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

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Moscow
April 5th, 2005
Connectivity 1991

INTERNATIONAL CONNECTIVITY
Version 2, 1991

- Internet
- Bitnet but not Internet
- EMail Only (UUCP, Fido Net)
- No Connectivity

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Connectivity 1997

INTERNATIONAL CONNECTIVITY
Version 18 - 6/15/97

Internet
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The map is for demonstration purposes only. 
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Risks To Client

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

- Labor recruitment, retention
- Productivity
- Sabotage, Strikes
- Kidnapping
- Political destabilization
- Whistle blowing
- Shut down, Fines, penalties
- Insurance non-renewal
SOCIAL AND ENVIRONMENTAL RISKS FOR THE SOUTH

Market loss, cover
Disinvestment
Increased cost
Loss of operating license
Strike, sabotage
Shutdown, delay
Campaigns
Negative publicity
Contract loss, boycott

Company
- Shareholders
- Employees
- Government
- NGOS
- Media
- Clients
- Insurers
- Financiers
- Export market Regulators
- Community
## RISKS TO FINANCIAL INSTITUTION

### 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
<table>
<thead>
<tr>
<th>The downside?</th>
<th>The upside?</th>
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</thead>
<tbody>
<tr>
<td>Clients: deal-breaker</td>
<td>NGOs: Consensus maker</td>
</tr>
<tr>
<td>Risk: new way to kill the deal</td>
<td>Risk: Basis for rapid internal approval</td>
</tr>
<tr>
<td>NGOs: stick to beat us with</td>
<td>Clients: Way to win the complex deal</td>
</tr>
</tbody>
</table>
Risk into opportunity

- Market loss
- Loss of cover
- Contract loss, boycott
- Downgrade, campaigns
- Shutdown, delay
- Strike, sabotage
- Retention, productivity
- Loss of operating license
- Risk into opportunity

- Export market
- Regulation
- Regulators
- Shareholders
- Employees
- Government
- NGOS/Media
- Investors
- Insurers
- Financiers
- Clients
- Analysts/raters
- Company
- Co-operation
- Renewal, expansion
- Co-operation
- Upgraded evaluations
- Stable markets, premium pricing
- Reduced cost
- Open markets
- Reduced premiums
- Long-term investors
$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.

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.

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

- Competitive Advantage
- Risk management failure
- Risk assessment failure
- Financial compliance procedures
- Environmental compliance procedures
- Envt & Social Value-added
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