



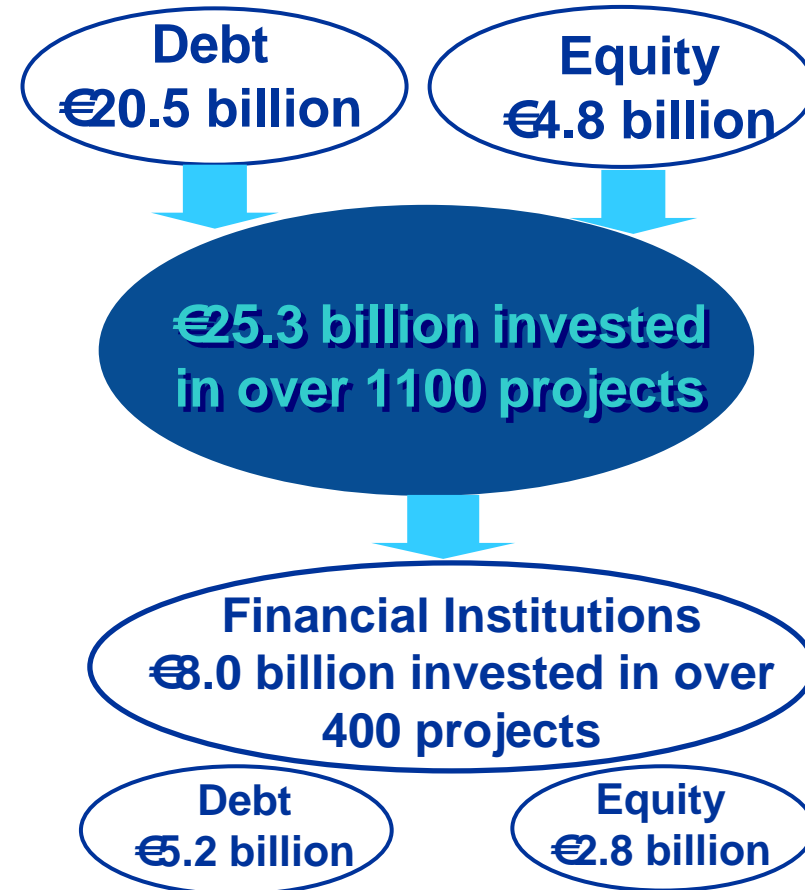
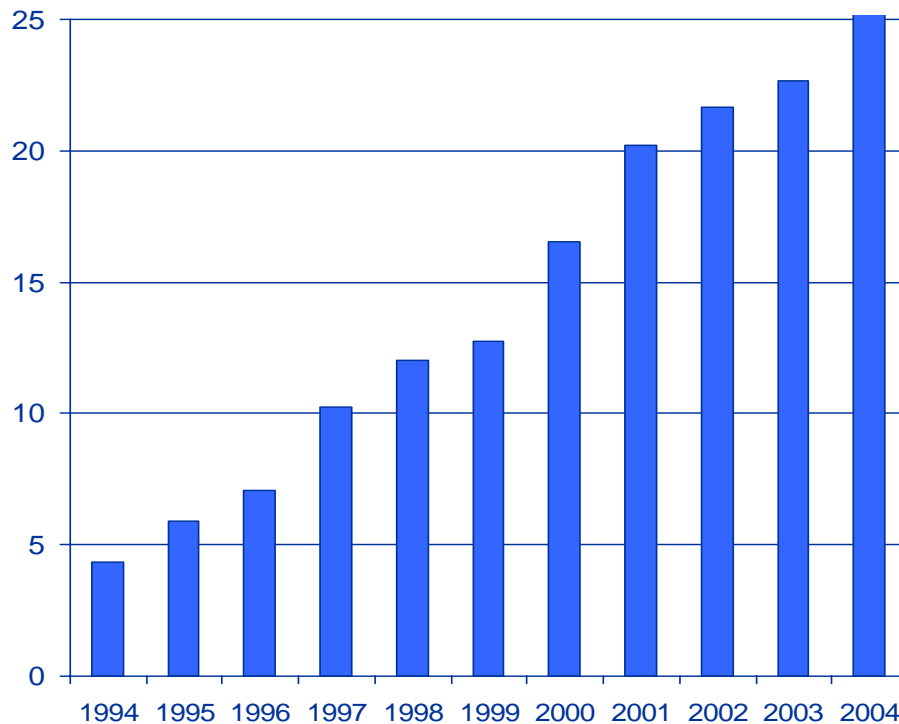
EBRD view on banking sector developments in the CIS and Baltics

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EBRD signings

Cumulative Gross Signings:
All sectors (€bn)



FI is a key element of the EBRD's portfolio



CIS (and Baltic States) as a region?

- Political/ethnic differences
- Huge differences in transition progress
- Limited economic co-operation
- Incomparable banking sector developments



Financial intermediation as key penetration criteria

Domestic credit as % of GDP:

- 50-60% (Estonia, Latvia)
- 20-35% (Ukraine, Kazakhstan, Russia, Uzbekistan, Moldova, Lithuania, Belarus)
- 10-20% (Georgia, Tajikistan, Kyrgyzstan)
- <10% (Turkmenistan, Azerbaijan, Armenia)
- Western Europe 80-150% (EU15 av. 130)



The Outlook for the Development of the Banking Sector in Russia and Kazakhstan



The macroeconomic background

- Favourable operating environment with:
 - high GDP growth rates
 - strong recovery in investment
 - large capital inflows
- These changes brought also:
 - abundant liquidity and low interest rates,
 - improving creditworthiness
 - deepening monetisation and increased demand for finance.



Role of financial sector increased

- Growing share of bank loans in financing investment (2x since 2001)
- Competition has strengthened
- More and more companies and banks tap international capital markets
- Dynamic growth in most banking sector aggregates



Russia: key banking sector indicators

	End-2001	End-2004	End-2008
Assets/GDP	32%	42%	55-65%
Capital/GDP	4%	6%	7-8%
Credits to enterprises/GDP	11%	19%	25-30%



Kazakhstan: key banking sector indicators

	End-2001	End-2004	End-2008
Assets/GDP	26%	48%	60-70%
Capital/GDP	4%	5%	6-8%
Credits to enterprises/GDP	12%	23%	30-35%



But despite impressive growth

- Traditional structural weaknesses of the banking sector remain
- Risks remain substantial and in some respects even increased
- Reforms underway but slower and less comprehensive than would be needed
- Little progress in addressing Russia's crucial transition challenges



Russia: key structural weaknesses

- The sector is fragmented and undercapitalised
- Dominance of state-owned banks
- The major role and unclear future of pocket banks
- Lack of medium-term funds
- Regions remain under-banked
- Continued low presence of foreign banks



The key risks in the general operating environment

- Continued very high oil prices deepen distortions and create adverse incentives:
 - Masking existing problems and weakening sense of urgency for reforms
 - Reducing risk awareness
 - Making the economy more vulnerable
 - Causing excessive real appreciation of the currency
- The economy, including banking, has not been tested yet by a period of low oil prices



The typical sector specific risks

- Small capital leaves banks vulnerable to concentration (both on asset and liability side)
- Rapid credit expansion - at a price of worsening quality?
- Opaque ownership structure, pervasive related party transactions and limited transparency
- Weak profitability of some banks covered by unsustainable trading gains



Reforming Russia's banks

- Recent approval of the authorities' Medium Term Banking Strategy
- A Deposit Insurance System is being set up with 835 (or 75%) of the applicants qualified in the first round
- IFRS reporting introduced
- Strengthened supervisory framework
- New legislation on credit bureaus, consolidated reporting, syndication etc approved or underway



Need for new measures to ...

- Promote major (foreign) capital injections into the banking system
- Accelerate consolidation through:
 - Facilitating mergers and acquisitions
 - Weeding out weak banks
- Increase the financial regulators' powers to intervene pre-emptively in problem banks
- Strengthen efforts to increase ownership and financial transparency
- Develop clear strategic vision for the state banks



The EBRD's strategy

We realise that our impact on the overall systemic change is limited, however, we have:

- Strong presence in the banking sector in both Russia and Kazakhstan
- Vast experience and lessons learned including in the 1998 crisis
- Leverage and instruments to make significant contributions to the restructuring process
- Capacity to mobilise other investors
- In Russia: focus on regional banks



Key strategic orientations

- Promoting the entry of strategic investors
- Enhancing competition and supporting consolidation process
- Promoting institution-building by setting standards and examples to follow
- Introducing new financial instruments (retail!)



EBRD's role in the financial sector

- Promote market-based financial institutions
- Support private and entrepreneurial initiatives, acting as a door opener for local and foreign investors
- Be the leader in corporate governance and institution building
- Engage with operators and authorities to strengthen regulatory and legislative frameworks

EBRD provides value added support



EBRD's role

Key goals of the EBRD in the sector

Support the development of financial systems

Increase the diversity of institutions

Strengthen corporate governance

Facilitate consolidations of smaller institutions

Reach new customers and provide new products

Increase financing to small and medium sized enterprises

Support privatisation and restructuring

Expand engagement in non-bank financial sector



EBRD key attributes

EBRD provides value added support

- Responsive to customer needs and flexible in structuring
- 13-year experience of deal-making and support to the sector
- Extensive regional knowledge



EBRD offers a wide variety of products to financial sector

Guarantees

- Specific risk guarantees (i.e. political)
- Commodity-backed instruments
- Trade facilitation program (with local banks)

Loans

- Project specific
- Non or partial recourse to sponsors
- Medium/long term
- Hard/local currency
- Floating/fixed rates
- SME credit lines
- Mortgages/leasing
- Subordinated debt
- etc.

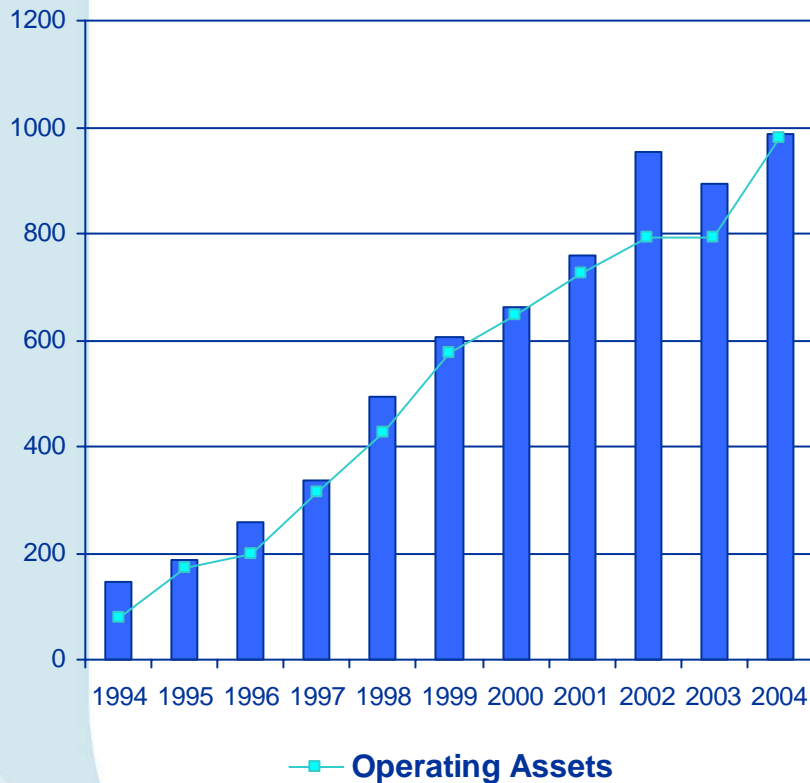
Equity

- New equity
- Privatisations
- Underwriting
- Quasi-equity
- 'Portage'



Bank Equity

Bank Equity Portfolio (€mn)



Key achievements:

- 87 investments in 26 countries
- Involvement in 18 key privatisations
- Historical track record - successful exits and strong IRRs
- Working with key western sponsors, including:



Bank Equity

Key priorities

Sector reform

- Facilitate restructuring and privatisation by sharing equity risk and restructuring effort
- Support consolidation

Institution building

- Enhance corporate governance by active participation in supervisory boards
- Support management and shareholders to realise growth potential

Work with key western sponsors

- Co-invest with key sponsors, at privatisation or in acquisition financing
- Continued support after partial exit to strategic sponsors



2003/2004 - Selected Bank Equity transactions

UniBank
КОММЕРЧЕСКИЙ БАНК

Azerbaijan

USD 1 million
equity investment

October 2003

Support for key private bank
Capital Increase
Acquisition of 20% stake

КАЗКОММЕРЦБАНК

Kazkommertsbank
Kazakhstan

€29 million
equity investment

August 2003

Acquisition of 15% equity
stake

ABN-AMRO

Uzbekistan

€1 million
equity investment

June 1996

Support for ABN AMRO's
Uzbekistan subsidiary.
Acquisition of 10% stake

Hansapank

Estonia

€19 million
equity investment

December 1998

Acquisition of 9.7% stake in
the Baltics' largest bank.
Majority owned by
Swedbank

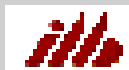
ПРИОРБАНК

Priorbank
Belarus

€3 million
equity investment

December 1997

Support for key private
bank. Acquisition of 27%
stake



Russia
€6 million
equity investment

April 2000

Acquisition of 10% stake.
First foreign investment/
recapitalisation of a
Russian bank post 98 crisis

ИНЭКСИМБАНК
ИНВЕСТИЦИОННЫЙ ЭКСПОРТНО-ИМПОРТНЫЙ БАНК

Ineximbank
Kyrgyz Republic

€1.1 million
equity investment

January 2004

Acquisition of 25% equity
stake

ARMECONOMBANK
Armenian Economy Development Bank

Armenia

€0.9 million
equity investment

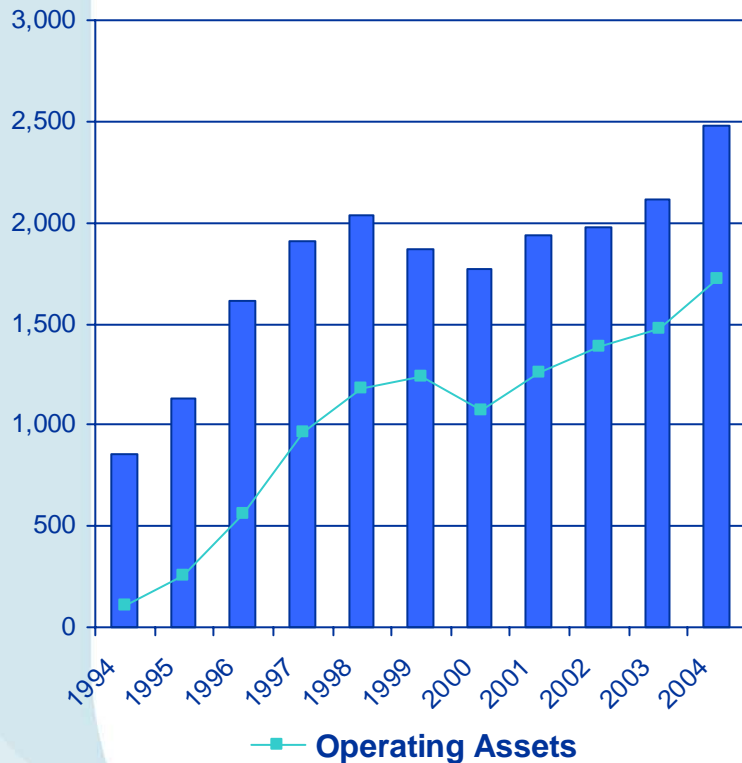
December 2004

Acquisition of 25% stake



Bank Debt

Bank Debt Portfolio (€mn)



Key achievements:

- A broad range of debt and guarantee products tailored to client needs
- Over 150 client relationships covering all countries of operation
- Facilities of €1 - €100 million
- A comprehensive trade finance network and facilities
- Major provider of medium to long term funding to be on lent to local SMEs. Over 23,000 enterprises financed
- New areas of growth: mortgage financing and subordinated debt



Bank Debt

Key priorities

- Promote bank lending to private enterprises
- Support institution building
- Assist inter and intra regional trade
- Provide a range of debt and guarantee products
- Develop new products to meet market needs



Bank Debt – Trade Finance

Key achievements

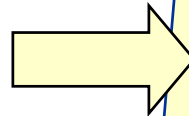


- In excess of €2.3 billion in trade transactions guaranteed
- Over 3,300 guarantees issued and advances disbursed



A/B loan structure

- **EBRD has Preferred Creditor Status in respect of transfer and convertibility risk (Art. 21 of the Agreement Establishing the EBRD)**
- **Tested ! Russia, August 1998 - payments to EBRD exempted from the moratoria**



EBRD loans are :

- not subject to restrictions on conversion of local currency or transfer of foreign currency
- not included in any general rescheduling of the country's foreign currency debt
- generally exempt from country provisioning requirements
- exempt from withholding tax on interest



Financing criteria

Indicative criteria for *Equity*:

- Participation of generally between 10% and 35%
- Active participation in corporate governance
- Strong management
- With or without strategic investors
- Structured exit arrangements or open equity risk
- 5 to 10 year exit horizon



Financing criteria

Indicative criteria for *Debt*:

- Variety of instruments: subordinated, convertible, trade and mortgage
- Commercially priced
- Identifiable use of proceeds
- Maturity of up to 15 years
- Standard euroloan covenant requirements

