



JOINT MEETING OF SOUTH EAST EUROPE AND EURASIA CORPORATE GOVERNANCE ROUNDTABLES

16 February 2006

*Corporate Governance of State-Owned Enterprises
Corporate Governance of Banks*

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**The Global Corporate
Governance Forum**

**CENTRE FOR
PRIVATE SECTOR DEVELOPMENT
ISTANBUL**



**Session 3: Boards of SOEs
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IFC Investment in Banca Comerciala Romana, S.A. (BCR) Deal Structure, Value Added and Results

BCR in 2003

- Largest commercial bank in Romania: 30% market share
- US\$1 billion book value
- State-owned (69.88%), with minority (30.12%) held by 5 Investment Funds (SIFs)
- Two unsuccessful privatization attempts in 2002
- Management and Board indistinguishable
- Board composed of senior managers and SIF representatives met >25 times annually
- Weak risk management and internal controls systems

IFC's Investment

- 12.5% + one share for US\$111 million (0.88x unadjusted book value)
- Negotiated *pari passu* and in tandem with EBRD
- Tag-along/drag-along, Put/Call options
- Medium-term trade sale anticipated (no IPO)
- Subsequent distribution of 8% to management, employees and retirees
- Institution Building Plan (IBP)

Corporate Governance Improvements

- Philosophy – “Governance for the Interim”
- Introduced Two-Tiered Board Structure: Supervisory vs Management roles
- Management off from Supervisory Board (SB)
- Redrafted Charter, amendments to Banking Law
- Audit & Compliance and Compensation Committees
- IFC and EBRD-nominated directors appointed to SB
- Active engagement at Shareholder Meetings
- Two-Stage Training Program: IMD/IIF Seminar, In-house Program

Results so Far

- Rating Agency Upgrades in late 2004 (Fitch), early 2005 (S&P)
- Board effectiveness (committees still nascent)
- Professionalization of Shareholder Meetings
- Implementation of IBP
- Improvement of Risk Management and Internal Controls
- IFC-sponsored Resident Advisor to Internal Audit Unit
- Sufficient transparency created to raise investor confidence and privatize

Road to Full Privatization

- Tender offer in June 2005: 11 interested bidders
- 7 bids submitted in mid-October 2005
- 2 finalists: Erste Bank (Austria) and BCP (Portugal) bid for Govt's and IFC's, EBRD's stakes
- On December 20th 2006, Erste wins bidding: €3.75 billion for 61.88%
- Winning bid≈6x book value of €1 billion at June 2005
- IFC's 12.5% stake worth €758 million

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