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# Senior Executive Meeting
# Sustainability - Risks and Opportunities for Russian Financial Institutions

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Moscow

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FREE ENTERPRISE
ACTION FUND

# Connectivity 1991

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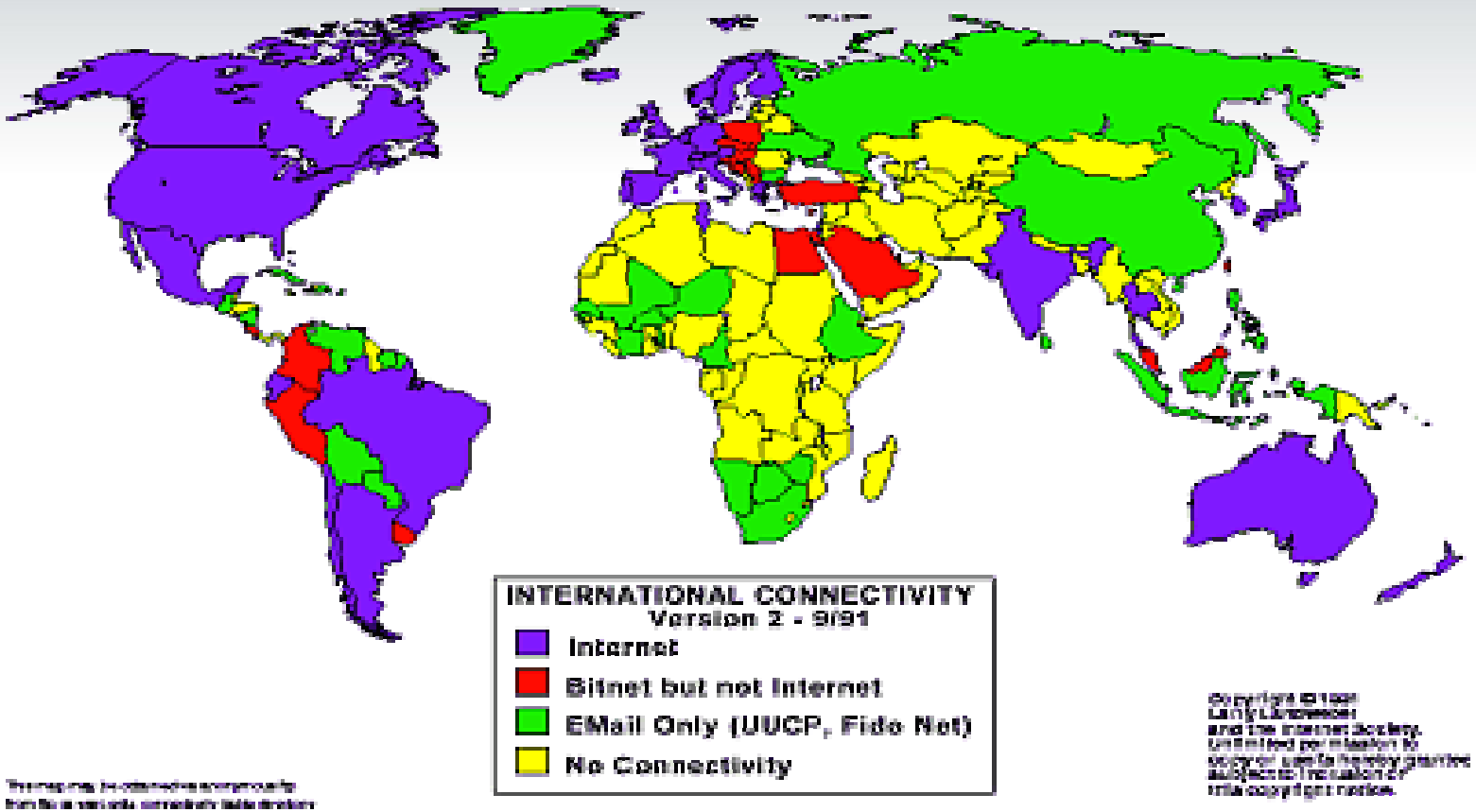

# Connectivity 1997

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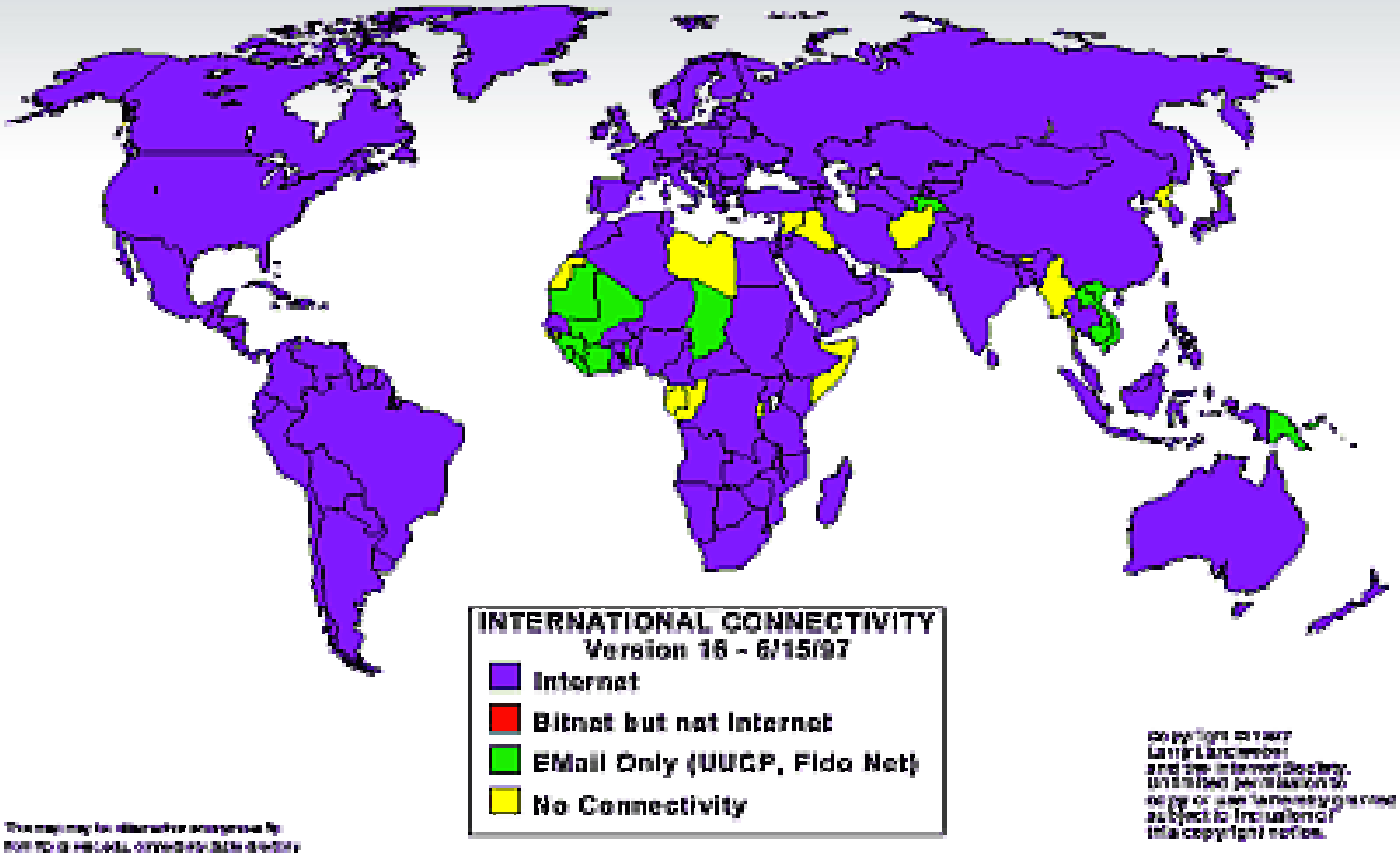

# Risks To Client

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- Permitting delay/ rejection
- Contract terms
- Infrastructure obligation
- Cost of capital, access to capital
- Sabotage
- Kidnapping
- Political destabilization
- Insurance access/cost
- Construction delay
- Contract loss
- Labor supply

Start up

# Risks To Client

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- Availability of water
- Raw materials access
- Raw materials price
- Permit rejection
- Raw materials quality
- Accident/Reliability
- Community protest

**Materials Acquisition**

# Risks To Client

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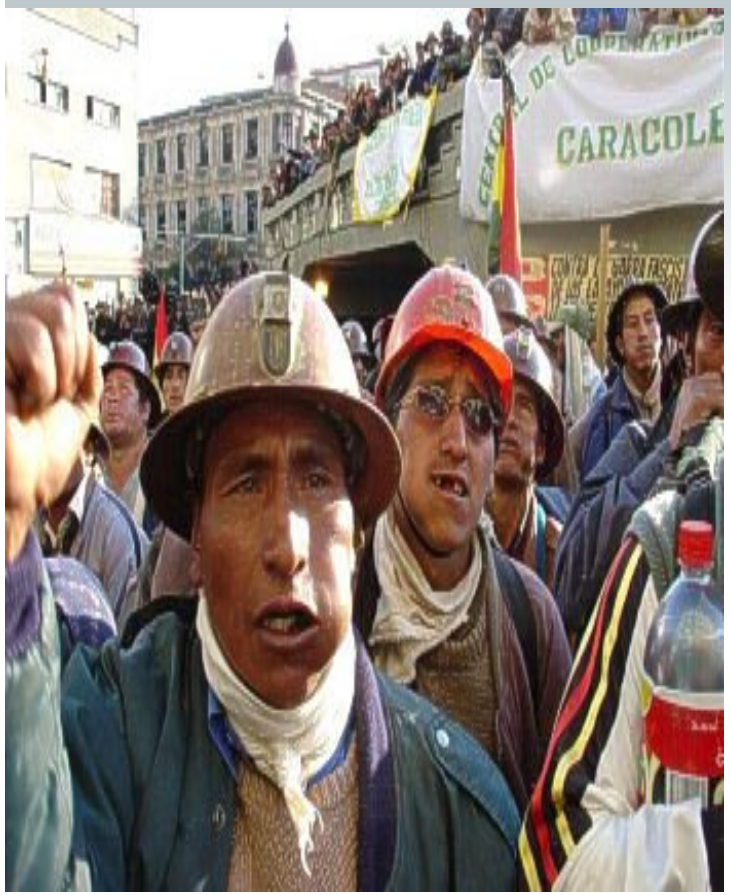


- Labor recruitment, retention
- Productivity
- Sabotage, Strikes
- Kidnapping
- Political destabilization
- Whistle blowing
- Shut down, Fines, penalties
- Insurance non-renewal

Manufacturing

# SOCIAL AND ENVIRONMENTAL RISKS FOR THE SOUTH

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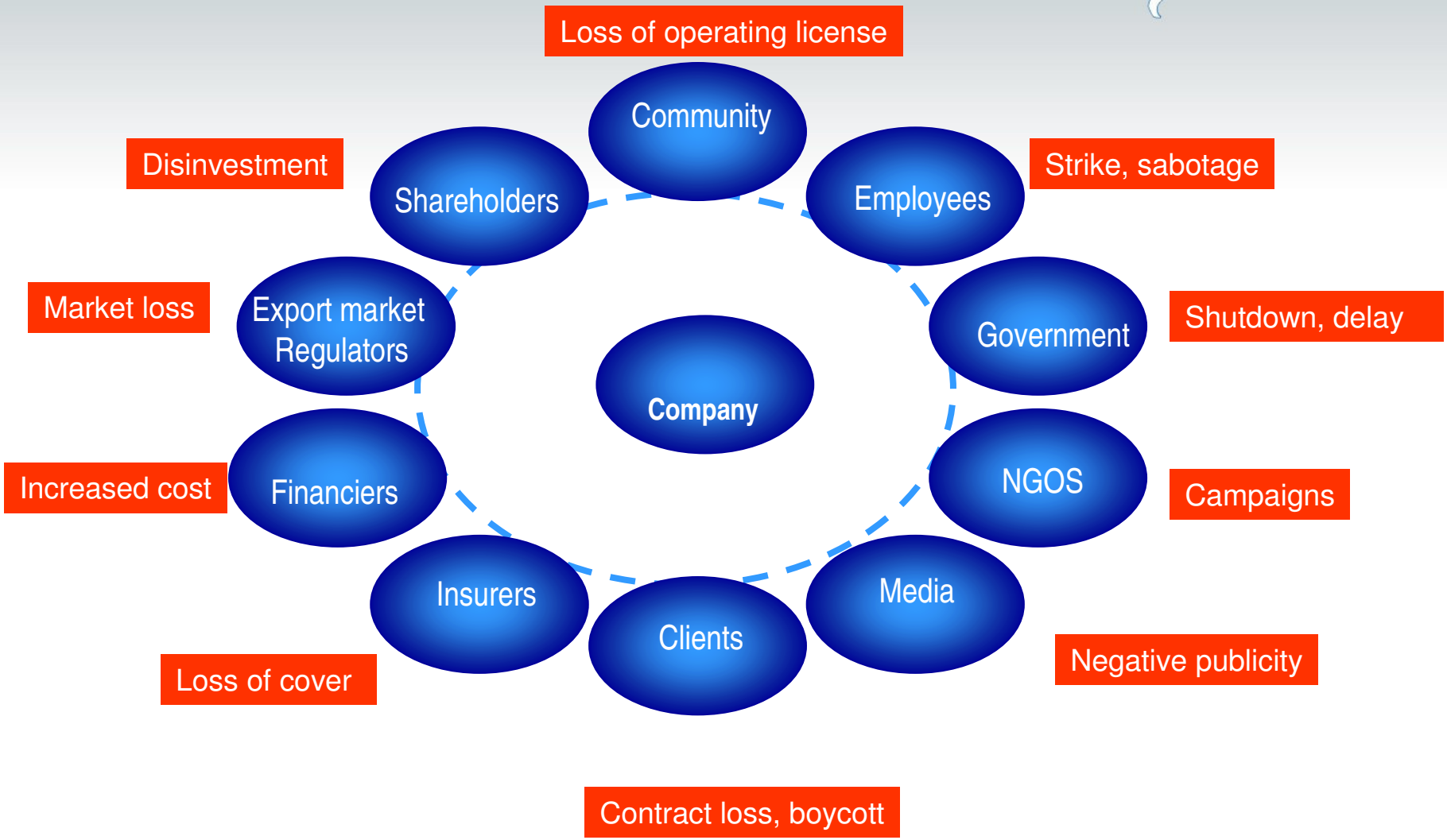

# RISKS TO FINANCIAL INSTITUTION

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| DIRECT IMPACT |
| --- |
| Reduced access to capital |
| Perceived quality of assets |
| Provisioning |
| Capital adequacy/liquidity |
| Borrowing/ capital increase |
| Higher cost of funds |
| Reduced return |
| Reduced rating |
| Reduced share value |

| INDIRECT IMPACT |
| --- |
| Reputational impact |
| Perceived mgt quality |
| Perceived quality of assets |
| Perceived capital adeq. |
| Perceived corp governance |
| Increased MOF regulation |
| External/NGO scrutiny |
| Transaction costs |
| Reduced deal flow |

# Equator

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The downside?

- Clients: deal-breaker
- Risk: new way to kill the deal
- NGOs: stick to beat us with

The upside?

- NGOs: Consensus maker
- Risk: Basis for rapid internal approval
- Clients: Way to win the complex deal

# Risk into opportunity

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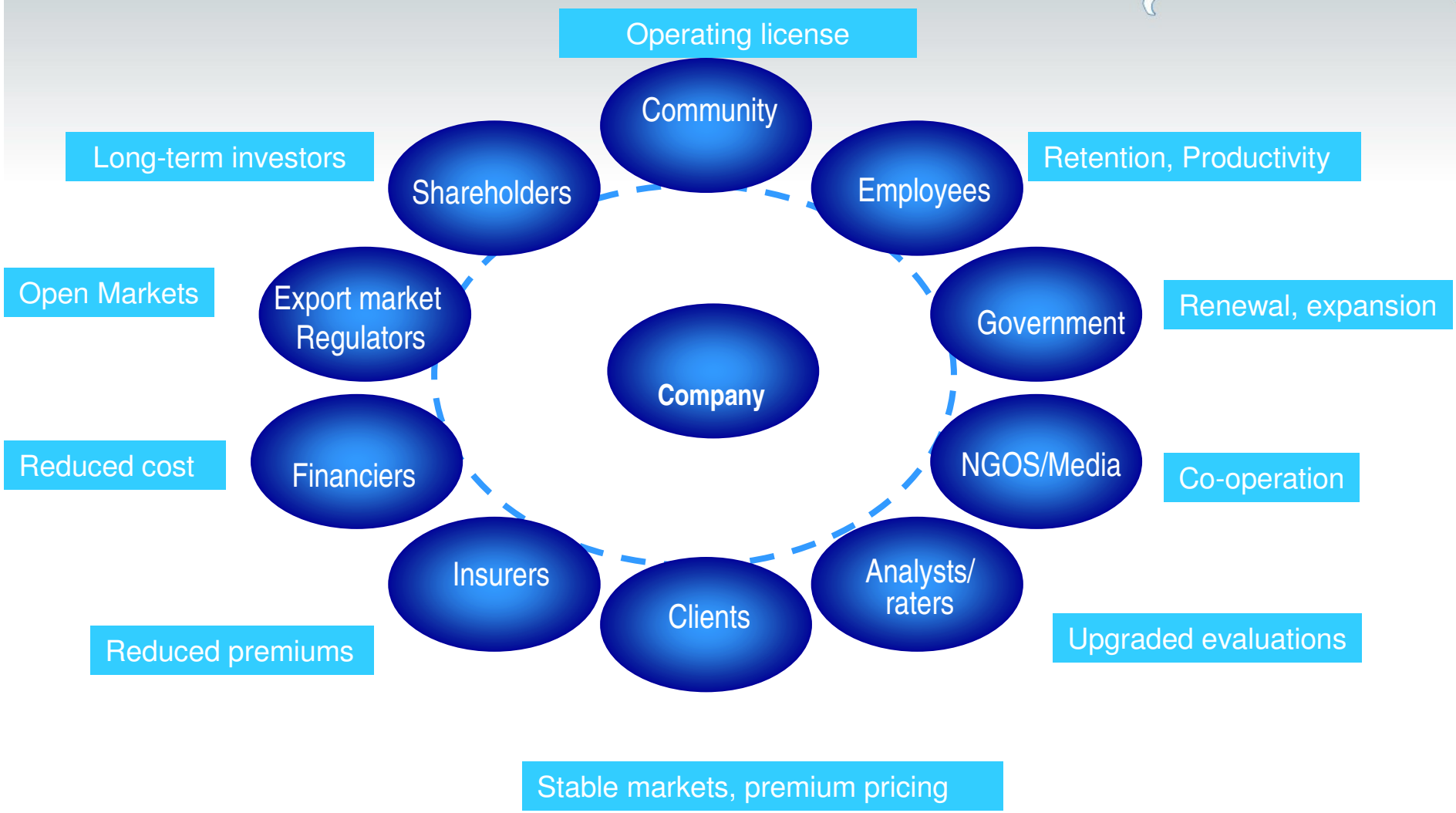

## $222m boost for privatisation of Romania's largest bank

The Romanian government's long-standing plan is simple: find a reputable strategic investor to facilitate privatisation of the country's largest state-owned bank. So far, though, things haven't worked out quite as planned. In 2002, when Romania was ready to take this big step, the global economy deteriorated and Western European investors had things on their minds other than buying shares in Banca Comerciala Romana (BCR), even though the bank was doing quite well. Still, the Romanian government wanted to keep momentum in the privatisation process, a critical step in the country's transition from the former state-managed economy to a market economy. Privatisation is crucial to Romania's hopes for joining the European Union in 2007.

*BCR's Bucharest headquarters*

Enter the EBRD and the International Finance Corporation (IFC), the World Bank's private sector lending arm, with plan B to make a good bank better and all the more attractive to strategic investors.

### Strengthening BCR

The combined investment of $222 million by the EBRD and the IFC marked the launch of a three-phase strategy for BCR's privatisation. This investment is a first step, with the government becoming a minority shareholder, complemented by a further sale of eight per cent of shares to bank staff, which has just been completed, and then a sale to a strategic investor by year-end 2006. With the European banking market recovering now, hopes are high that BCR can be successfully privatised in the near future.

*Improving client services is a priority*

The core of EBRD's 'added value' in this financing is an innovative Institution Building Plan, a set of actions designed to strengthen BCR and transform it into an institution even more attractive to potential strategic investors.

"We identified key risks, carried out on-site due diligence, looked at opportunities such as in retail banking and lending to small businesses, and put solutions in the plan," summarises Nick Kerigan, EBRD Operations Leader on the project.

The goal of the plan is to enhance the implementation of the bank's strategy and operations, and to upgrade key business development, risk and control functions and corporate governance.

# The evolution of best practice

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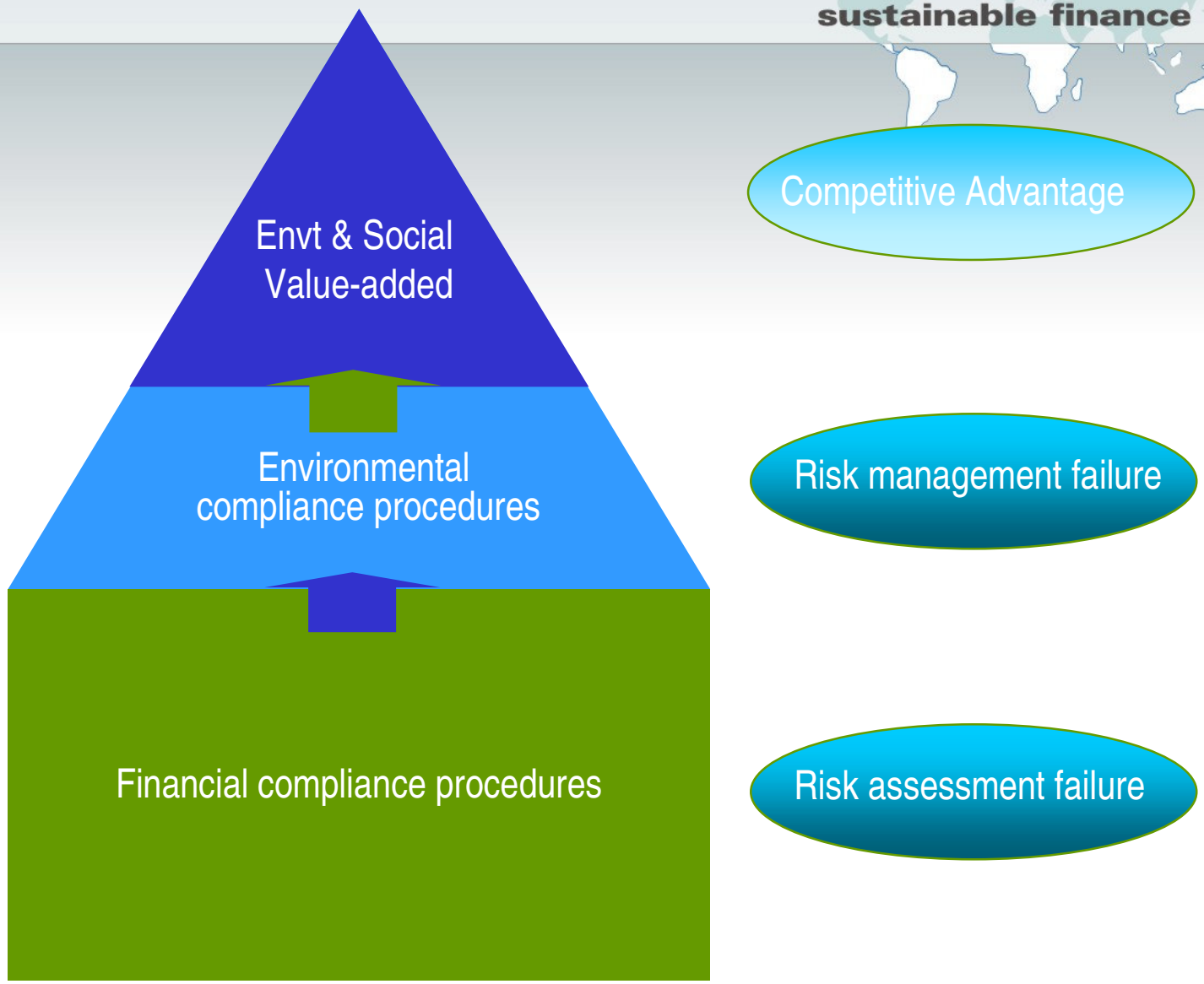

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