

Do Banks in Australia and Saudi Arabia Disclose Value Reporting Information?

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(Received 17/1/2007; accepted for publication 3/4/2008)

Abstract. The main aim of this paper is to investigate to what extent banks in Saudi Arabia and Australia follow the benchmarks of the Value Reporting Framework published by the PricewaterhouseCoopers, namely: Market Overview, Strategy, Value Creating Activities and Financial Performance. An archival method has been used to evaluate the existence of the PricewaterhouseCoopers' elements in the annual reports of the chosen banks. Therefore, two publicly traded banks from each country have been randomly selected and the latest annual reports have been obtained for each bank. The selected Australian banks are Westpac Bank and Commonwealth Bank and the selected Saudi banks are Alrajhi Bank and Saudi American Bank.

The results were amazing with fair value reporting for all banks, especially for the Commonwealth Bank. The financial performance segment in the Value Reporting Framework was given the highest score (59%) in which means that the banks concerned more about their financial positions, risk profiles, economic performances, segmental analyses and accounting policies. The market overview segment in the Value Reporting Framework was the second highest score (54%) in for all banks showing that the banks also were conscious to the importance of the competitive, regulatory and macro environments in their reports. An average score of 51% were given to all banks. The two Australian banks are generally better than the Saudi banks in their reporting and show more fair value reporting. Commonwealth Bank was mostly given higher scores than Westpac. Commonwealth Bank is giving a very good example in providing comprehensive information in their Annual Report.

Keywords: Value Reporting Framework, Disclosure, Banks.

1. Introduction

It has been argued by the researcher that it is more important than ever to have a clear understanding of fair value reporting, how it affects banks and strategies to use fair value to the best advantage of publicly traded companies.

The big challenge for every company is the development of reliable and valid measurement methodologies for value-relevant, non-financial performance measures that have predictive value - measures that are an indication of how much shareholder value will be generated in the future. The Value Reporting Framework enhances companies' reporting to identify and meet shareholders' needs for relevant information. Although companies generally disclose common financial and non-financial data that identifies and supports value, value reporting is not as straightforward as financial reporting. Although it is easy to report dividend, for instance, it is more difficult to report customer satisfaction. Fortunately, various researchers, analysts, investors and market regulators have agreed upon the kinds of information, benchmarks, that the market needs to accurately value companies.

The PricewaterhouseCoopers [20] began researching to improve the financial reporting and published *The Value Reporting Revolution: Moving beyond the Earnings Game*. The Value Reporting Framework simply addresses the gaps between the current financial reporting model and the demand by investors and other stakeholders for more information on market dynamics, strategy, and the intangible, non-financial drivers of shareholder value. Value Reporting provides greater clarity and transparency to investors and other corporate stakeholders and supports better decision making by managers.

We view value reporting as a way to measure and report performance that is consistent with management's long-term strategy to deliver value. The framework enables companies to identify the financial and non-financial indicators that demonstrate how they are creating value for investors and communicate that information to the markets in an open, consistent and timely fashion. Together, these indicators comprise the basis of the information that should be provided in the reports, presentations or other communications that a company publishes.

The researcher in this paper is investigating whether the annual reports of the Westpac Bank, Commonwealth Bank, Alrajhi Bank and Saudi American Bank comprise the basis of the information that should be provided according to the PricewaterhouseCoopers. The Value Reporting Framework comprises the following Table (1).

Table (1). The Value Reporting Framework.



Source: PricewaterhouseCoopers [20]

The next section will put some light into the disclosure literature. The methodology used in this research is then discussed. After that, the researcher divided the analysis into value reporting framework analysis and investment analysis perspectives. A scoring methodology and a comparison analysis were used in this section to evaluate to what extent the four banks are following the Value Reporting Framework. Finally, a conclusion has been concluded with and recommendations for better value reporting disclosure have been provided.

2. Literature Review

The quality of information disclosure and transparency has been the subject of an increasing stream of academic research. Studies suggest that better disclosure has a positive impact on the efficient functioning of capital markets. Healy and Palepu [2] reviewed research on financial reporting and voluntary disclosure of information by management and concluded that the increased pace of entrepreneurship and globalization has increased the value of reliable information in capital markets. Verrecchia [3] and Dye [4] provided comprehensive reviews of the theoretical research on disclosure and related issues over the last two decades.

Most of the studies in the empirical disclosure literature focus on the relationship between voluntary disclosure and the cost of capital. In these studies the authors typically focus on the relationship between disclosure quality and the bid-ask spread. However, the evidence presented in these studies is mixed. Leuz *et al.* [5], Healy *et al.* [6] and Welker [7] provided evidence of a negative relationship between the bid-ask spread, measure of the cost related to information asymmetry, and disclosure as is predicted by the theory. On the other hand, Botosan *et al.* [8] and Monahan *et al.* [9] provided evidence of an insignificant association between the spread and disclosure. Healy *et al.* [6], investigating changes in disclosure levels, found that firms increasing their disclosure lower their spreads (as well as experience additional benefits that might be the result of good performance). Leuz *et al.* [5] found that German firms committing to a higher disclosure level experience lower bid-ask spreads and higher trading volume. However, spreads and volume are at best indirect evidence of a higher firm value.

Botosan [10] and Botosan *et al.* [11] examined the relationship between disclosure and the ex-ante cost of capital. They found that there was a negative relationship between the increased disclosure level and the cost of equity capital. Welker [8] found that firms with high disclosure scores have lower bid-ask spreads (a proxy for the information asymmetry component of the cost of capital). Sengupta [12] reported that firms disclosing more have lower costs in issuing debt. Gelb [13] also found that information costs are lower for firms that provide more informative disclosures, based on their choice of stock repurchases as a means for one-time cash distributions. Citing this body of evidence to support the importance of disclosure, Standard & Poor [14] launched an ambitious survey of transparency and disclosure covering 1,600 companies around the world.

Gelos *et al.* [15] examined whether country transparency affects international portfolio investment or not using new measures of transparency and a unique micro-data set on international portfolio holdings of emerging market funds. They distinguished between government and corporate transparency. There was clear evidence that funds invest systematically less in less transparent countries. Herding among funds tends to be more prevalent in less transparent markets. Funds seemed to react less strongly to macroeconomic news about opaque countries. There was also some evidence that during crises, funds flee non-transparent countries to a greater extent.

The value-added of increased transparency is also considered in several recent studies [16; 17] These studies have provided evidence that transparency promotes greater convergence of beliefs and significantly improves the accuracy of analyst earnings forecasts. In these studies, empirical results on the quality of disclosure support the conjecture of Strong and Walker [18] and Ohlson [19] that public information causes convergence of beliefs which leads to more complete markets which, in turn, lead to improved risk-sharing.

A study of Swiss non-financial exchange-listed firms, by Gibson, Tamburini and Tuchschnid [17], showed that the analyst rating (a measure of the quality of the disclosure in the annual report) increased with the equity free float (a measure of the degree of openness of the firm) and with the number of financial analysts that follow the firm, suggesting an additional incentive to disclose.

This study emphasizes that in the absence of comprehensive useful information, even managers may not be aware of the true financial condition of their enterprise, and other key market participants may be misled. This may prevent the market to act as an intermediary of the price discovery mechanism and discourage investors from taking the risk to invest in the particular enterprise. Annual reports may provide no dearth of information but how much of it is really relevant from the investors' or the stakeholders' point of view is a matter of debate.

Annual reports running into tens and sometimes hundreds of pages do not necessarily mean that the company is disclosing everything significant to the stakeholders. It could actually be contradictory since an investor is forced to sift through an incredible amount of irrelevant information even to find a small significant detail. In order to help banks learn more about the value reporting expectations of investors and analysts, PricewaterhouseCoopers identified specific indicators that companies believe are critical to improving their annual reports and managing the value of their business and contrasts these notions with the reporting priorities of investors and analysts.

3. Methodology

An archival methodology has been used for data collection. Two banks from each country have been randomly selected. The chosen banks are joint stock companies and are all listed either in the Australia Stock Exchange [20] or in the Saudi Stock Exchange [20].

The full version of the most recent Annual Reports for each one of the four participating Banks have been downloaded and printed from the Banks' websites except for the Westpac Bank where we only found the concise version. The 2005 Annual Reports were obtained for all Banks except for the Saudi American Bank which was for 2004, which is the latest that could be found in their website.

4. Analysis

4.1. Value reporting framework analysis

Table (2). Scoring companies based on their Value Reporting Evaluation.

Value Reporting Framework		Company	Qualitative	Quantitative Current	Quantitative Future	Target Current	Benchmarked	Maximum Possible Score	Actual Score	Relative Score %
			0-1-2	0 or 1	0 or 1	0 or 1	0 or 1	6	-	%
Market Overview	Competitive environment	Westpac	1	1	0	0	0	6	2	33%
		Commonwealth	2	1	1	1	1	6	6	100%
		Alrajhi	1	0	0	0	0	6	1	17%
		Samba	1	0	0	0	0	6	1	17%
	Regulatory environment	Westpac	1	1	1	0	0	6	3	50%
		Commonwealth	2	1	1	1	1	6	6	100%
		Alrajhi	1	1	1	0	0	6	3	50%
		Samba	1	0	0	0	0	6	1	17%
	Macro environment	Westpac	2	1	1	0	1	6	5	83%
		Commonwealth	1	1	1	0	1	6	4	67%
		Alrajhi	1	0	1	1	1	6	4	67%
		Samba	1	0	1	0	1	6	3	50%
Subtotal			15	7	8	3	6	72	39	54%
Strategy	Goals and Objectives	Westpac	1	0	0	0	0	6	1	17%
		Commonwealth	1	0	0	0	0	6	1	17%
		Alrajhi	1	1	0	0	0	6	2	33%
		Samba	1	1	0	0	0	6	2	33%
	Organizational Design	Westpac	2	1	0	0	1	6	4	67%
		Commonwealth	2	1	0	1	1	6	5	83%
		Alrajhi	2	1	0	0	1	6	4	67%
		Samba	2	1	0	0	1	6	4	67%
	Governance	Westpac	2	1	1	1	1	6	6	100%
		Commonwealth	2	1	1	1	1	6	6	100%
		Alrajhi	1	0	0	0	0	6	1	17%
		Samba	1	0	0	0	0	6	1	17%
Subtotal			18	8	2	3	6	72	37	51%

Value Reporting Framework		Company	Qualitative	Quantitative Current	Quantitative Future	Target Current	Benchmarked	Maximum Possible Score	Actual Score	Relative Score %
			0-1-2	0 or 1	0 or 1	0 or 1	0 or 1	6	-	%
Value Creating Activity	Customers	Westpac	2	1	0	0	1	6	4	67%
		Commonwealth	1	1	0	1	1	6	4	67%
		Alrajhi	1	1	0	0	1	6	3	50%
		Samba	1	1	0	0	1	6	3	50%
	People	Westpac	1	1	1	0	1	6	4	67%
		Commonwealth	1	1	0	0	1	6	3	50%
		Alrajhi	1	1	1	0	1	6	4	67%
		Samba	1	1	0	0	1	6	3	50%
	Innovation	Westpac	1	0	0	0	0	6	1	17%
		Commonwealth	1	0	0	0	0	6	1	17%
		Alrajhi	1	0	0	0	0	6	1	17%
		Samba	2	0	1	0	0	6	3	50%
	Brands	Westpac	2	1	0	1	1	6	5	83%
		Commonwealth	2	1	1	0	1	6	5	83%
		Alrajhi	1	0	0	0	0	6	1	17%
		Samba	1	0	0	0	0	6	1	17%
	Supply Chain	Westpac	1	0	0	0	0	6	1	17%
		Commonwealth	1	0	0	0	0	6	1	17%
		Alrajhi	1	0	0	0	0	6	1	17%
		Samba	1	0	0	0	0	6	1	17%
Environmental, Social & Ethical	Westpac	2	1	1	1	1	6	6	100%	
	Commonwealth	1	1	0	0	1	6	3	50%	
	Alrajhi	1	0	0	0	1	6	2	33%	
	Samba	1	0	0	0	1	6	2	33%	
Subtotal			29	12	5	3	14	144	63	44%
Financial Performance	Financial Position	Westpac	2	1	0	1	1	6	5	83%
		Commonwealth	2	1	0	1	1	6	5	83%
		Alrajhi	2	1	0	1	1	6	5	83%
		Samba	2	1	0	1	1	6	5	83%
	Risk Profile	Westpac	2	1	1	0	1	6	5	83%
		Commonwealth	2	1	1	0	1	6	5	83%
		Alrajhi	0	1	0	0	1	6	2	33%
		Samba	1	1	0	0	1	6	3	50%
	Economic Performance	Westpac	1	1	1	0	1	6	4	67%
		Commonwealth	1	1	1	0	0	6	3	50%
		Alrajhi	0	1	0	0	0	6	1	17%
		Samba	0	1	0	0	0	6	1	17%
	Segmental Analysis	Westpac	2	1	0	1	1	6	5	83%
		Commonwealth	2	1	0	1	1	6	5	83%
		Alrajhi	2	1	0	0	1	6	4	67%
		Samba	2	1	0	0	1	6	4	67%
	Accounting Policies	Westpac	1	1	0	0	0	6	2	33%
		Commonwealth	1	1	0	0	0	6	2	33%
		Alrajhi	1	1	0	0	1	6	3	50%
		Samba	1	1	0	0	0	6	2	33%
Subtotal			27	20	4	6	14	120	71	59%
Total			89	47	19	15	40	408	210	51%

4.1.1. Market overview

- **Competitive environment**

The Commonwealth Bank is giving a good example in providing comprehensive information in their Annual Report. More attention was given to the competitive environment in the Commonwealth Report [20], thus the bank was given the highest score, 100%. The Commonwealth Annual Report [23] states, “The four major banks in Australia are Commonwealth Bank of Australia, National Bank of Australia, Westpac Banking Corporation and ANZ Banking Group. Each of the major banks offers a full range of financial products and services through branch networks across Australia...there are thirteen foreign-owned banks operating in Australia through locally incorporated subsidiaries. An additional twenty-four banks conduct operations through a foreign bank branch.”

The Westpac Bank, Alrajhi Bank and Saudi American Bank (Samba), on the other hand, are very poor in this by providing very little about the competitive environment. Samba [20], for instance, states, “The banking industry will continue to witness increasing competition in 2005 especially with the entry of new financial institutions in the market. In anticipation, Samba has built a strong foundation which will help the Bank face future challenges with confidence and strength. With your continuous support, we see the future with utmost optimism and I am confident that the Management will continue to maintain its leadership position, effectively manage future challenges and increase shareholder value.” But no other paragraph mentions who the competitors are and how dangerous the environment is in Saudi Arabia. In addition, no bank has shown any charts or figures about the competitive environment.

- **Regulatory environment**

Samba stated only one paragraph in their Annual Report about the regulatory environment. Samba [1] states, “The Bank follows the Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (SAMA) and International Financial Reporting Standards. The Bank also prepares its consolidated financial statements to comply with the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia.” Alrajhi Bank was more curious about the regulatory environment but still very general. Alrajhi [20] has shown that the Bank is complying its activities to be in compliance with the Islamic Shari’a Regulations, however, these regulations were not clarified. The same thing was repeated again in the same page stating, “The Corporation also prepares its consolidated financial statements to comply with the Banking Control Law and the Regulations of Companies in the Kingdom of Saudi Arabia.” [20].

The Westpac Bank was also negative in mentioning the regulatory environment in their Annual Report. The phrase ‘to comply with the regulatory requirements’ was repeated many times in the Westpac Annual Report [20] in pages 30, 31, 34, 36, 37 and 82. However, very little was said about what these regulatory requirements were and to what extent the Bank is complying with them.

The Commonwealth Bank’s Annual Report [20] was given the highest score in providing information about the regulatory environment, just like the competitive environment. The Commonwealth Report [20] states, “Reserve Bank of Australia (“RBA”) – is responsible for monetary policy, financial system stability and regulation of the payments system.” [20], “Australian Prudential Regulation Authority (“APRA”) – has comprehensive powers to regulate prudentially banks and other deposit-taking institutions, insurance companies and superannuation (pension funds). (p. 34) and “Australian Securities and Investments Commission (“ASIC”) – has responsibility for market conduct, consumer protection and corporate regulation functions across the financial system including for investment, insurance and superannuation products and the providers of these products. The Bank, therefore, is covering this point in a good way starting with the introduction of the regulators of banks in Australia and then with the regulations and how they are set.

- **Macro environment**

There are some good examples in the Westpac Annual Report touching the micro environment such as “Considering the social, ethical and environmental impact of Westpac’s activities, setting standards and monitoring compliance with Westpac’s social responsibility policies and practices; and relationship with the exchanges and regulators, and continuous disclosure – maintaining a direct and ongoing dialogue with the ASX and other exchanges where Westpac’s securities are listed, ensuring that the market and Westpac’s shareholders are continuously informed of material developments. The Board also maintains dialogue with the Australian Securities and Investments Commission (“ASIC”), the Australian Prudential Regulation Authority (“APRA”) and other regulators.” The Report [20] also states, “Ensuring processes are in place to anticipate and effectively manage the impact of regulatory change on the Group’s operations, overseeing Westpac’s compliance with applicable laws, regulations and regulatory requirements, reviewing and discussing with management and the

external auditor any correspondence with regulators or government agencies and any published reports that raise material issues for the Group, and ensuring procedures exist for appropriately managing complaints and whistleblower concerns.”

The Commonwealth Bank Annual Report [20] also had a good look at the macro environment in different places and particularly in pages 33, 34, 35 and 36. Alrajhi Bank [20] on the other hand had some but not enough statements about the macro environment and the impacts it may have on the Bank. Example statement was the one in page 11 of Alrajhi Report [20] stating, “The Group (Alrajhi) took a strategic decision to revamp the treasury functions to meet needs of future growth and brought in a team of professionals to accomplish this goal. Treasury Department constantly focuses on the development of financial products and services to address clients’ needs in this competitive environment. Creating a robust infrastructure, putting in place better risk management processes and improving staff skills remained at the top of the agenda. While the foreign exchange business showed increased growth, profits also soared due to the adoption of better risk management processes.”

Samba [1] states, “We have significantly strengthened and positioned the franchise to face the coming challenges. We will continue to leverage our brand and strengths, focus on growth, manage the bank with prudence and increase shareholder value. We expect 2005 to be increasingly competitive with the new entrants making inroads and are confident in our ability to succeed in such an environment and look forward to the coming year.”

4.1.2. Strategy

- **Goals and Objectives**

Unfortunately, none of the Banks has stated its objectives clearly and fairly in its annual report. The two Saudi Banks have mentioned in just one or two sentences that their customers’ satisfaction is one of their goals. Alrajhi Annual Report [20] states, “One of our main goals has been to focus on our customers.” Samba [20] states, “Customer satisfaction continues to be our central goal.” Samba [20] also states, “Samba’s main goal is to be the Kingdom’s premier bank.” “With an objective towards optimizing business focus and benefiting from appropriate synergies, the Samba Private Bank, Brokerage Business and the Asset Management Division streamlined and energized their organizational structure in 2004 with ensuing impressive results as reflected by higher customer satisfaction and historical business growth (p.15).” “The objective of the Bank is to provide a full range of banking services (p.29).” Therefore, Samba could be classified as the best amongst the four banks in providing some information about the Bank’s objectives and goals, even though, the information is not enough at all and it is spread.

The Commonwealth Annual Report [20] states, “The Bank is committed to providing fair, safe, challenging and rewarding work, recognising the importance of attracting and retaining high quality staff and consequently, being in a position to excel in customer service.” Finally, Westpac was also just like the others. Westpac Annual Report [20] stated that one of the remuneration committee’s purposes is to, “review and recommend to the Board on corporate goals and objectives relevant to the CEO,” however, nothing was said about what these goals and objectives were.

- **Organizational design**

Investors, shareholders, stakeholders and regulatory bodies are expecting to gain some knowledge about the companies’ organizational structure, position management, labour distribution, etc. As we went through the Annual Reports of the four Banks, we noted that they emphasized some elements of the organizational design but ignored many other important elements. It’s been noted that the structure of the board of directors, as instance, was given a notable importance with an inclusion of even the interests of some members, whereas none of the other positions was mentioned in most of the Reports.

- **Governance**

Corporate governance received more attention due to a series of corporate failures that affected not only those directly connected with the companies concerned (i.e., directors, shareholders and auditors) but also those affected by its existence like employees, customers, suppliers and the environment. Corporate governance is essential part of the Annual Report of any company especially the publicly traded companies. Corporate governance in Saudi Arabia, however, has not been given enough investigation and furthermore no Code of best practices has been adopted yet. Therefore, it won’t be surprising to find out that none of the two Saudi Banks has mentioned corporate governance in its Annual Report. However, the Saudi two Banks did mention some of the roles of the board of directors, audit committee, etc. Alrajhi Bank in their Annual Report [20] mentioned that there is an audit committee and it has performed its responsibilities.

On the other hand, a well attention by the Westpac Bank and Commonwealth Bank was given to corporate governance and they’ve specified a special section of their Annual Reports for corporate governance [20].

4.1.3. Value creating activities

- **Customers**

The success of the business for service corporations like the airlines and the banks around the world mostly depends on their customers. Unsurprisingly, the four Banks in their Annual Reports as well as in their websites have mentioned that the satisfaction of their customers is an essential goal of their corporations. Westpac [20] states, “Success depends on our passionate commitment to our customers. That commitment is a product of working together towards our common goal, constantly developing great leaders, building an inclusive and diverse workplace, and an unrelenting focus on our core values of achievement, integrity and teamwork.” Alrajhi [20] also mentioned, “As always, our customers were the centre of focus for all our initiatives, be it introduction of new products, launch of new electronic banking channels or any other initiatives.” Samba [20] stated, “We appreciate the confidence and trust of our customers and thank our staff, the real force behind our success, for their loyalty, dedication and commitment.”

However, there were some shortage in the Reports regarding their privilege customers who own a high percentage of the Bank’s shares.

- **People**

The Banks emphasized the importance of their people and the roles they play in the success of their businesses. Westpac [20], for example, in their introductory page of their Annual Report stated, “What really matters is the confidence and commitment of the people within a business and their love for the product.”

Information regarding the number of employees and their incentives was mentioned in the Reports. Alrajhi Annual Report [20] mentioned that the Bank employs 6681 employees. Samba [20] also mentioned that the Bank employs 2421 employees. The employees’ incentive plans were also detailed in Samba’s Annual Report [20] in page 46.

But there were almost nothing in most of the Reports in regards of the employee initiatives and the employee organizational structure.

- **Innovation**

It was noted that Samba was the best in this area. Samba Annual Report [20] states, “Samba retained its reputation for innovation and its ability to create new products and services to diversify its sources of financing and strengthen growth (p.8)...Our focus on innovation and the latest technology remains very strong and gives us an opportunity to launch new products and services and capture various transactions” (p.10).

The other three Banks, however, said very little about innovation and almost nothing about their research and developments.

- **Brands**

The two Australian Banks presented better information about brands than the two Saudi Banks. In fact, Alrajhi and Samba said nothing about goodwill and the intangible assets in their Annual Reports. Goodwill and intangible assets, on the other hand, were clearly presented in the financial statements of the Australian Banks.

- **Supply chain**

Since the Banks are providing services rather than products, the supply chain will probably be less important.

- **Environmental, Social and Ethical**

The two Australian Banks are doing a good environmental, social and ethical reporting in their Annual Reports, especially the Westpac. The Westpac Annual Report [26] states, “...we know that the successful management of social, ethical, environmental and other non financial performance drivers is fundamental to the creation of sustainable shareholder value.” The Westpac Bank, furthermore, has established a Sustainability Committee that is, in addition to other roles, responsible for reviewing the direct and indirect social, environmental and ethical impacts of Westpac’s activities [20]. The Commonwealth Annual Report [20] has also considered the environmental effects on the business by their definition to the Strategic Business Risk that was defined as the risk of economic gain or loss resulting from changes in the business environment caused by the following factors: economic; competitive; social trends; or regulatory.

Alrajhi Bank has considered an important social role in their Annual Report [20] by providing some information about their social responsibilities and donations.

4.1.4. Financial performance

- **Financial position**

The four Banks – Westpac, Commonwealth, Alrajhi and Samba – have a clear presentation of their financial positions in their Annual Reports. Commonwealth Annual Report [20] presented its financial position comparing the current year to the previous year, 2004. Westpac [20] also did the same thing in page 73, Alrajhi [20] in page 16 and Samba [20] in page 25.

- **Risk profile**

Risk and financial risk management were given a good deal of attention in the four reports. Still, we can say that the two Australian Banks did better than the Saudi Banks. An independent Risk Management Committee was introduced in Westpac Annual Report [20]. The Risk Management Committee oversees the risk profile of Westpac within the context of the risk-reward strategy determined by the Board. The determination of this strategy includes recommendations from the Risk Management Committee, CEO and senior management on the parameters of the Group's risk-reward profile and appropriate strategy [20]. Commonwealth Bank also has an integrated risk management framework to identify, assess and manage risks in the business. The Commonwealth Bank's risk profile is measured by the difference between capital available to absorb loss and risk as assessed by target equity required [20].

Risk at Samba, on the other hand, is managed at the obligor/transaction level as well as on a portfolio basis. Independent processes are in place for risk assessment, approval and monitoring and ongoing management of credit risk. Over the last year, Samba has prudently built its total loan loss reserves resulting in its non-performing portfolio being adequately covered [20].

- **Economic performance**

Economic performance seems not to be given much consideration in all reports. In several sites of the reports, the Westpac and Commonwealth banks compare their performance to the economic performance in Australia and New Zealand. Westpac states that their results have benefited from continued sound economic conditions in both Australia and New Zealand, with low inflation, low unemployment and continued low company gearing [20]. "The outlook for New Zealand economic growth looks somewhat less positive, with the business cycle well past its highs – net migration continues to slow, the housing market is off recent highs and confidence is down. Consequently, we expect the deceleration in economic momentum to be more prominent in calendar 2006, with sub 2% GDP growth expected following anticipated growth of 2.4% in 2005" [20]. From an international perspective, Commonwealth Bank anticipates continuing respectable economic growth and strong commodity prices. The Commonwealth Annual Report [20] states, "although domestic growth has slowed, a combination of widespread investment in capacity expansion, and favourable terms of trade together suggest some pick up in growth. Progress of the domestic economy is therefore contingent upon continuing strong terms of trade and the success of business investment."

- **Segment analysis**

All banks have clearly stated their different segments in their reports. The basis of segment reporting at Westpac reflects the management of the business within the Group, rather than the legal structure of the Group. Westpac's segments are divided into (i) Business Segments: business and consumer banking, BT financial group, institutional banking and the New Zealand banking segment; and (ii) Geographic Segments: geographic segmentation of revenue, net profit, assets and acquisition of fixed assets and goodwill is based on the location of the office in which these items are booked [20]. Commonwealth Bank also have two segments (i) Business Segments: banking, fund management and insurance; and (ii) Geographic Segments: Australia, New Zealand and other countries segment [20]. Both banks reported their financial results on segment basis.

Alrajhi Bank is organized of three main banking segments: (i) Individuals Segment (retail): includes customer credit current accounts relating to individual, credit facilities, and customers debit current accounts (overdrafts), investment products and local and international share trading services; (ii) Customers Segment Corporate and VIP: includes customer deposits, credit Corporate and VIP facilities, debit current accounts (overdrafts), investment products, investments in mutual funds and equity; and (iii) Treasury and International Investment Segment: includes treasury services, financial institutions and international trading portfolios [25]. Samba Bank is organised into the following main business segments: (i) Consumer: comprises of individual customer time deposits, current, call and savings accounts, as well as credit cards, retail investment products and consumer loans. It also includes management of fiduciary funds, international and local shares brokerage services; (ii) Corporate: comprises of corporate time deposits, current and call accounts, overdrafts, loans and other credit facilities as well the Bank's investment, trading and derivative portfolios and its corporate finance advisory services; (iii) Treasury: principally manages money market, foreign exchange, commission rate trading and derivatives for corporate and institutional customers as well as for the Bank's own account. It is also responsible for funding the Bank's operations, maintaining liquidity and managing the Bank's investment portfolio and balance sheet [20].

Alrajhi Bank's total assets and liabilities, together with its total operating income and expenses, and net income, for the year ended December 31, 2005 and 2004 for each segment are analyzed in page 34 [20].

Samba's total assets and liabilities by business segment at December 31, 2004 and 2003, together with total operating income, total operating expenses and net income (loss) for the years are shown in page 41 of the report [20].

- **Accounting policies**

All banks follow the accounting policies in their reports and practices. Westpac mentioned that they followed the change in accounting policy for providing for dividends so a liability has not been recognised for the recommended final dividend payable on 14 December 2005 out of retained profits [20]. Commonwealth also provided additional information on the accounting policy in Note 1(ii) Life Insurance Business, and Note 34 Life Insurance Business details the key actuarial assumptions [20]. The accounting policy followed by Commonwealth for derivative financial instruments is set out in Note 1(ff) [20].

Alrajhi Bank has also states in their report the change of its accounting policy with respect to its reporting policy for the proposed gross dividends in page 21 [20]. The Bank also stated the change in the 'zakat' accounting policy to consider it as a liability of the shareholders, rather than as an expense to be charge to consolidated statement of income. In the case of any differences between the Corporation's calculation and the DZIT's assessment, payment will be made from the general reserve [20].

4.2. Investment perspective

4.2.1. Westpac bank

The financial results shown in the Annual Report of Westpac [20] enhance the investors' confidence in their short-term and long-term investment decisions. The Board declared a final dividend of 51 cents per ordinary share together with first half fully franked dividend of 49 cents. The total dividend for 2005 is 100 cents, an increase of 16% on 2004. As a result, the dividend payout ratio rose to 64%, up from 62% in 2004. Returns also remained strong with cash return on equity coming in at 21%, and the reported return on equity at 20%.

Westpac is committed to maintaining a level of disclosure in their Annual Report [20] that meets the highest standards and ensures that investors have equality of access to information. In achieving these standards Westpac maintains a Board-approved market disclosure policy, governing how Westpac communicates with its shareholders and the investment community. The policy is designed to ensure compliance with ASX continuous disclosure requirements and the requirements of other exchanges where Westpac's securities are listed. The policy ensures that information a reasonable person would expect to have a material effect on the price of Westpac's securities, is immediately disclosed. The Group Secretary and General Counsel has responsibility for ensuring compliance with the continuous disclosure requirements of the listing rules of the ASX, NZX, NYSE and other exchanges, relevant securities and corporations legislation, and overseeing and coordinating information disclosure to regulators, analysts, brokers, shareholders, the media and the public. All market announcements are released to each stock exchange where Westpac has ordinary shares or debt securities listed – ASX, NYSE, NZX, Tokyo Stock Exchange Inc., the London and Singapore Stock Exchanges. Westpac also publishes on its website the Concise Annual and the Annual Financial Reports, profit announcements, CEO and executive briefings (including web-casts), economic updates, notices of meetings, media releases and meeting transcripts [20].

Westpac also recognises the value of Total Shareholder Return (TSR) for longer term performance. Consequently, the TSR metric is used in the primary long term incentive scheme. Inclusion of non-financial performance measures, such as business efficiency, customer satisfaction, employee commitment and corporate responsibility, provides a balanced approach to performance review and remuneration determination. Non-financial measures offer insight into immediate corporate health and are powerful indicators of future, sustainable shareholder value.

In this respect, Westpac has produced its annual Stakeholder Impact Report for four years. In these reports the Bank gives detailed performance information on its key intangible value drivers. For example, it provides indicators of how well the Bank is leading its people for now and the future and how engaged they are in helping its customers achieve their financial aspirations. Recruiting and training Westpac people costs tens of millions of dollars a year. Therefore, Westpac recognizes that being a preferred employer and having relatively low employee turnover is an important driver of increased earnings and sustainability.

In conclusion, I anticipate that a continuing earnings momentum of Westpac Bank Group will come from many growth and productivity initiatives that have been underway right across the Group.

4.2.2. Commonwealth bank

The Commonwealth Bank reported a statutory full year net profit after tax (NPAT) of \$3,991 million for the year ended 30 June 2005, an increase of 55% over the previous year. Cash net profit (NPAT excluding appraisal

value uplift and goodwill amortisation) increased 31% to \$3,538 million. These results were achieved by strong revenue growth in a very competitive market and broadly flat expenses. A favourable Banking result was achieved for the year, supported by strong growth in home and personal lending. The net interest margin has been stable for the last three half years, with margin contraction for the full year of eight basis points to 2.45%, well within the Bank's expectations. This was a particularly good outcome, given increased competition across lending and deposit products. Loan asset quality continued to be well managed, in line with the Bank's risk management policies [20]. The final dividend payment of \$1.12 per share

The Fund Management business recorded a 28% increase in underlying NPAT reflecting growth in Funds under Administration supported by favourable investment markets. First Choice again achieved excellent flows, particularly in the retail segment due to competitive pricing, superior service and extensive distribution. Investment performance also stood out, with 95% of retail domestic funds outperforming the benchmark on a one year basis [20].

The Bank's Insurance business delivered a strong result for the year in both its Australian and international operations. The Australian insurance business maintained its number one market position in life risk premiums with 13.8% market share. The New Zealand business, operating under the Sovereign brand, improved volumes across all major business lines and experienced a positive claims result for the year [20].

From an international perspective, Commonwealth anticipates continuing respectable economic growth and strong commodity prices. Although domestic growth has slowed, a combination of widespread investment in capacity expansion, and favourable terms of trade together suggest some pick up in growth. The Bank's international banking, funds management and insurance businesses continued to grow and develop, providing the Bank with opportunities for expansion in select markets in the future. Commonwealth Bank acquired interests in two banks in China during the year - an 11% interest in Jinan City Commercial Bank and a 19.9% interest in Hangzhou City Commercial Bank (subject to regulatory approval). PT Bank Commonwealth (PTBC), Commonwealth Indonesian banking business, has been operating since 1997 and continues to attract new customers. Australian customers of Commonwealth Bank can now access their funds from any of PTBCs 12 ATMs located in Jakarta, Bali, Surabaya and Bandung. This is a valuable service for the growing number of Australians working and travelling throughout Indonesia. The Bank has also established a representative office in Bangalore, India [20].

The Commonwealth Bank continues to place great emphasis on its responsibilities for good corporate governance, and always strives to increase shareholder value. Recent increases in demands for compliance with corporate governance requirements have placed pressure on corporate resources and precious management time. While appropriate levels of regulation are needed, the Bank concerned that the current rate of growth in regulation hinders the ability of business to compete and prosper. The Bank will continue to find the right balance to have excellent corporate governance while striving for innovation and growth to benefit shareholders [20].

The Bank continues to make significant progress in its customer service transformation and remains confident that with the momentum gained so far, it will meet all the Which new Bank market commitments. The 2006 financial year will see the completion of all major Which new Bank projects including the deployment of CommSee across Australia.

I expect Commonwealth Bank to continue to improve as its people further embrace the service and sales culture, its customer service staff is provided with better tools to serve customers and turnaround times continue to reduce.

4.2.3. Alrajhi bank

The year 2005 was an outstanding year for Alrajhi Bank on all fronts. Successful achievement of strategic initiatives resulted in meeting profitability goals while significant milestones were achieved in development of the Corporation's infrastructure [20].

Banks in Saudi Arabia, as well as in other Islamic countries, must comply their operations and activities with the rules of Islam 'Shari'a'. Since the establishment of Alrajhi Bank, the Bank has committed to itself that all its operations must comply with the Shari'a rules. In order to meet this objective, the Corporation established an independent Shari'a Authority (the "Authority") reporting directly to the General Assembly to ensure that all operations are subject to the approval of this Authority and control by its Shari'a Control Department.

The continued economic boom during 2005 threw open many challenges for treasury activities as the market rates moved up substantially during the year. The growth in the capital markets also forced treasury to re-look at its strategies for liquidity management. Alrajhi Bank focused on raising longer-term funds through Syndication and created new relationships with the GCC and Local banks. Investment activities were limited to managing statutory requirements and short term investments to benefit from the higher future returns.

Alrajhi Bank offers investment services to its customers. The Bank has established a number of Mudaraba funds in different investment funds (the Commodities Mudaraba Fund - Dollar, the Commodities Mudaraba Fund -EURO, the Global Equity Fund, the Egyptian Equity Fund, First and Second Al Rajhi Balanced Fund, the Al Rajhi Small Cap italization Fund, the Commodities Mudaraba Fund - Saudi Riyal, the European Equity Fund, the Al Jawhara LadiesFund the Children Fund - USD, the Local Shares Fund and the Al Rajhi GCC Equity Fund). These funds are managed by the Corporation's Investment Department and, a portion of the funds is also invested in participation with the Corporation. Mutual funds financial statements are not included in the consolidated financial statements of the Corporation. The Corporation's share of investments in these funds is included under other investments, and is disclosed under related party transactions. Funds invested in participation with the Corporation amounted to SR 2,241,908,000 (US\$597,842,133) at December 31, 2005 [20].

4.2.4. Samba bank

Samba offers a wide range of Islamic Banking products for both the consumer and corporate banking segments. For the consumer segment, Samba offers Islamic credit cards, car finance, personal finance and current accounts. All these are offered under the "Al-Khair" brand name, which is well recognized in the market. Al-Khair home finance has been launched fully in the market in early 2005. Samba also offers a wide range of Islamic investment opportunities to retail customers through its six Shari'a compliant funds.

The Bank offers investment management and advisory services to its customers. These services include portfolio management on discretionary and non discretionary bases and management of investment funds in consultation with professional investment advisors. Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and, accordingly, are not included in the Bank's consolidated financial statements [20].

During 2004, Samba was able to fully harness its key strengths and transition smoothly into local management, helping us to post record-levels of financial growth. The most distinctive performance markers include Samba's net income of SR 2,506,000,000 (US\$668,266,666), the highest ever posted by Samba and a 74% increase over SR 1,437,000,000 (US\$383,200,000) for 2003; a return on equity of 27.3% versus 16.2% in 2003; and a return on assets of 2.9 (US\$0.773) versus 1.8 (US\$0.48) in 2003. Net earning per share for the year jumped to SR 31.32 (US\$8.35) versus SR 17.96 (US\$4.79) in 2003. Indeed, 2004 has truly been an exceptional and outstanding year [20].

The strategic vision of management and its commitment to quality performance has produced outstanding results and impressive returns for the Bank's shareholders. During the year, expenses increased by just 3%. Credit cost provisions were also controlled effectively. It is important to note that last year's outstanding performance happened across the board and across all the Bank's business units including Consumer, Corporate, Private, Investment and Treasury.

Samba's impressive performance was also recognized by the banking community and the media. Samba received a number of distinguished international awards from reputable international organizations during the year. The most important accolades included the "Best Corporate Bank" from The Banker magazine, "Best Private Bank" from EuroMoney magazine, and "Best Internet Bank" and "Best in Electronic Banking Services" from Global Finance magazine.

5. Conclusion

It was objected by this study to investigate to what extent two Australia banks (Westpac and Commonwealth) and two Saudi Banks (Alrajhi and Samba) follow the Value Reporting Framework (Table 1).

The chosen banks are joint stock companies and are all listed either in the Australia Stock Exchange (ASX) or in the Saudi Stock Exchange (Tadawul). These banks are the biggest banks in the country with a huge number of customers and investors.

The results were amazing with fair value reporting for all banks, especially for the Commonwealth Bank. The financial performance segment in the Value Reporting Framework (Table 1) was given the highest score (59%) in Table 2 which means that the banks concerned more about their financial positions, risk profiles, economic performances, segmental analyses and accounting policies. The market overview segment in the Value Reporting Framework was the second highest score (54%) in Table 1-2 for all banks showing that the banks also were conscious to the importance of the competitive, regulatory and macro environments in their reports. The four banks were poor in the value creating activities with a score of only 44%. Even though the banks cared about customers and people, they paid much less attention to the supply chain and innovation.

The two Australian Banks (Westpac and Commonwealth) were mostly better in their reporting showing

more fair value reporting than the two Saudi Banks (Alrajhi and Samba). The interesting part was about corporate governance where the two Australian banks were given 100% whereas the Saudi banks were given only 17%. That was because corporate governance is very well developed in Australia but it is still a 'new term' in Saudi Arabia.

5.1. Recommendations

If investors, analysts and managers all agree that there is important information needed to fully value companies today that is not being communicated in the marketplace by management, why don't they do something about it?

Value Reporting begins with better internal management decisions. It is not happening overnight, although the current environment has opened many eyes relative to the possibilities for greater transparency. Most companies should anticipate a three-year program of getting their internal measurement act together, figuring out what shareholders and other stakeholders want to know, developing reliable measurement methodologies, using this new performance measurement information to run the company (thereby testing its validity), and then starting to report more information to the market. This, of course, is a never-ending process, but within three years most companies will legitimately be able to say that they are practicing Value Reporting.

The researcher does not believe that the historical financial reporting model should be expected to incorporate all the information needed by those participating in the capital markets. In this age of easy access to real-time information, we encourage the preparers and users of information in the capital markets to create new venues for reporting the information that is important to the proper valuation of companies, stretch the boundaries beyond traditional financial reporting and open their minds to a greater sharing of information about the real drivers of value in the business with those whose capital management deploys. Information partnerships between the suppliers of capital and the users of capital should be the goal.

Thus, the researcher does not propose that Value Reporting will make traditional financial reporting less relevant. High-quality historical financial information delivered on a timely basis remains critically important. But the traditional financial reporting model neither meets investors' complete information needs, nor does it support today's market valuations.

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 - Westpac Annual Report (2005), www.westpac.com.au
 - PricewaterhouseCoopers: <http://www.pwc.com>

هل البنوك في المملكة العربية السعودية وأستراليا تفصح عن معلومات ذات قيمة في التقارير السنوية؟

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ملخص البحث. تهدف هذه الدراسة بصفة أساسية إلى البحث في مدى التزام البنوك في المملكة العربية السعودية والبنوك في أستراليا عند إعداد التقارير السنوية بالإفصاح عن "المعلومات ذات القيمة" والتي تم تحديدها من قبل منظمة برايس ووترهاوس وهي: نظرة عامة للسوق، الإستراتيجية، نشاطات خلق القيمة. استخدم الباحث طريقة البحث الأرشيفي لتقييم مدى وجود وقوة الإفصاح عن "المعلومات ذات القيمة" في التقارير السنوية لعينة البنوك المختارة.

النتائج كانت إيجابية لجميع البنوك المشاركة بالدراسة وخاصة بنك الكومونويلث الأسترالي. أظهرت نتائج الدراسة تركيز البنوك على الإفصاح عن نتائجها المالية بدرجة أكبر ٥٩٪ حيث زاد اهتمام البنوك بالإفصاح عن وضعها المالي، المخاطر المحتملة، الأداء الاقتصادي، التحليل الجزئي، والسياسات المحاسبية. يأتي بالمرتبة الثانية الإفصاح عن "النظرة العامة للسوق" ٥٤٪ والتي تحتوي على معلومات عن المنافسين، البيئة التنظيمية، وغيرها. استنتج الباحث بصفة عامة تفوق البنوك الأسترالية على البنوك السعودية في جودة وتنوع الإفصاح عن "المعلومات ذات القيمة" والتي تم تحديدها من قبل منظمة برايس ووترهاوس. كما حصل بنك الكومونويلث الأسترالي على نسب أعلى من بنك الويستبانك الأسترالي وذلك لتقديمهم مثال متكامل وشامل للإفصاح كما حددته منظمة برايس ووترهاوس.

