provisions, deferred tax, pension or severance costs.
- ⇒ After the IPO, key existing investors and staff may lose interest and leave.
- ⇒ New regulation or political interference may hamper the development of the bank and/or the domestic macro political and economic situation may change.
- ⇒ International investors will also be taking additional foreign exchange risk on movements in the domestic currency.

## **3. Build up investor confidence in advance**

- ⇒ Show a steady and reliable rate of growth and Return on Equity.
- ⇒ Obtain clean external audits from internationally recognised firms.
- ⇒ Obtain an international credit rating - it may be expensive but shows confidence.
- ⇒ Monitor the bank's internet search results, so that a Google search doesn't throw up anything unexpected.
- ⇒ Out-perform local competitor banks in key benchmarks such as liquidity, capital and a conservative funding profile.

## 4. The bank needs to attract the right investors

- ⇒ The bank needs to consider the profile of the investors that it would like to attract.
- ⇒ Speculators and short term investors should be discouraged.
- ⇒ The new shareholders should not have unrealistic expectations of excessive profits and/or large dividends other than those indicated in the Information Memorandum.
- ⇒ The bank will want long term reliable investors who will support the share price and not create excessive or unexpected price fluctuations.
- ⇒ The new shareholders should potentially be able to provide further capital in future years.

## 5. Always present a clear, focused and believable Strategic Plan

- ⇒ The bank needs to show that it knows and understands the market place in which it operates.
- ⇒ Management can show that it has thought through the existing and future place of the bank in the economy.
- ⇒ Investors can have a reasonable expectation of a satisfactory Return on Equity without the bank taking on significant additional risks.

- ⇒ There is an existing "game plan" based on conservative assumptions that investors can buy into.
- ⇒ The Strategic Plan will highlight Key Performance Indicators and Key Strategic Initiatives that will guide the development of the business.

***“...highlight Key Performance Indicators and Key Strategic Initiatives that will guide the development of the business ...”***

## 6. Show how the bank can grow and expand with new investors

- ⇒ The Strategic Plan will show growth and profitability before the IPO.
- ⇒ The Information Memorandum will show what more can be achieved with the additional capital generated by the IPO.
- ⇒ The IPO will generate opportunities in terms of additional growth, new products and services, geographical expansion and enhanced profitability.
- ⇒ An IPO will also enhance the status of the bank and lead to greater ability to borrow term funds, lower the funding costs and encourage retail and corporate depositors.
- ⇒ It will also provide a liquid market for the shareholders which will make the raising of additional capital easier.

## 7. Be sure that there will be no nasty surprises following the IPO

- ⇒ Asset values in the Information Memorandum should be accurate. There should be no significant unexpected provisions on the loan portfolio.
- ⇒ The accounting system should accurately record revenue recognition, consolidation of subsidiaries, guarantees and other off balance sheet liabilities.
- ⇒ The customer base of the bank should be stable and not change dramatically in the wake of the IPO.
- ⇒ The IT and operating systems should not need radical updating or changing at significant additional cost. A new core banking system is expensive and disruptive.
- ⇒ There should be no hidden and unreported commitments such as agreed acquisitions, unfunded pension obligations or severance payments.

## 8. Have a strong and experienced management team in place

- ⇒ Quality of management is one of the key issues for investors considering investing in an IPO. They do not expect to have to start changing the team once they have invested.
- ⇒ Investors are there to invest, they don't want to have to run the bank.

- ⇒ The role of the CEO will be crucial to success of the IPO.
- ⇒ However, a strong management team is equally crucial - the CEO cannot be a "one man band".
- ⇒ The business should continue to operate seamlessly following the IPO.

## 9. Be sure to have real and effective corporate governance in place

- ⇒ The role and responsibilities of the shareholders, Board of Directors, Board of Management and their respective committees should be carefully defined.
- ⇒ Investors will expect to see professional and experienced Non-Executive Directors in place as members of the Board of Directors.
- ⇒ Investors will react negatively to a Chairman or CEO who is perceived as over powerful and dominating. Running a bank should be a team effort.
- ⇒ Don't forget the importance and legal responsibilities of the Company Secretary.
- ⇒ Key control bodies should be seen to have a reporting line independent of management.

## 10. Have in place a simple and understandable organisation structure

- ⇒ Don't make it too complicated. Keep it logical and simple so everybody can see who has responsibility for each sector and who reports to whom.
- ⇒ A Remuneration Committee, Audit Committee, Credit Committee and ALCO should be in place, also a Risk Committee and an IT Committee should be considered.
- ⇒ The CEO should not have too many direct reporting lines - there is a limit to how much one individual can handle effectively.
- ⇒ The organisation chart needs to reflect the main functions and activities of the bank, including a Risk Management Division to ensure a balance between the needs of the customers and the needs of the bank.
- ⇒ Decision making powers should be clearly defined and allocated - avoid creating separate centres of power.

## 11. Maintain conservative banking ratios

- ⇒ Maintain strong capital and liquidity ratios well above minimum regulatory requirements.
- ⇒ Undertake (and if appropriate publicise) standard "what if" stress tests.
- ⇒ Don't forget that the structure of the bank's liabilities is as important as its assets. Investors will look at how the bank is funded.

- ⇒ A stable business and future prospects are more important to investors than size.
- ⇒ Present a well-structured and conservative balance sheet to investors.

***"...investors expect to see an active and professional Board of Directors, including an effective Audit Committee ..."***

## 12. Concentrate on showing that there is a tight independent control structure in place

- ⇒ The bank's Accounting and Management Information System should meet best practice international standards.
- ⇒ The bank should show an operational and effective Internal Audit Department.
- ⇒ Compliance, Anti Money Laundering, Know Your Customer and all related procedures must be in place.
- ⇒ Approval procedures, discretionary authorities and other decision making responsibilities need to be clearly established and demonstrated.
- ⇒ Overseeing all of this, investors expect to see an active and professional Board of Directors, including an effective Audit Committee.

## GUIDE TO A SUCCESSFUL IPO

### 13. Invest in a strong brand and marketing strategy

- ⇒ Don't leave the bank to look old fashioned or behind the times.
- ⇒ Refresh the logo and public presentation of the bank from time to time.
- ⇒ Prepare and implement a Marketing Strategy.
- ⇒ Keep the web-site up-to-date and include corporate as well as product data.
- ⇒ Consider external professional advice to support members of the Board of Directors and Board of Management, especially as they face up to their new responsibilities before, during and after the IPO.

### 14. Build the right advisory team

- ⇒ Consider carefully whom you will need: reporting accountants, legal advice, privatisation advisors, underwriters of the offer, maybe investor relations specialists.
- ⇒ Professional advice will be expensive - consider the overall cost and establish a budget.

- ⇒ The selection of your lead advisor is key. Their name, expertise and reputation will be crucial.
- ⇒ The lead advisor's experience will be key to its advice on the offer price and number of shares to be sold.
- ⇒ Consider holding "beauty parades" of advisors in order to compare the various approaches and assist in negotiating the level of fees.

### 15. Invest in and develop an effective/professional road show presentation

- ⇒ Investors won't just invest, they need to be persuaded to invest.
- ⇒ Preparing a professional presentation will highlight gaps and issues which the bank needs to address.
- ⇒ The feedback from potential investors will be valuable.
- ⇒ Bank staff giving the presentations will gain valuable experience and confidence
- ⇒ A road show enables both the bank and its advisers to assess investor interest levels, which feeds directly into the proposed pricing for the IPO.

## ABOUT GBRW

GBRW Consulting has a 20 year track record of financial sector expertise in emerging markets in Europe, Asia, Africa, and the Middle East. We provide advisory, consulting, training and coaching to clients including:

- ⇒ *commercial banks, including retail, SME, & corporate customer sets*
- ⇒ *specialist leasing, factoring, asset finance, MFI, or peer-to-peer lenders*
- ⇒ *development finance institutions and MDBs, and donor agencies*
- ⇒ *emerging market investors & investment managers*

With a management team composed entirely of former commercial, investment and development bankers, our professional knowledge and expertise covers strategy & finance, risk management, organisational design & restructuring, governance & compliance, and strategic marketing for retail, SME & corporate banking customers.

With career experience at some of the world's leading banks, GBRW has a deep pool of intellectual capital to share, including policies & procedures, models, methodologies, tools, and templates.

At GBRW we emphasise implementation, working shoulder-to-shoulder with counterparts to actually deliver change as well as planning for the future. While we bring best-practice and the benefits of tried and tested approaches, we understand each client and market pose unique business challenges which merit a unique solution.

We value curiosity, determination, intellectual rigour, and fellowship, and the approach to our assignments reflects this.

GBRW will be happy to expand upon any of the issues raised in this Briefing Paper or provide advice to any bank that may be considering an IPO. Please see our website [www.gbrw.com](http://www.gbrw.com) for additional information on GBRW and its experience or contact us direct on [mail@gbrw.com](mailto:mail@gbrw.com) or [jeremy.denton-clark@gbrw.com](mailto:jeremy.denton-clark@gbrw.com).



## CONTACT DETAILS

To discuss your bank's needs in more detail, or to find out more, please contact one of the GBRW team.

**Jeremy Denton-Clark,**  
**Director**

[jeremy.denton-clark@gbrw.com](mailto:jeremy.denton-clark@gbrw.com)

**Martin Edwards,**  
**Director, Asia**

[martin.edwards@gbrw.com](mailto:martin.edwards@gbrw.com)

**Michael Coates, Director**

[michael.coates@gbrw.com](mailto:michael.coates@gbrw.com)

**GBRW Ltd**, 60 Lombard Street, London  
EC3V 9EA, United Kingdom

**Web:** <http://www.gbrw.com/>

**Phone:** +44 (0) 203 178 2060

