

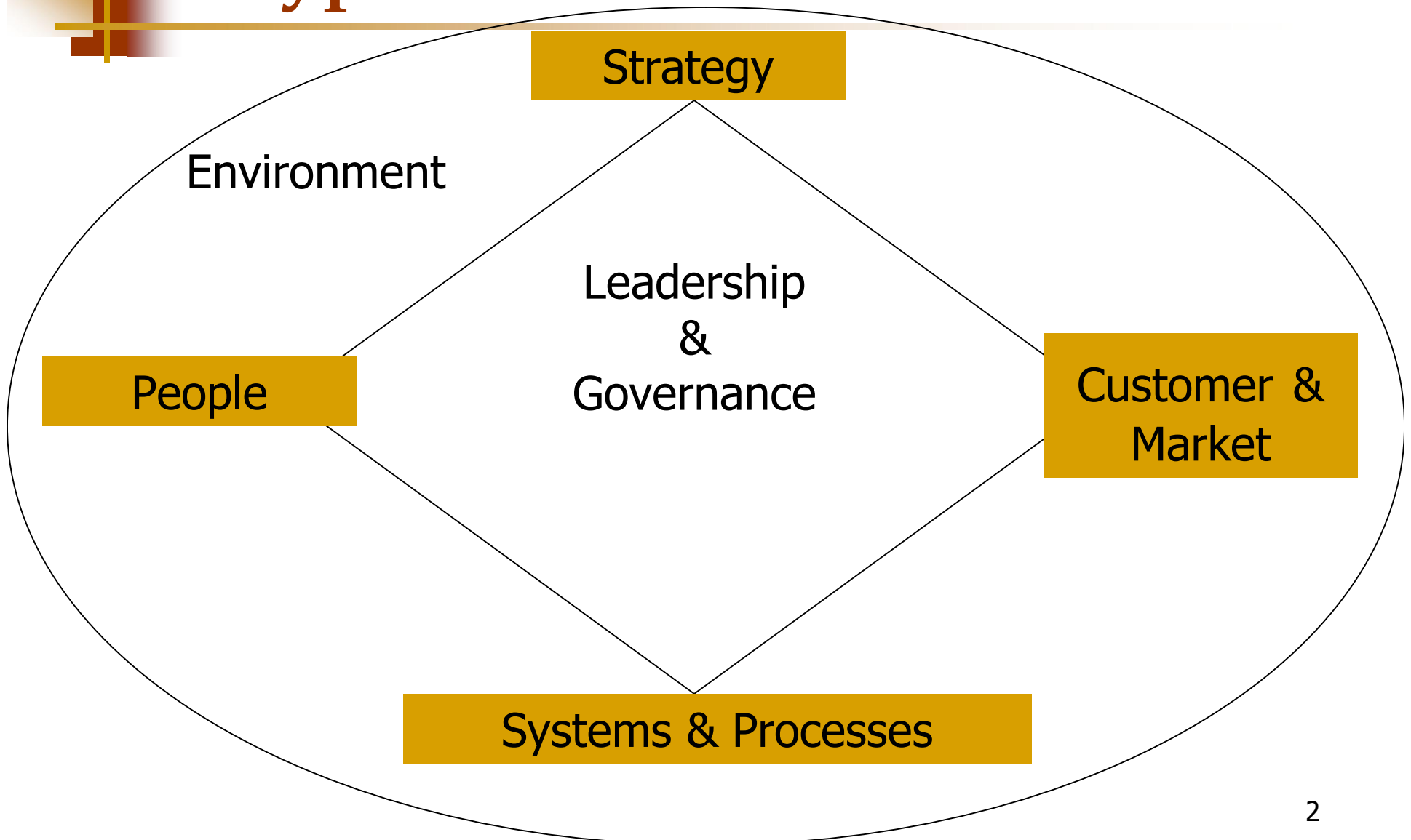
3rd African Micro-Finance Conference
Kampala, Uganda



*Financial Institution
Costs & Risks*

*Presentation by Dr. James Mwangi
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Typical Business Model



Financial Institution Costs

Definition of Cost:

"...the measure of the alternative opportunities foregone in the choice of one activity over others"

- The choices we make as a business have an impact on cost.
- Costs are aligned and/or impacted by the business model we adopt.

Alignment of Costs to the Business Model



Nature of Cost	Activities
□ Strategic costs	Investments, Projects, Borrowing, Opportunity Costs, etc
□ Governance costs	BOD meetings, AGM, Audit, etc
□ People costs	Salaries, wages, recruitment, training, medical, establishment, welfare, etc
□ Marketing & Customer costs	Product research & development, delivery channels, customer service etc
□ Compliance (Legal/Regulatory) costs	Reporting, systems, processes & procedures review and development , Licenses etc
□ Environmental costs	CSR activities.. etc

Cost Measurement

Nature of Cost	Measure
<ul style="list-style-type: none"> ❑ Strategic costs 	Return on Assets (ROA), Return on Equity (ROE), Cost of Funds,
<ul style="list-style-type: none"> ❑ Governance costs 	Return on Assets (ROA), Return on Equity (ROE),
<ul style="list-style-type: none"> ❑ People costs 	Staff cost to income ratio, Staff costs to Total costs, Average cost per employee
<ul style="list-style-type: none"> ❑ Marketing & Customer costs 	Cost to Income ratio, Product unit cost
<ul style="list-style-type: none"> ❑ Compliance (Legal/Regulatory) costs 	Reporting cost,
<ul style="list-style-type: none"> ❑ Environmental costs 	CSR costs, Percentage of CSR costs to Total income



Cost Objectives

The right information on costs enables us to:

- ❑ *Price our products & services correctly,*
- ❑ *Plan & control business activities cost effectively,*
- ❑ *Monitor efficiency so as to maximize value to our stakeholders,*
- ❑ *Benchmark with peers & industry,*
- ❑ *Match costs to income in-order to accurately determine profits.*

Risk & Costs

Risk

“Risk is the degree of uncertainty surrounding the potential that events, expected or otherwise, may have an adverse impact on future income and net-present value of equity.”

- The mitigation of risk involves making choices; which in turn have cost implications.

Alignment of Risks to the Business Model



□ Strategy	Strategic Risk
□ Governance & □ Leadership	Reputation Risk
□ People	Operational Risk, Credit Risk
□ Marketing & Customer Related	Operational Risk, Credit Risk, Forex Risk, Interest Rate Risk, Liquidity Risk.
□ Processes & Systems	Legal & regulatory Risk, Compliance Risk.
□ Environment	Reputation Risk , Environmental risk.

Assessment of Risk

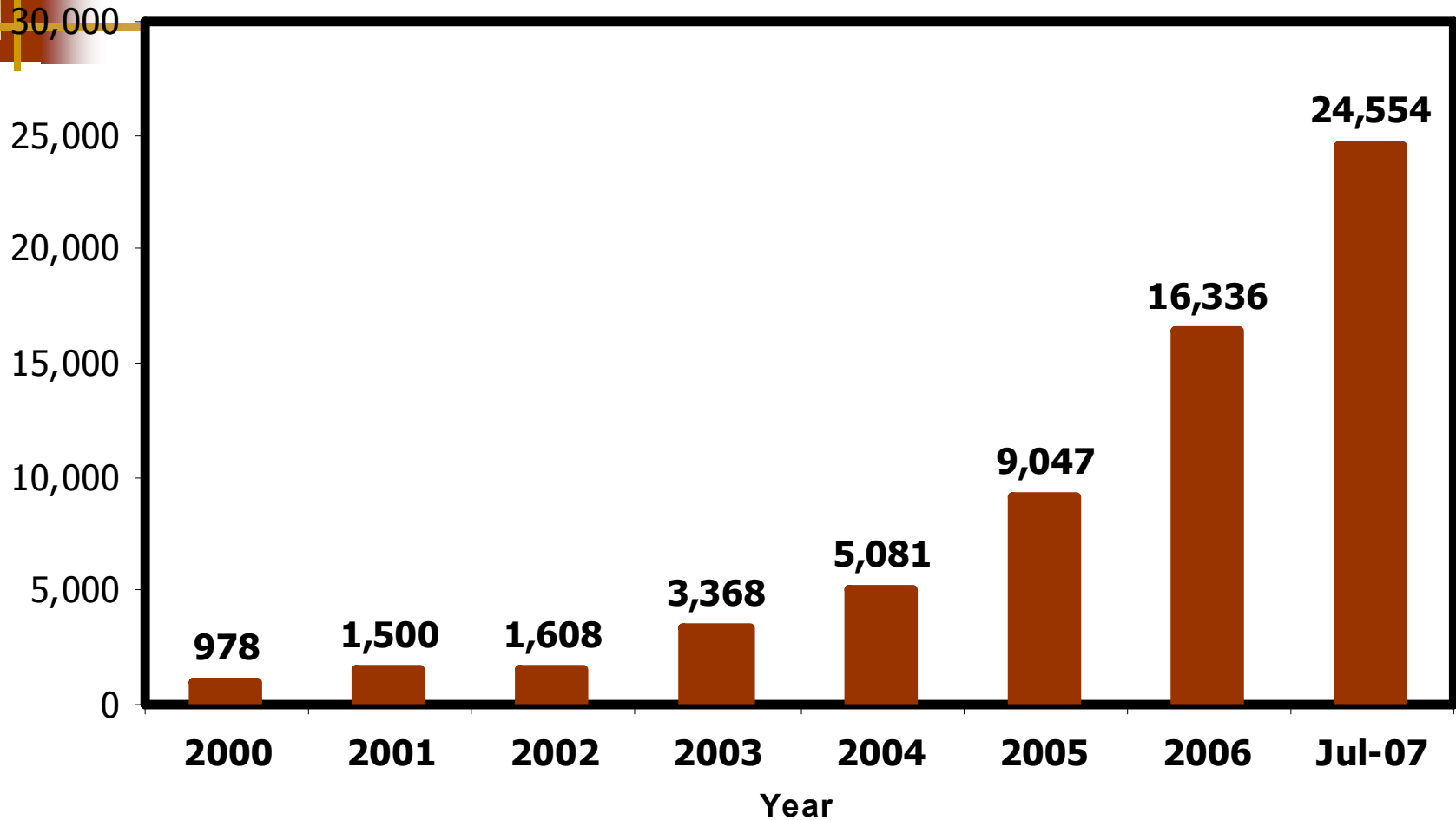


Risk Category	Risk Assessment	Risk Mitigation	Composite Risk
Strategic	High	Strong	Moderate
Reputation	Moderate	Acceptable	Moderate
Legal	Moderate	Acceptable	Moderate
Operational	High	Acceptable	High
Credit	Moderate	Acceptable	Moderate
Interest Rate	Moderate	Acceptable	Moderate
Forex	Low	Acceptable	Low
Liquidity	Moderate	Acceptable	Moderate

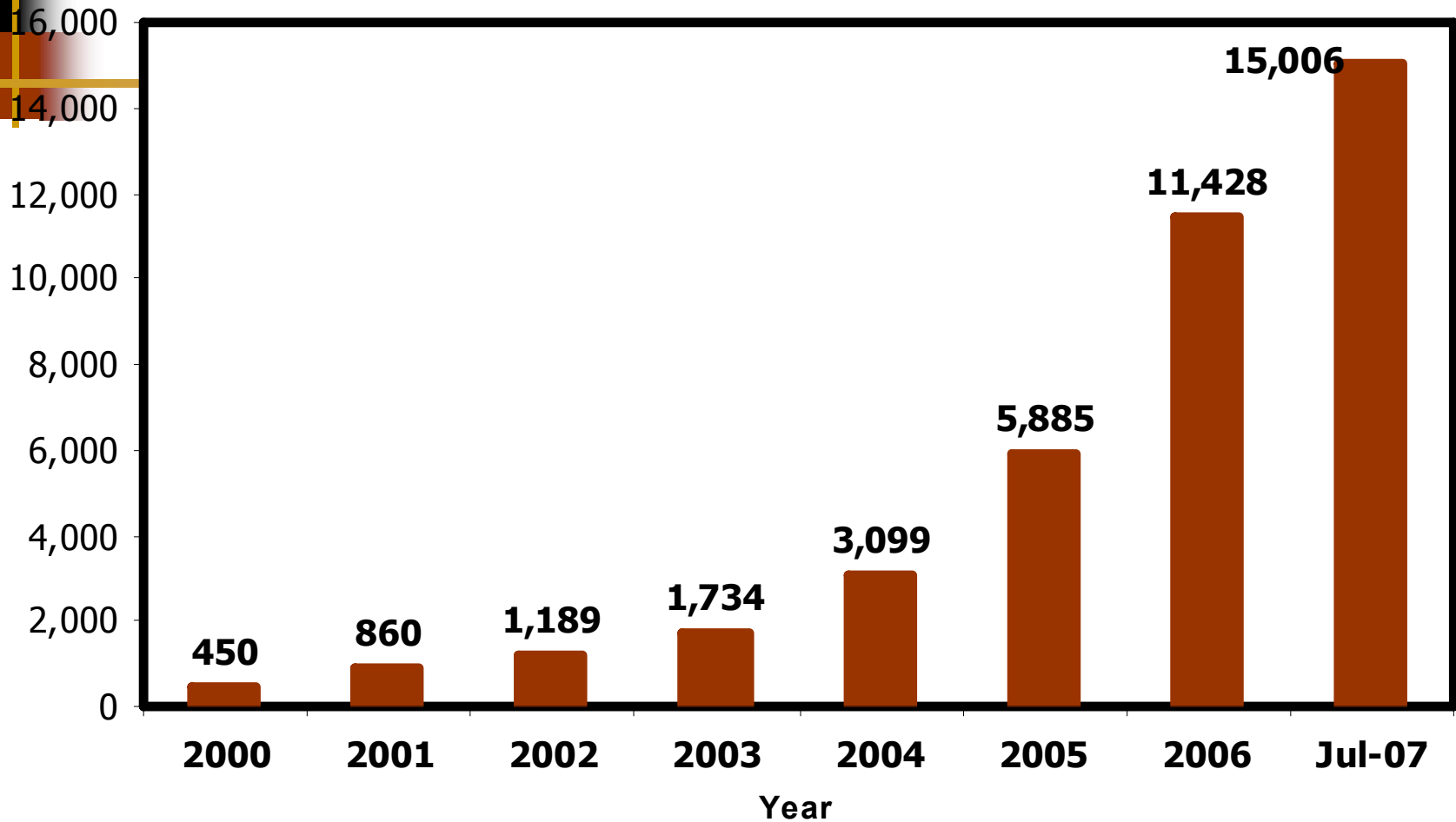
Manage Costs & Risk (How?)

- ❑ Board of Directors & Senior Management Oversight,
- ❑ Assign responsibility for managing risk,
- ❑ Implement appropriate and comprehensive processes, policies and procedures,
- ❑ Implement & develop effective MIS system(s),
- ❑ Contingency and Business Continuity Planning.

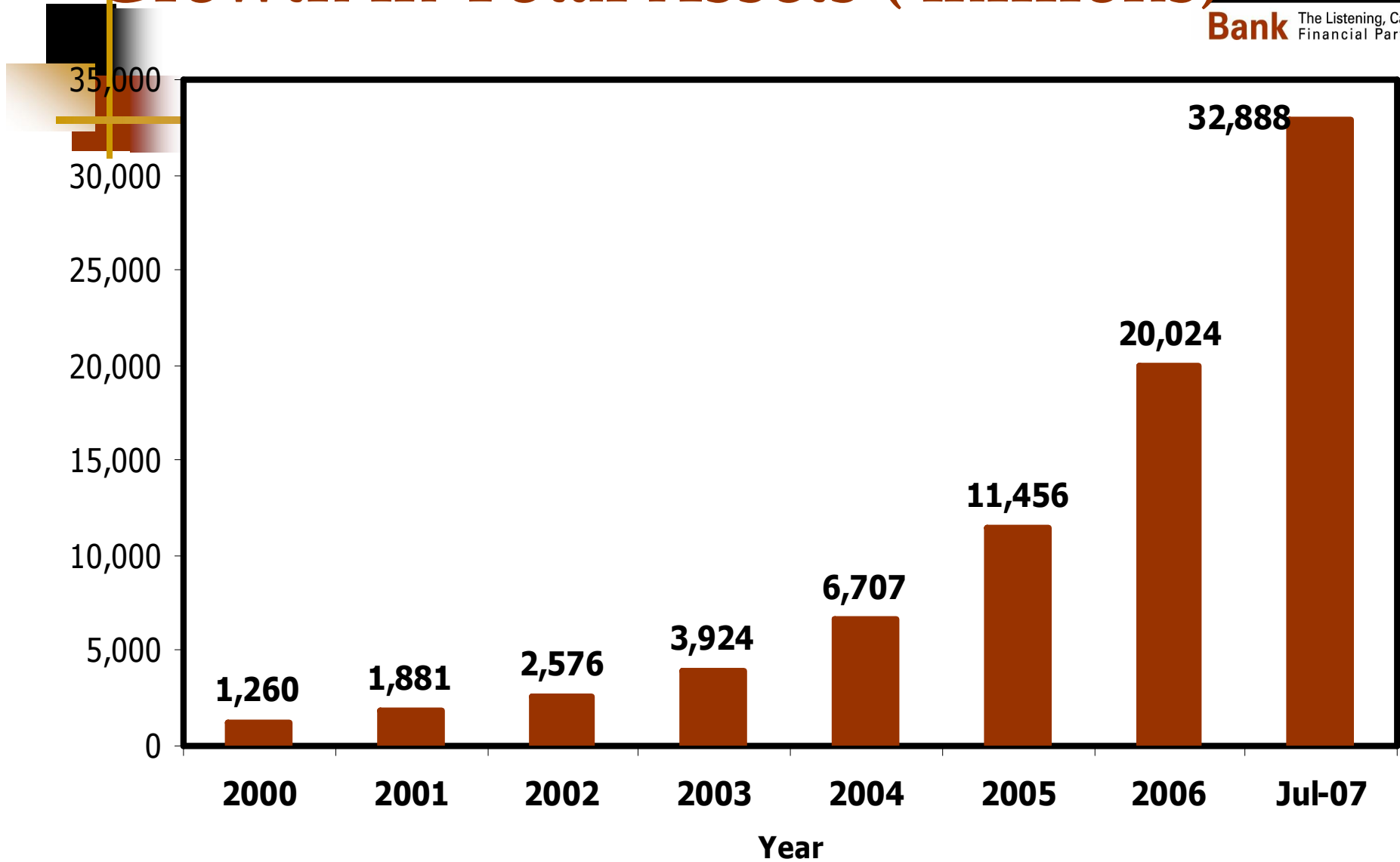
Growth in Deposits(millions)



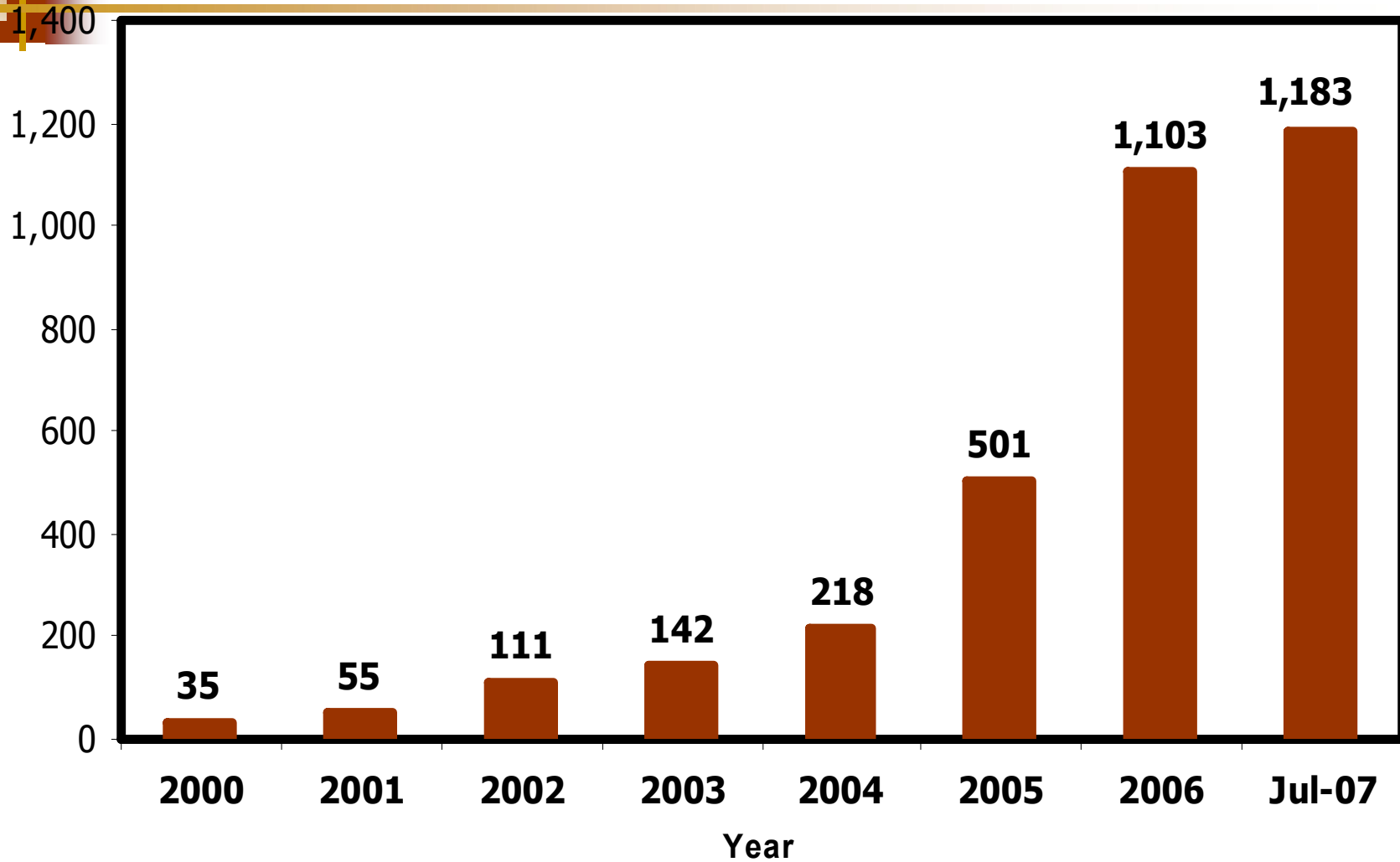
Growth in Loan Portfolio(millions)



Growth in Total Assets (millions)



Growth in Profit Before Tax (millions)



THANK YOU



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