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A HOLISTIC FRAMEWORK FOR MEASURING A BANK'S FINANCIAL HEALTH

Keywords: Banks; Financial Risk; Corporate Governance; Bank Regulations

Abstract: The main aim of this article is to demonstrate a holistic framework for measuring a bank's financial health by classifying its main responsibilities between conformance and performance. Responsibilities are classified into five categories as follows: First, Corporate Financial Reporting (CFR) that integrates General Accepted Accounting Principles (GAAP), Generally Accepted Auditing Standards (GAAS), Securities Exchange Commission (SEC), Financial Services Authority (FSA), and International Accounting Standards (IAS). Second, Risk Management Procedures (RMP), those incorporate methods and directives which arise from Basel I, Basel II, Capital Adequacy frameworks or solvency ratio benchmarks. Third, Corporate Governance (CG), that integrates Sarbanes – Oxley Act, Audit Committees, and Internal Audit Mechanisms. Fourth, Corporate Social Responsibility (CSR), that consists of instructions and standards such as Global Reporting Initiative (GRI) – social and environmental, Social accountability (SA 8000) – working conditions, International Organization for Standardization (ISO 9000). Fifth, Stockholders Value Creation (SVC), that is a set of methodologies and ratios used in order to measure value creation for shareholders such as Strategic and Balanced scorecard, Economic Value Added EVA®, and other business performance management tools. On the other, the Rating Agencies (RA) applies various rating systems in different fields. Based on this framework, the article correlates all qualitative and quantitative components, with the banks' ratings. The dependent variable is the bank's financial health score, represented by a dummy variable based on the bank's rating by the rating agencies and from the relevant value of each bank that arises from its performance in the above mentioned framework of responsibilities. The independent quantitative variables belong to a set of financial, risk and market key ratios and the qualitative variables to a set of dummy variables which describe the above framework. With the use of financial and other published data of the Greek banking sector the article proposes a new model and a procedure for the explanation, management and monitoring of a bank's financial health.