IFC EXPERIENCE IN FOREIGN OWNERSHIP LIMITS

How Foreign Ownership Can Support Financial Sector Restructuring And Recovery

June 2021

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AGENDA OUTLINE

1. SETTING THE STAGE

A BRIEF HISTORY OF FINANCIAL DISTRESS ACROSS THE GLOBE

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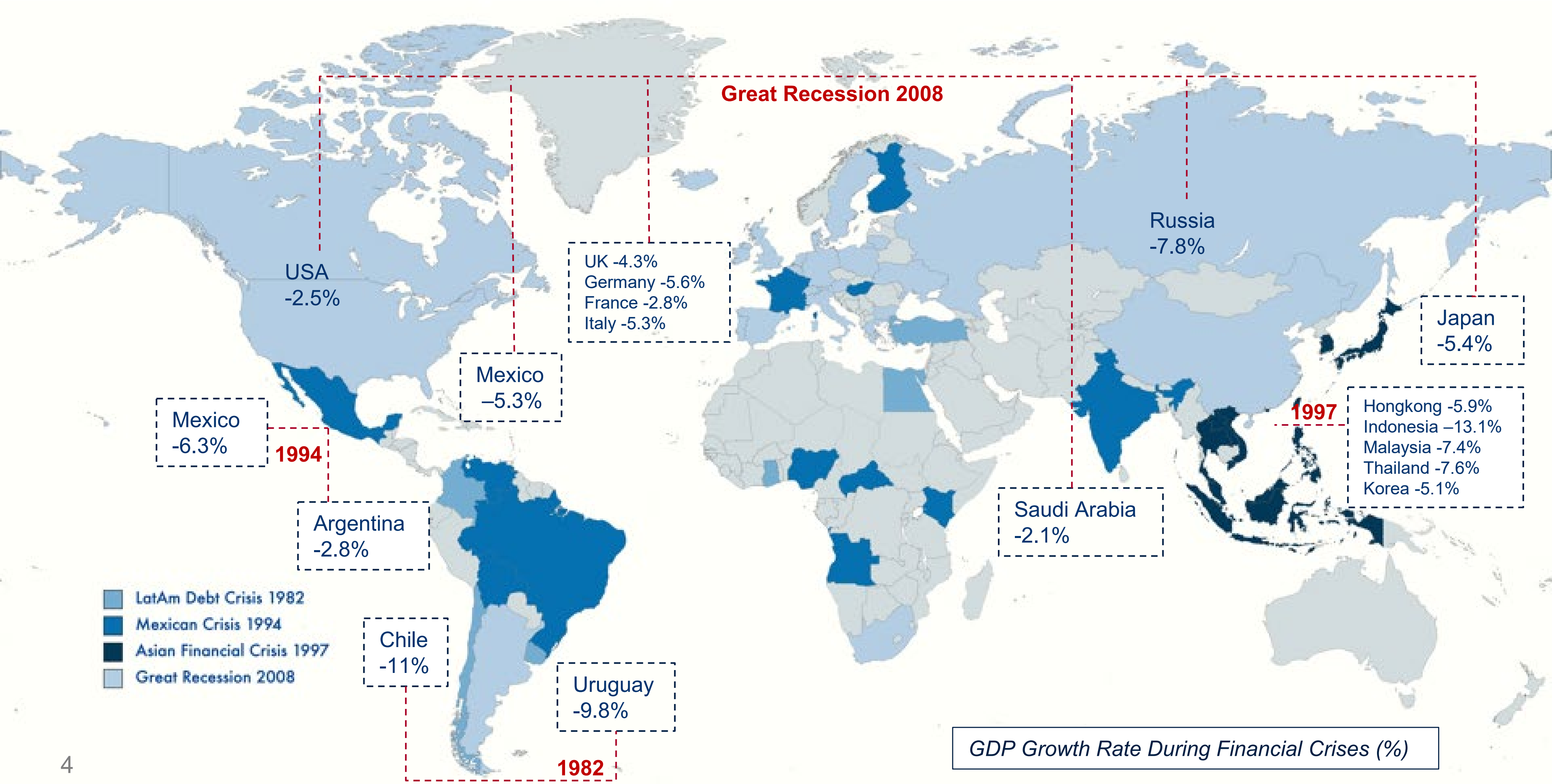
1. Financial Distress Across The Globe (1980 - 2021)

"Nearly every country has experienced significant financial distress at some points over the last 50 years."



GDP Growth Rate During Financial Crises (%)

2. ADDRESSING SYSTEMIC STRESS

GOVERNMENT APPROACHES TO FOREIGN OWNERSHIP

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2.1 “Speed is of the Essence”

- **Act** decisively
- **Demonstrate Government commitment** and support to protect depositors
- **Communicate** clearly and effectively
- **Supply** a rapid injection of market liquidity, guarantees, and capital instruments
- **Execute** clear, pre-established procedures and assigned responsibilities
- **Deploy temporary nationalization** and stabilization measures
- **Provide ongoing supervision**, enforcement, and remedial actions

2.2 Easing FOL Can Increase New Investments

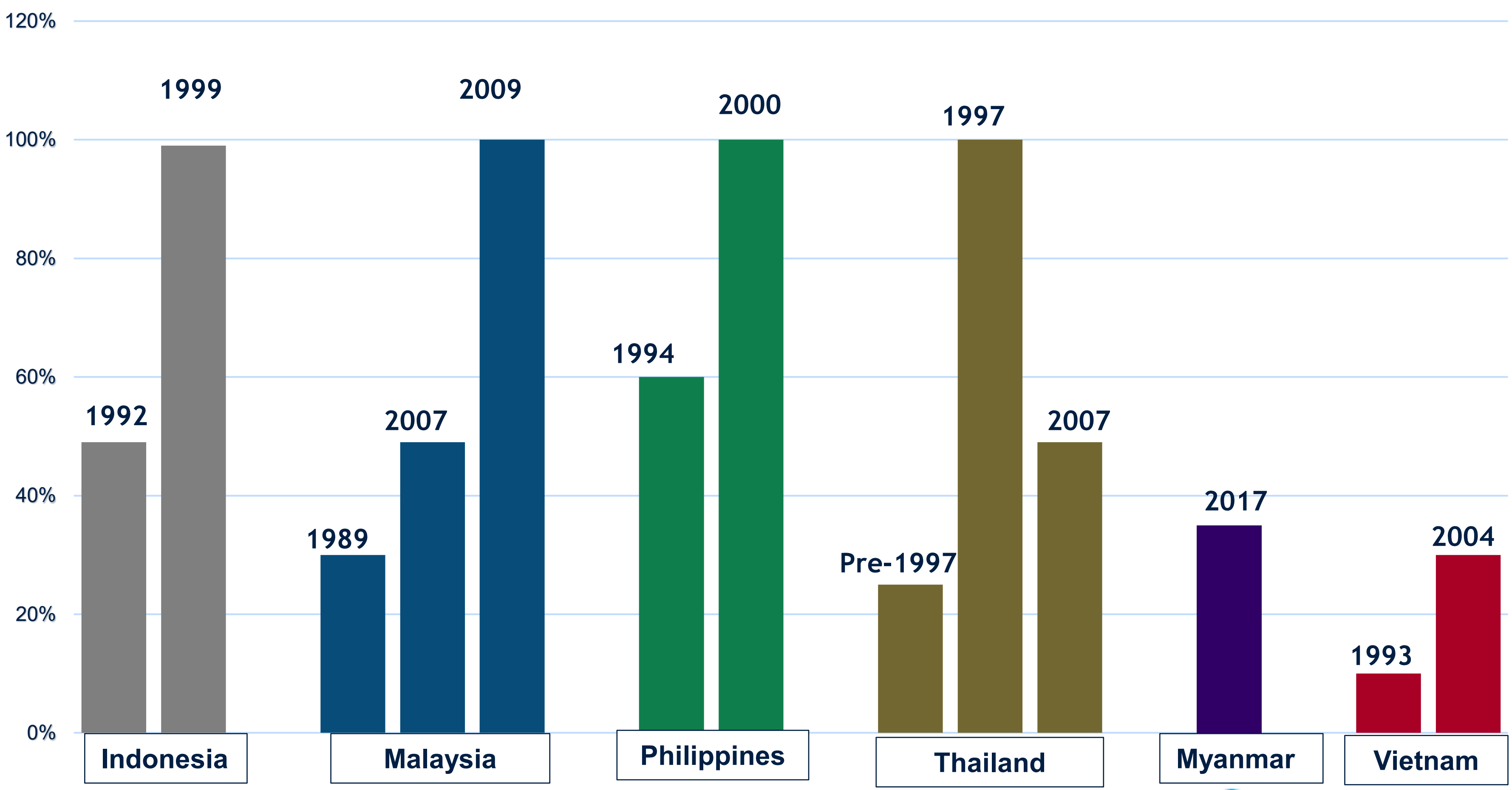
Malaysia (2011) "A positive twist"

- Allowed foreigners to hold stakes in financial institutions
- Issued 6 Islamic banking licenses to foreign banks with the aim to promote Malaysia as a global Islamic financial hub
- Structural reform helped hasten its recovery from 2008 Global Financial Crisis, with real GDP growth averaging 5.3% per year between 2011 and 2015
- Government encouraged M&A of domestic banks to improve banks' performance, profitability and value creation in 1999 and 2009 (23 banks reduced to 8)

Korea (1997-98) Asian financial crisis

- "*What we need now, more than anything else, are foreign investors. Market reforms and foreign investment are the only solution*" (President Kim Dae – Jung)
- 1988: Relaxed entry barriers to financial industry (banking, life insurance, investment trust)
- 1998: Foreign Investment Promotion Act (FIPA) only 13 out of 1148 sub-sectors remained closed to FDI and 18 are partially opened.

2.2 Foreign Ownership Limits Across ASEAN Countries



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2.2 Foreign Investments Aid Financial Restructuring

- **Reputable foreign investors** can provide resources that are not available from domestic institutions and investors, and can reduce the burden on government
  - Rapid injections of capital
  - Responsive to regulatory discipline
  - Skill building programs for local staff utilizing staff from strategic bank head office as well as recognized consultants
  - Increase transparency which increases investor interest as well as public trust

2.2 Foreign Investments Aid Financial Restructuring

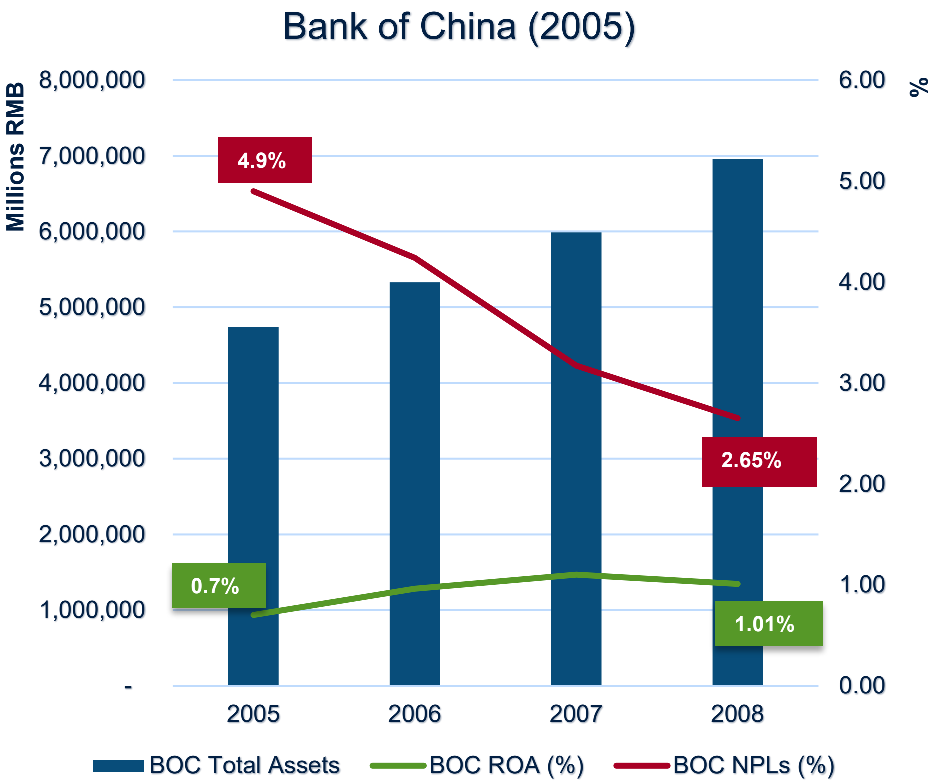
Foreign bank roles in China, Indonesia and Poland

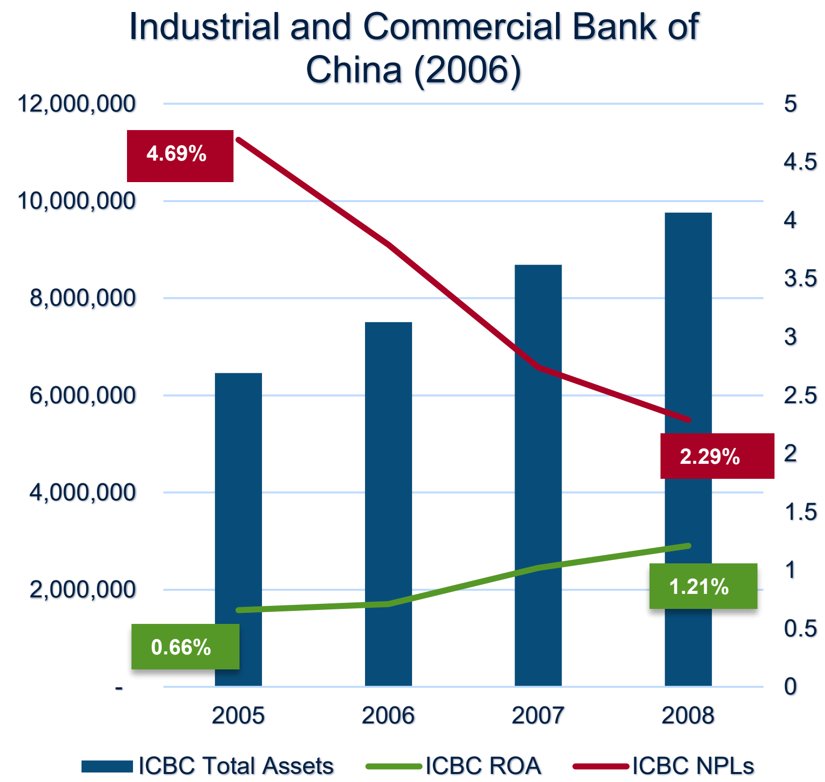
Country	Foreign banks	% ownership	Local bank acquired	Critical Role
CHINA	Bank of America	8.5%	China Construction Bank	▪ Enhance Risk Management of all types ▪ Develop noncore businesses (credit cards) ▪ SME banking, Corporate Governance, NPL management ▪ Introduction of Green Banking
	HSBC	19.9%	Bank of Communications	
	BGZ BNP Paribas	18%	Bank of Nanjing	
	Hang Seng Bank (Hong Kong)	16%	Industrial Bank	
INDONESIA	Sumitomo Mitsui Banking Corporation	92.43%	PT Bank BTPN	▪ Appoint key senior management personnel ▪ Introduce supply chain finance, apply advanced technology and digitalisation ▪ Grow retail, SME and corporate business, expand strong regional network and relationship
	MUFG Bank	92.47%	Bank Danamon	
	Bangkok Bank Public Company Limited	98.70%	Bank Permata	
	ANZ	38.83%	Panin Bank (PNBN)	
POLAND	Santander	68.13%	Bank Zachodni WBK	▪ Enhance the private banking and SME segments ▪ Facilitate bank restructuring and create new organisational structure with a transformation programme
	Commerzbank AG	69.30%	MBANK	
	Banco Comercial Português, S.A.	50.1%	Bank Millennium	
	Citibank (Poland) SA	75.0%	Bank Handlowy	

2.2 Foreign Investments Aid Financial Restructuring

2005: Temasek, RBS, Merrill Lynch, Li Ka shing (10%) worth $3.1 Bn

2006: Goldman Sachs, Allianz and American Express (8.9%) worth $3.8bn

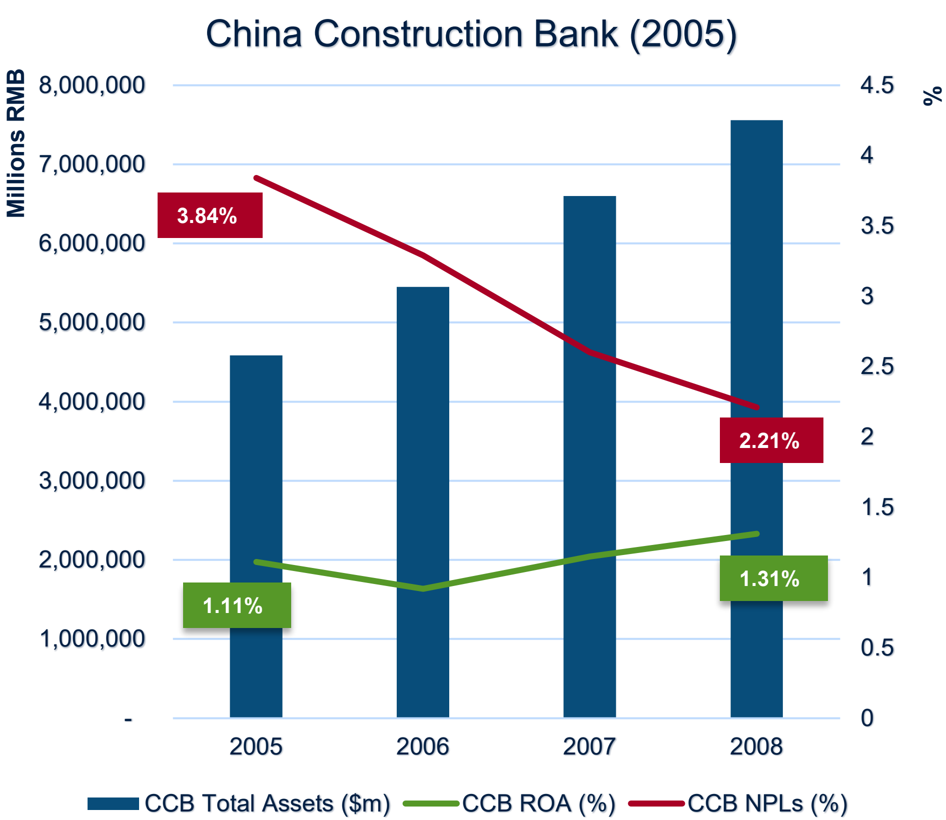


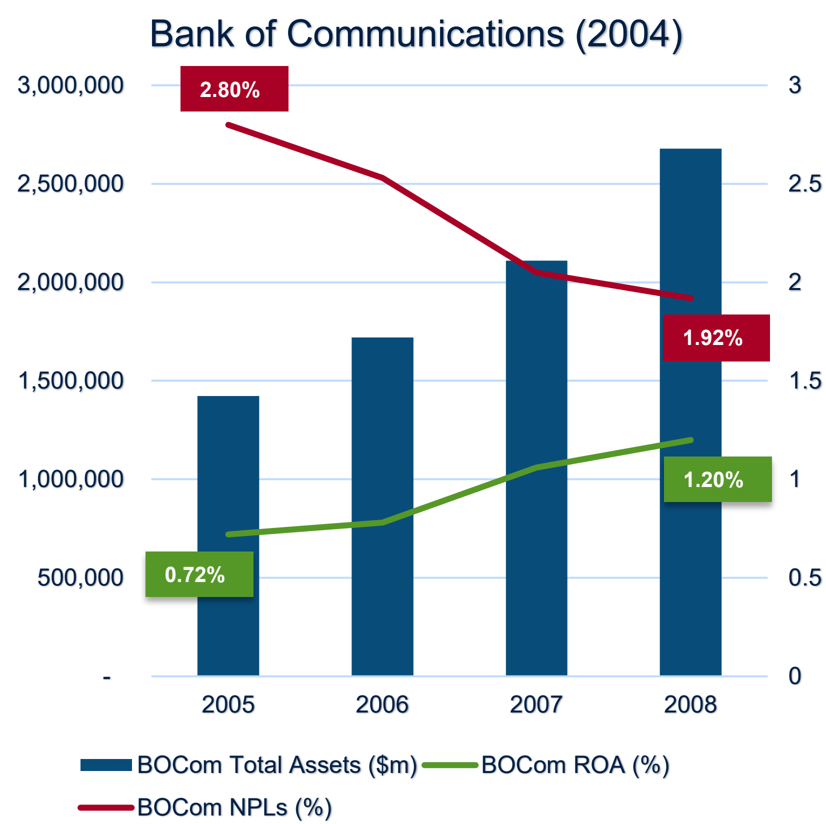


2.2 Foreign Investments Aid Financial Restructuring

2005: Bank of America (BOA) and Temasek invested $3.0bn and $2.5bn (9% and 6%, respectively)

2004: HSBC invested $1.75bn for 19% stake





2.2 Foreign Investments Aid Financial Restructuring

Countries	Foreign-owned banks (% market share)					State-owned banks (% market share)			
	Pre-crisis		Post – Crisis			Pre-Crisis		Post-Crisis	
	1995	1999-2001	2008	2010	2012-2013	1995	1999-2001	2008	2010
Mexico	2%	51%	84%	85%	71%	53%	13%	14%	13%
Poland	4%	48%	67%	62%	76%	80%	34%	17%	22%
Indonesia	4%	7%	33%	34%	26%	64%	44%	38%	38%
Brazil	9%	23%	21%	18%	16%	60%	42%	40%	44%
Korea	2%	15%	13%	11%	7%	29%	35%	22%	22%

Indonesia Financial Crisis 1997
Mexico Peso Crisis 1994-1995
Poland Economic Reform 1989-1994
Korea 1998 Asian financial crisis
Brazil financial crisis 1999

 Source: Claessens et al. (2015)

3. A CASE STUDY OF INDONESIA

CRISIS AND BANK RESTRUCTURING

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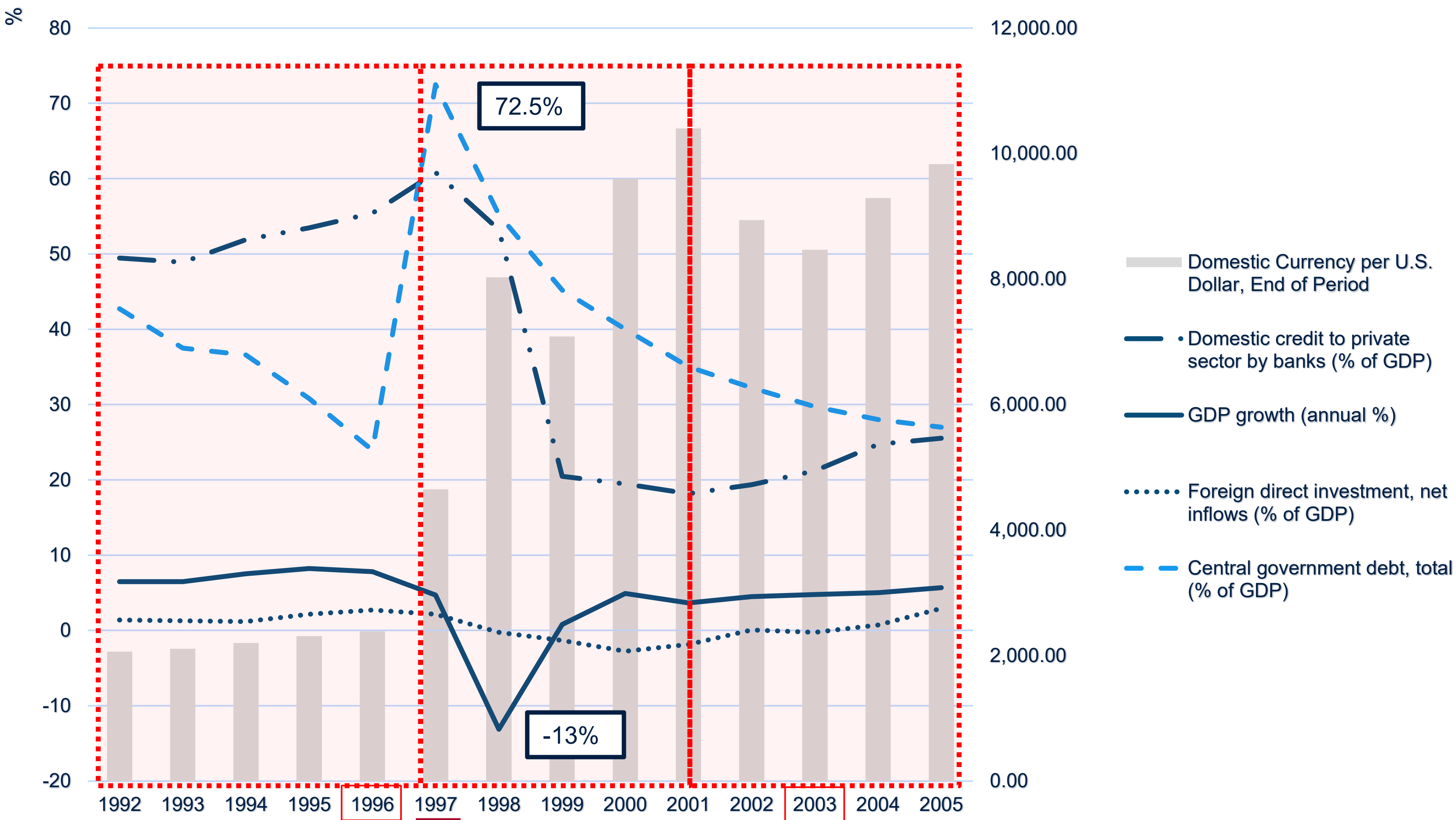
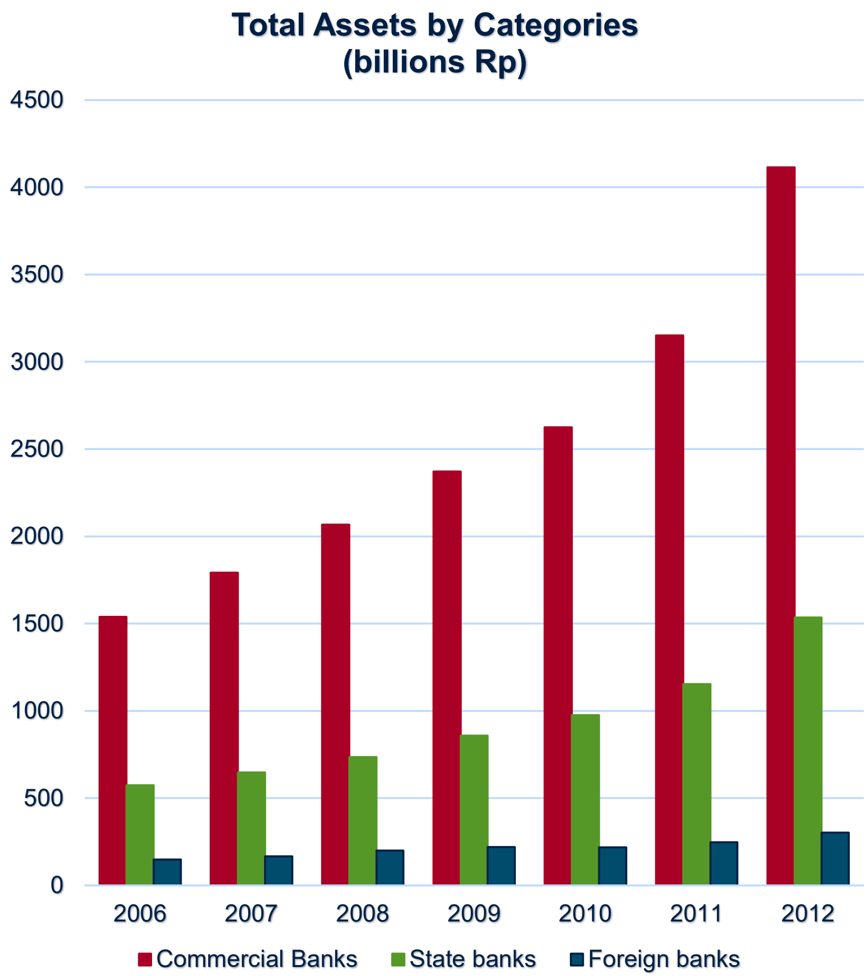
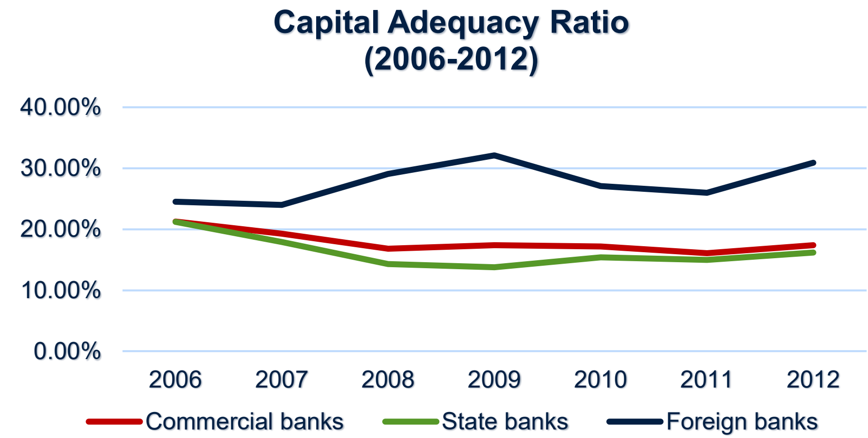
3.1 An Economic Snapshot of Indonesia (Pre and Post Crisis)

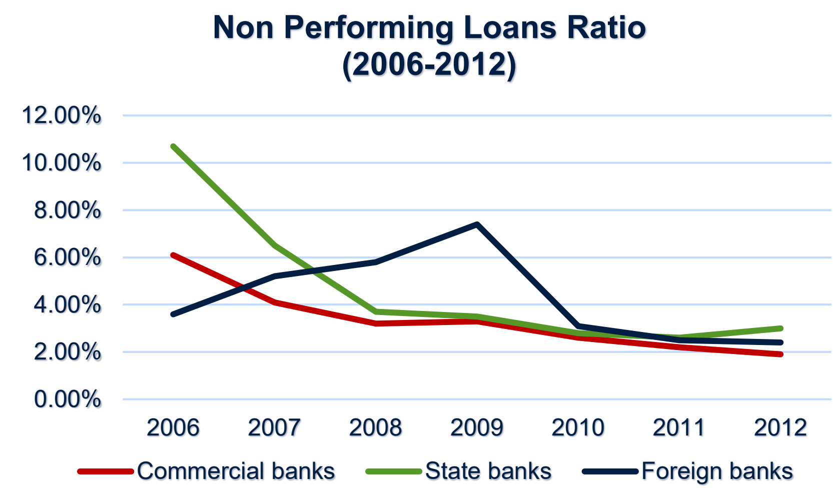


Number of banks: 239 (161 domestic) 138 (76 domestic)

3.1 Post-Crisis Performance of Financial Institutions







Sources: World Bank, OJK, BI Annual Reports

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3.1 State and Private Bank Resolution Through the Crisis

- Large number of bank M&A between 1997 and 2010
- Recapitalization of all 7 state banks, 7 private banks and 12/27 rural development banks

12 Nationalizations of private banks

67 Closures of private banks

35 Mergers

4 …out of 7 State-Owned banks were merged

Transition in number of banks 1996 - 2002

Classification by Ownership	1996			2000			2002		
(Trillion Rupiahs)	No of banks	Total Assets	%	No of banks	Total Assets	%	No of banks	Total Assets	%
State banks	7	141	36.4	5	505	50.3	5	496	45.6
Regional development banks	27	11	2.8	26	25	2.5	26	57	5.3
Commercial banks	164	201	51.7	81	350	34.9	76	423	38.9
Foreign banks	41	36	9.2	39	123	12.2	31	112	10.3
Total	*239*	*389*	*100*	*152*	*1004*	*100*	*138*	*1088*	*100*

Source: Bank Indonesia, Indonesian Financial Statistics

3.2 Asset Restructuring – A Case Study of IBRA

- **PT Indonesia Risk & Business Advisory (IBRA) was established by the Government of Indonesia in January 1998** (supported by the IMF) in response to the banking and economic crisis

- **Significant progress made with the involvement of IBRA:**
  - A stabilization of the country's GDP growth and inflation: Increase in annual GDP growth (but low investment flow until 2003)
  - Change in banking indicators:
    - The ratio of capital to total assets turned positive by 2000
    - Decrease in NPL ratio to normal in 2002
    - Market risk remained high as to compensate off the decrease of inflation rate (government intention)

- **Following the Revision of Central Bank Law, IBRA was dissolved in 2004**

3.3 Foreign Banks Played a Stabilizing Role in the Crisis

- **Strengthened capacity** for weaker banks through M&A
- Take over and resolve the **non-performing loans pool** from SOCBs and private banks
- **New technology and risk** management techniques
- **Enhanced competition** in retails and SME banking
- Encouraged **digitalization** of financial services to overcome geographical challenges, reducing transaction costs
- Significant deposits transferred from local private banks into foreign banks (Loans to deposit ratio among local private banks declined from 85% in 1998 to 36% in 1999).

4. THE EVIDENCE

IMPACT OF FOREIGN OWNERSHIP CHANGES ON FINANCIAL SYSTEMS

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4.1 Foreign Investors Help Across Multiple Dimensions

Role of <u>Foreign Banks</u> in Investment and Management

- Create competitive pressures leading to improvement in banking system efficiency
- Contribute to a more stable banking system with medium-term strategy of expansion of market share

Role of <u>Private Equity Funds</u> for Non-performing Loan Resolution

- Command a better position to take higher risk for higher returns
- Introduce expertise, advanced management techniques and finance to takeover distressed assets, which other finance companies are unable to provide
- In Spain, it has been common for banks to carve out pools of NPLs along with their servicing units, selling them to to private equity funds. These transactions allow banks to deleverage their balance sheet and shed the costs.
- Selling NPLs enable banks to concentrate on developing new business and thus increasing earnings

4.2 NPL Resolution Policy Options

- **Not mutually exclusive, can be mixed and matched**

- **Establish government owned AMCs** - Korea (KAMCO), Indonesia (IBRA), etc.
    - Consolidation of problem debts and debtors into one place, with special powers, enables more efficient real sector restructuring than multi-creditor negotiations
    - Aids resolution of multiple insolvent and nonviable financial institutions
    - Helpful in restructuring multiple distressed but viable financial institutions
    - Useful in full or partial privatisation of distressed government-owned banks

- **Insolvency reforms** and resolution framework – new bankruptcy laws, changes in tax codes for loss recognition and write-off,

- **Financial sector restructuring** and bailout – “Bad Banks”, “forced mergers” – case by case

- **Macroprudential tightening**, including loan classification and provisioning stringency, increased capital and liquidity requirements, new minimum capital size requirements all aimed at forcing “voluntary” consolidation

4.3 Increasing Foreign Ownership Brings Benefits

Impacts	Knock-on Effects
1. Increase in Foreign Direct and Portfolio Investments	• Increase capital inflows, company valuation and market share • Increase transparency, disclosure and confidence improvement • Upgrade market status (FM to EM)
2. Broaden and Deepen Capital markets	• Increase diversified equity and debt markets with new instruments • Diversify investment from banks and deposit fundings • Increase availability and deployment of long-term funding
3. Reduce dependency on local bank lending	• Reduce maturity mismatch of bank assets and liabilities • Improve financial inclusion and reduce bank credit risk and systemic risks • Improve financial disclosure and financial discipline
4. Import and Deploy Skills and Technologies	• Increase competition and productivity and improve stability • Raising skills and technology in local market
5. Improve risk management	• Reduce NPLs, FX and interest rate gap losses and risks • Reduce earning volatility and dampen boom and burst cycle
6. Attract additional investors from global customers	• Bring in global business relationship and insight at lower cost • Deepen and stabilise the local supply chain relationship, increase imports and exports
7. Link the local economy to the Global economy	• Economic integration with higher rates of technology transfer, greater access to capital and higher growth

5. WHAT TO LOOK OUT FOR

THE ROLE OF GOVERNMENTS AND INVESTORS

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5.1 Potential Challenges From Increased Foreign Ownership

Potential Challenges	Measures
Inflationary pressures arising from rapidly increased lending	Enhanced regulatory requirements for reserves, loan to deposit ratio, interbank borrowings
Reduced enthusiasm for lending to government preferred sectors	Incentives to lend including lower capital requirements for specific types of loans
Foreign directors propose strategies that serve shareholder interests at expense of the public good	All directors required to make decisions based on the interest of the bank rather than individual owners
Increased foreign currency lending	Limits imposed on volume of foreign currency loans
Introduction of products which domestic banks are incapable of replicating	Limits placed on volume of new products while domestic banks acquire product expertise
Replication of foreign market products for which domestic banks do not recognize related risks	Regulatory approval required for individual banks prior to initiating new products

- Regulators possess overriding tools ranging from reduced lending limits, suspension of rights to open new branches or introduce new products, terminate business lines, limit access to the interbank market or central bank discount window.
- More severe requirements can include appointment of a third-party monitor, removal of managers or directors who are deemed not 'fit and proper', require partial divestment or revoke the bank license.
- During the initial approval process the regulator can judge the likelihood of non-compliance and establish clear parameters of business.

5.1 Managing Regulations to Attract Money and Capabilities

- **Government has a Role in Assuring Risk Containment and Investment Return**
  - Property rights
  - Legal environment (Regulatory requirement and regulatory reporting)
  - Transfer and Convertibility Risks
  - Management control
  - Investor protections
  - Supervision processes

5.2 Bringing in Reputable Foreign Investors

- **Focus on a strategic investor with substantial commercial banking functions.**

Primary requirements for a successful strategic investor include:

- Good international track records
- Experience in the host country
- Commitment to long-term ownership
- Commitment to future sustainable capital investment
- High-quality staff
- Regular review of progress and update of strategy
- Ongoing technical assistance with training and seminars

Avoid consideration of non-traditional financial institutions which:

- Lack experience in managing commercial banking,
- May not be able to continue capital injections commensurate with asset growth, and
- Do not have overseas subsidiaries such as hedge funds or investment funds
- Have purely financial investors with short-term profit goals have had problems (e.g., Mexico)

5.3 Foreign Ownership among Top Banks in Indonesia

No	Bank	Ownership	Country of Origin	% Ownership	% market share
1	Bank CIMB - Niaga	CIMB Group Sdn Bhd, Malaysia	Malaysia	96.92%	4.61%
2	Bank Danamon Indonesia	DBS Group Holdings Ltd	Singapore	67.37%	3.92%
3	Bank Panin	ANZ Bank Group	Australia	39%	3.29%
4	Bank Permata	Standard Chartered Bank	United Kingdom	44.505%	2.84%
5	Bank Internasional Indonesia	Maybank, Malaysia	Malaysia	100%	2.62%
6	Bank OCBC-NISP	OCBC	Singapore	75%	1.77%

5.3 Foreign Ownership among Top Banks in Mexico

No	Bank	Ownership	Country of Origin	% Ownership	% market share
1	Citibank-Banamex	Citigroup	USA	100%	26%
2	BBVA-Bancomer	Banco Bilbao Vizcaya Argentaria	Spain	51%	26%
3	Serfin-Santander	Banco Santander Bank of America (24%)	Spain	74.97%	15%
4	Bital	HSBC Holdings	United Kingdom	100%	8%
5	Scotiabank Inverlat	Bank of Nova Scotia	Canada	97%	4%

5.3 Foreign Ownership among Top Banks in Poland

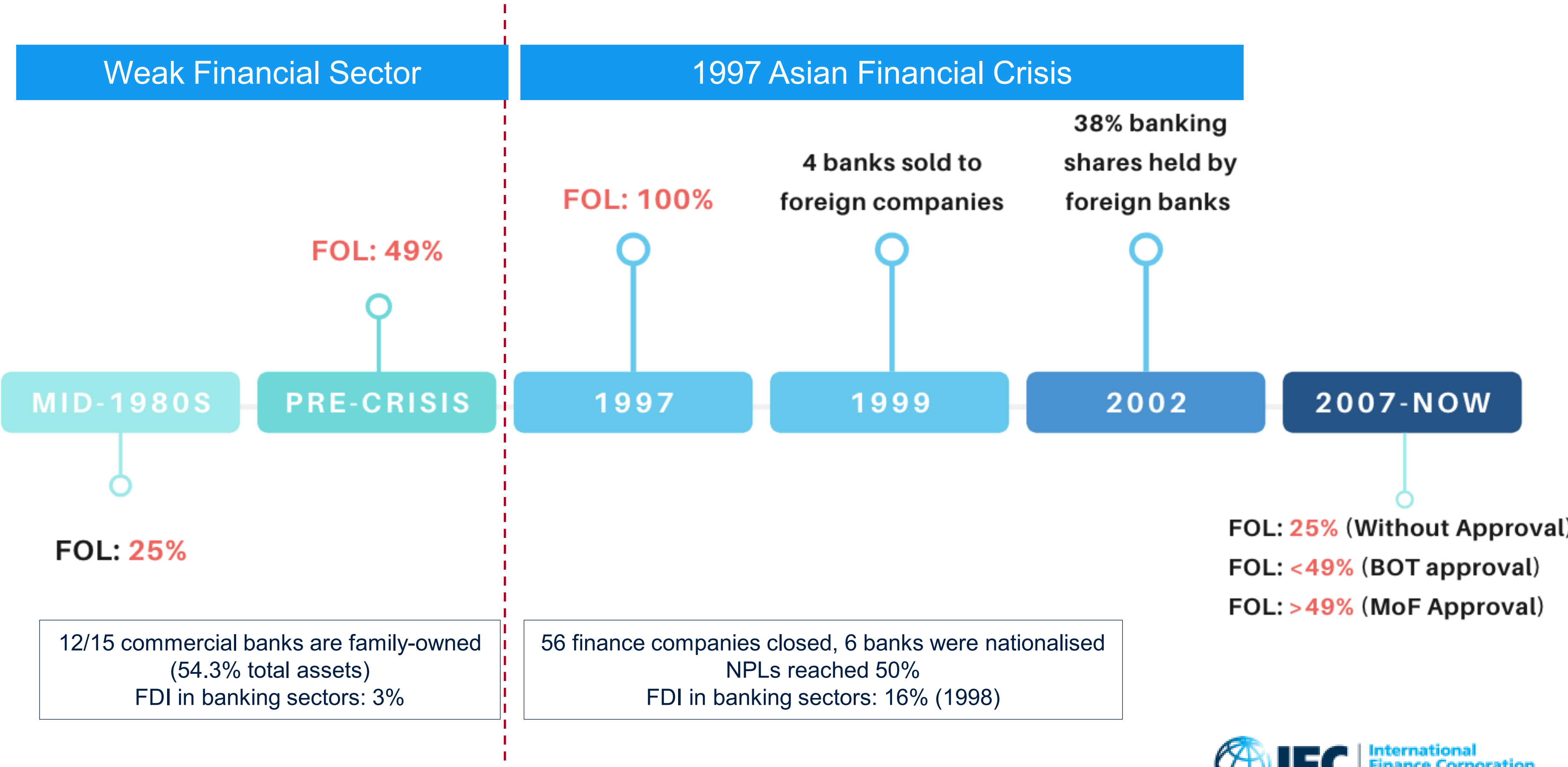
No	Bank	Ownership	Country of Origin	% Ownership	% market share
1	Santander Bank Polska	Santander Group	Spain	67.41%	16%
2	ING Bank Slaski	ING Group	Netherlands	75%	4.5%
3	BPH-BPK	Bayerische Hypovereinsbank	Germany	71.7%	10%
4	Bank Handlowy	Citibank	United Kingdom	91.4%	4.9%
5	BIG Bank Gdanski	Banco Comercial Portugues (44.1%)	Portugal	59.1%	4.2%
6	BRE SA	Commerzbank	Germany	50%	3.8%

5.3 Empirical Evidence

Empirical Findings	Authors
FDI improves allocative efficiency, including efficiency of domestic banks	Bonin, Hasan and Wachtel, 2005; Fries and Taci, 2005; Grigorian and Manole, 2006; Havrylchyk and Jurzyk, 2011
Accelerates technology transfer as foreign investors bring new products and processes	Demirgüç-Kunt and Huizinga, 1999; Micco et al., 2007, Claessens et al., 2001; Claessens and Van Horen, 2012
Improves regulation and supervision in host country institutional reform as foreign investors bring best practices	Barth et al., 2001; La Porta et al., 2002; Barth et al., 2004
Increases financial stability and reduces risk of crises	De Haas and Van Lelyveld, 2006, De Haas and Van Lelyveld, 2010, Arena et al, 2007

5.4 Thailand: Changes in FOL Throughout the Years

LIBERALISATION OF FOREIGN OWNERSHIP



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5.5 Concluding Remarks

- **Foreign Investment into the Financial System brings many benefits:**

Capital	Technology and new products and services	Skills and know-how – that stays in the local financial system	Diversified shareholders and customers – that further increase investment

- Even in countries with no foreign ownership limits and with foreign banks holding a large domestic market share (Mexico, New Zealand, Poland), domestic governments maintain **complete control** over their financial systems

- It is always important to ensure that foreign investors participating in the financial system are **highly reputable, well managed, and investing for the longer term**

- In rare cases, some foreign owned banks introduced products that were **inappropriate for local markets** (e.g., foreign currency mortgages)

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ANNEX

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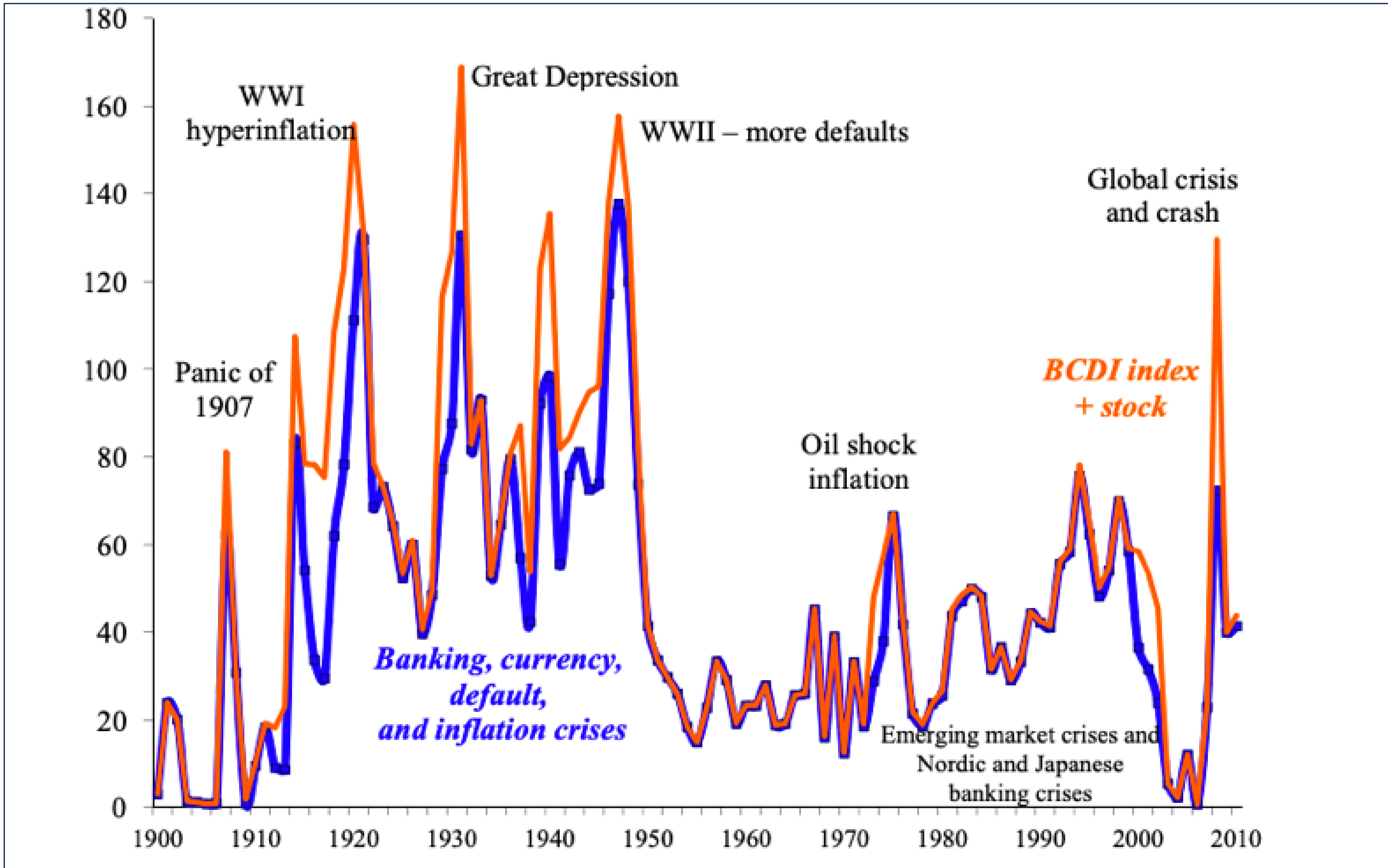
1. Financial Distress Historically, 1900-2010

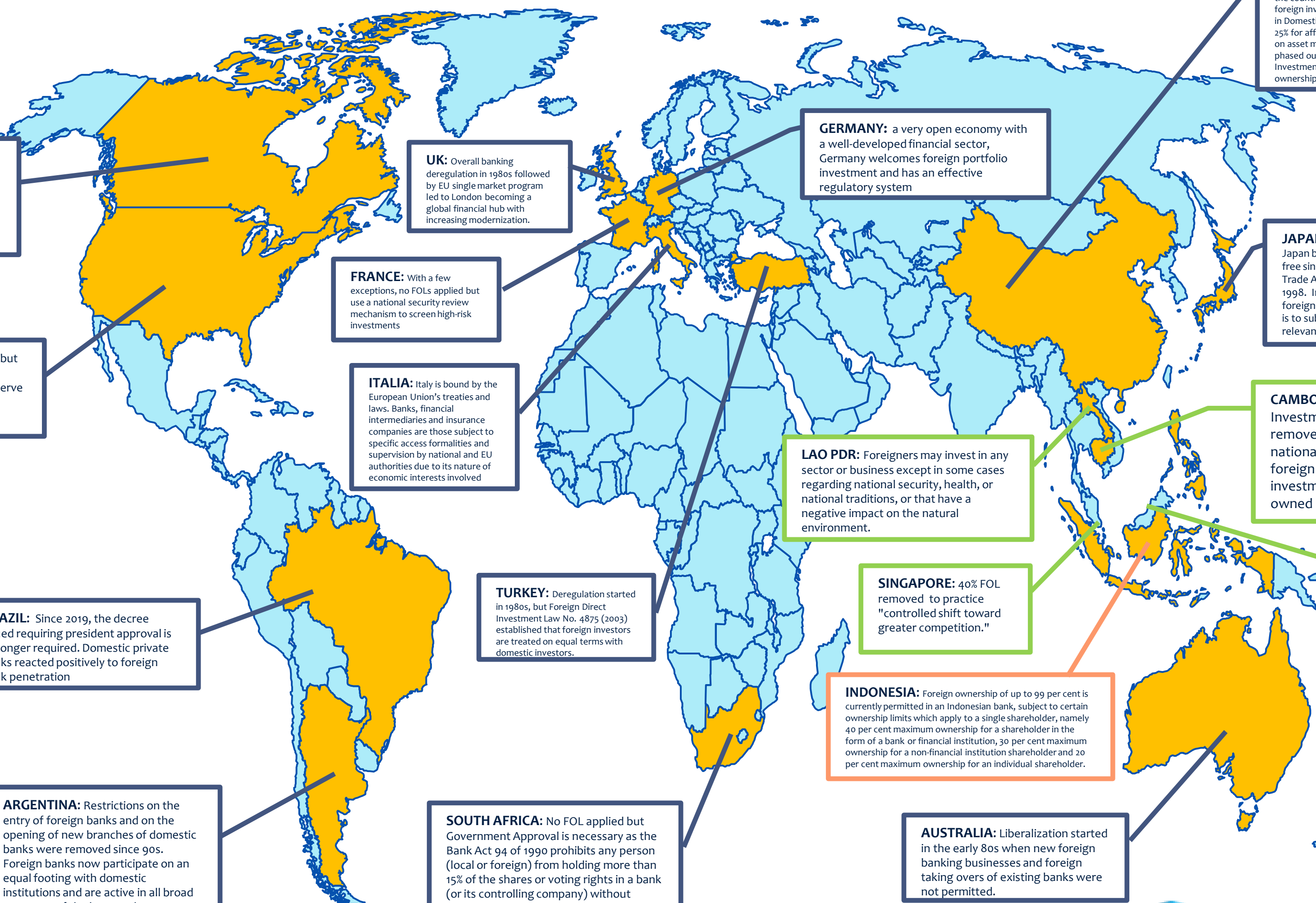


Source: Reinhart and Rogoff (2013)

2. FOL in G20 Countries

Country	Foreign Ownership Limits
Indonesia	• 99% FOL in an Indonesia bank • Note: certain ownership limits apply to a single shareholder: 40% for a shareholder in the form of a bank or financial institution, 30% for a non-financial institution shareholder and 20% for an individual shareholder
India	• 74% for Banking- Private Sector (Automatic route: up to 49%; Government route: 49% to 74%). • 20% under Government Route for Banking- Public Sector.
Mexico	• For Development Banks: only Mexican government and Nationals can carry out.
Russia	• Acquisition of equity in a Russian bank over certain specified thresholds, or control over a shareholder holding over 10% in a Russian bank, is subject to prior consent by the CBR. • Foreign banks are allowed to establish subsidiaries, but not branches, within Russia and must register as a Russian business entity.
Saudi Arabia	• There will be no minimum or maximum ownership limit, although the owners must hold the shares for two years before they can sell and the shareholder must be engaged in, "promoting the financial or operational performance of the company." • Note: Foreign entities practicing accounting and auditing, architecture, or civil planning, or providing healthcare, dental, or veterinary services, must still have a Saudi partner.
South Korea	• Financial authorities approval is needed to establish a foreign bank's branch/agency. • A foreign person or entity is also subject to 10% shareholding limit (article 15 of the banking act), which does not apply to foreign financial companies, and there are also some other exemptions.

2. Countries with lifted FOL in ASEAN and G20



CANADA: Liberalization of foreign ownership / banks started in the 80s. In 1999, the federal government allowed foreign-owned banks to establish full service branches, rather than restricting them to forming subsidiary companies as in the past.

USA: No FOL Limit, but subject to review by federal - Federal Reserve Board (FRB) /state regulators

UK: Overall banking deregulation in 1980s followed by EU single market program led to London becoming a global financial hub with increasing modernization.

FRANCE: With a few exceptions, no FOLs applied but use a national security review mechanism to screen high-risk investments

ITALIA: Italy is bound by the European Union's treaties and laws. Banks, financial intermediaries and insurance companies are those subject to specific access formalities and supervision by national and EU authorities due to its nature of economic interests involved

GERMANY: a very open economy with a well-developed financial sector, Germany welcomes foreign portfolio investment and has an effective regulatory system

CHINA: Entry into the Chinese market is regulated by the country's "negative lists" since 2018. Before 2018, foreign investors were not allowed to a controlling interest in Domestic Banks (max 20% for individual investors and 25% for affiliate investors). Bank ownership caps, 51% limit on asset management funds, insurance companies etc. phased out starting 2020 as per the new Foreign Investment Law of 2019 with especially push for foreign ownership in distressed local banks.

JAPAN: Direct inward investment into Japan by foreign investors has been open and free since the Foreign Exchange and Foreign Trade Act (the Forex Act) was amended in 1998. In general, the only requirement for foreign investors making investments in Japan is to submit an ex post facto report to the relevant ministries.

CAMBODIA: 2003 Amended Law on Investment and related sub-decrees, removed limits regardless shareholder nationality or discrimination against foreign investors except in relation to investments in property or state-owned enterprises.

LAO PDR: Foreigners may invest in any sector or business except in some cases regarding national security, health, or national traditions, or that have a negative impact on the natural environment.

SINGAPORE: 40% FOL removed to practice "controlled shift toward greater competition."

BRUNEI: 2003 Amended Law removed limits regardless shareholder nationality or against foreign investors except in property or state-owned enterprises.

INDONESIA: Foreign ownership of up to 99 per cent is currently permitted in an Indonesian bank, subject to certain ownership limits which apply to a single shareholder, namely 40 per cent maximum ownership for a shareholder in the form of a bank or financial institution, 30 per cent maximum ownership for a non-financial institution shareholder and 20 per cent maximum ownership for an individual shareholder.

BRAZIL: Since 2019, the decree issued requiring president approval is no longer required. Domestic private banks reacted positively to foreign bank penetration

TURKEY: Deregulation started in 1980s, but Foreign Direct Investment Law No. 4875 (2003) established that foreign investors are treated on equal terms with domestic investors.

ARGENTINA: Restrictions on the entry of foreign banks and on the opening of new branches of domestic banks were removed since 90s. Foreign banks now participate on an equal footing with domestic institutions and are active in all broad segments of the loan market.

SOUTH AFRICA: No FOL applied but Government Approval is necessary as the Bank Act 94 of 1990 prohibits any person (local or foreign) from holding more than 15% of the shares or voting rights in a bank (or its controlling company) without having obtained the necessary consent.

AUSTRALIA: Liberalization started in the early 80s when new foreign banking businesses and foreign taking overs of existing banks were not permitted.

4. Case study: Indonesia

- Texas Pacific Group (TPG) – US PE firm and Indonesian joint-venture partner Northstar Pacific (local investment bank) took control of unlisted PT Bank Tabungan Pensiunan Nasional (BTPN) with 71.6% for $195 millions (2008)
- BTPN collapsed after 1997-98 Asian financial crisis, Indonesian government took 47% stake in it
- TPG with 15 years of experience investing in financial services companies, TPG helped BTPN open more than 550 new branches and grow bank's customer base to more than 2 million group lending program clients and 250,000 MSMEs.
- In 2013, TPG Capital sold 40% stake in BTPN to Japan's Sumitomo Corp for $1.5 billion

4 FDI Inflows as % of GDP

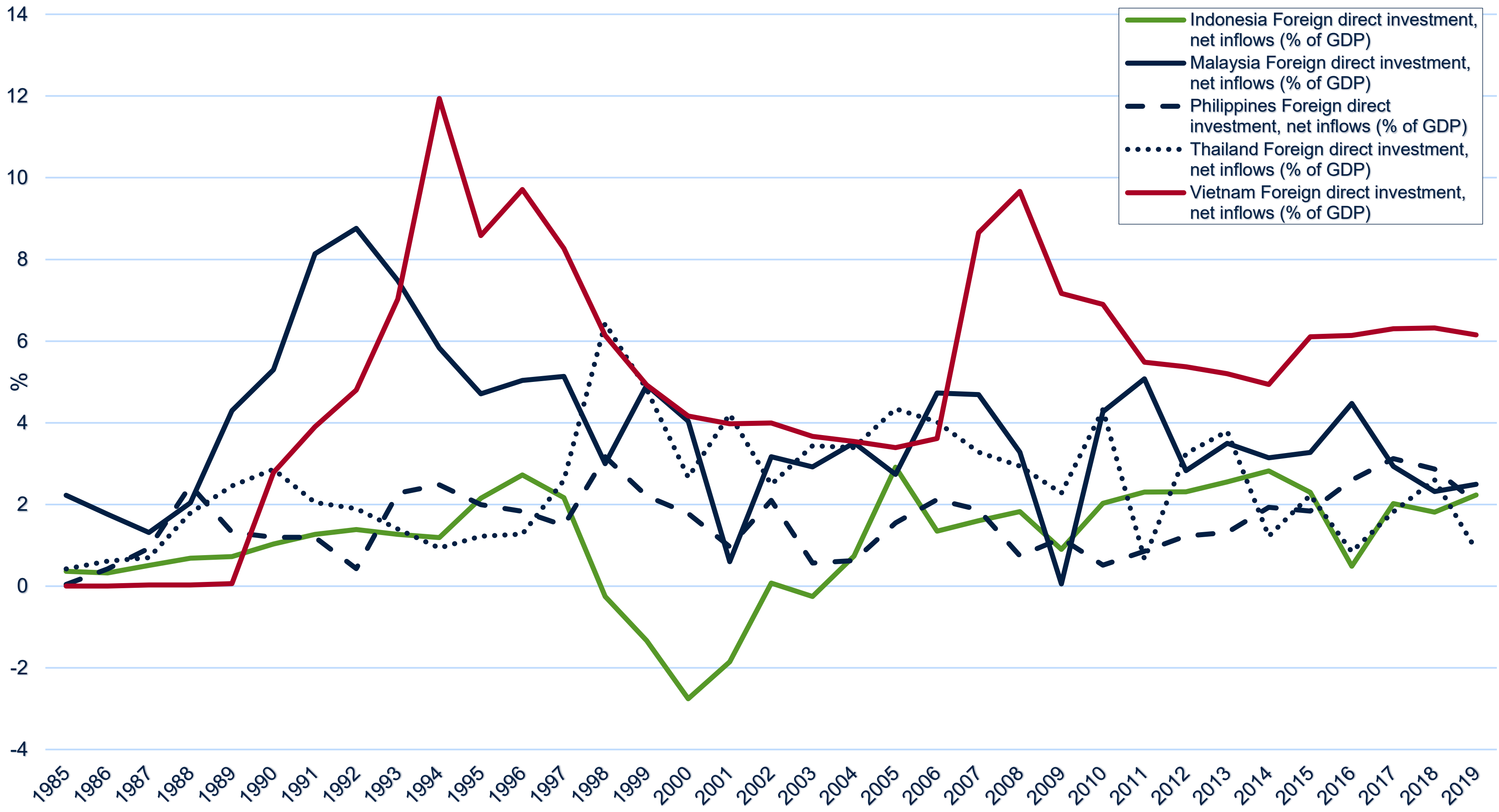


Figure 2. FDI Inflows among ASEAN-5 (Source: World Bank Database)

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4. Case Study: Mexico

- In 1982, commercial banks were **nationalised** in the context of major macroeconomic crisis. They acquired 58 out of 60 banks.

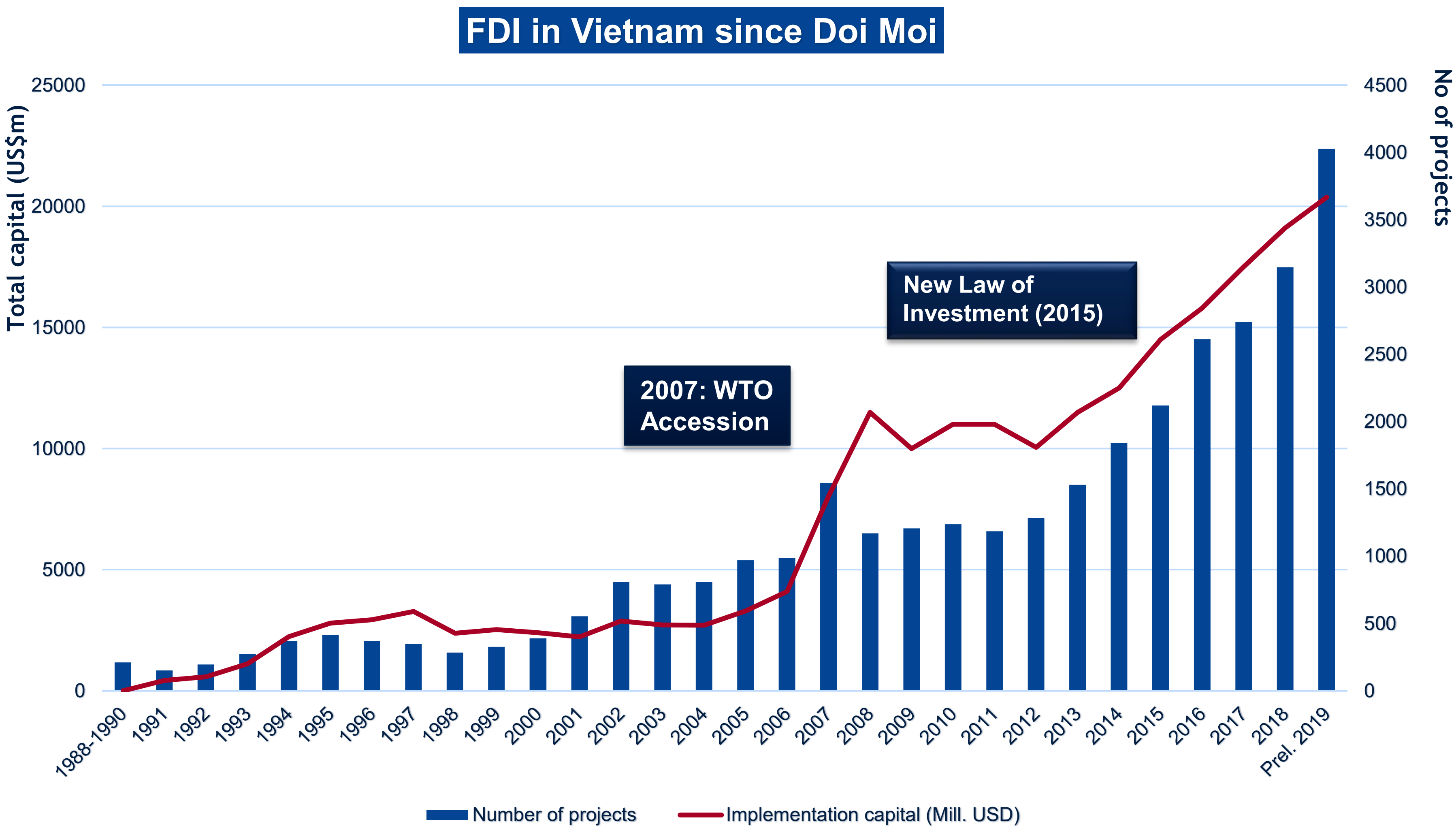
- The mid-1990s financial crisis in Mexico resulted in a huge banking crisis
  - Foreign investors paid a premium priceto acquire distressed banks in Mexico
  - They want to recover the investment so it was prone to risky business
  - Investors who bought the banks had no previous experience of banking
  - NPLs surged leading to the government bailout

- In 1997, Mexico's banking laws were amended to privatise large banks and allowing foreign firms for the first time since the 1880s, to own banks without restriction (irreversible up ultil now)

4. Case Study: Eastern Europe

- In early 1990s, all CEECs were exposed to both domestic and external shocks that could not be accommodated by existing economic system.
- These shocks resulted in a deep decline in output and further deterioration of financial position of SOEs.
- Bad loans clean up turns out to be awkward, a delay in restructuring increased costs and require a stronger response
- Privatisation of banks was accompanined by further government bailout. The ratio of new NPLs had increased in SOBs after consolidation due to unimproved corporate governane, too big to fail issue and lack of transparency about no future interventions by the government

4. FDI Inflows in Vietnam (1988 - 2019)



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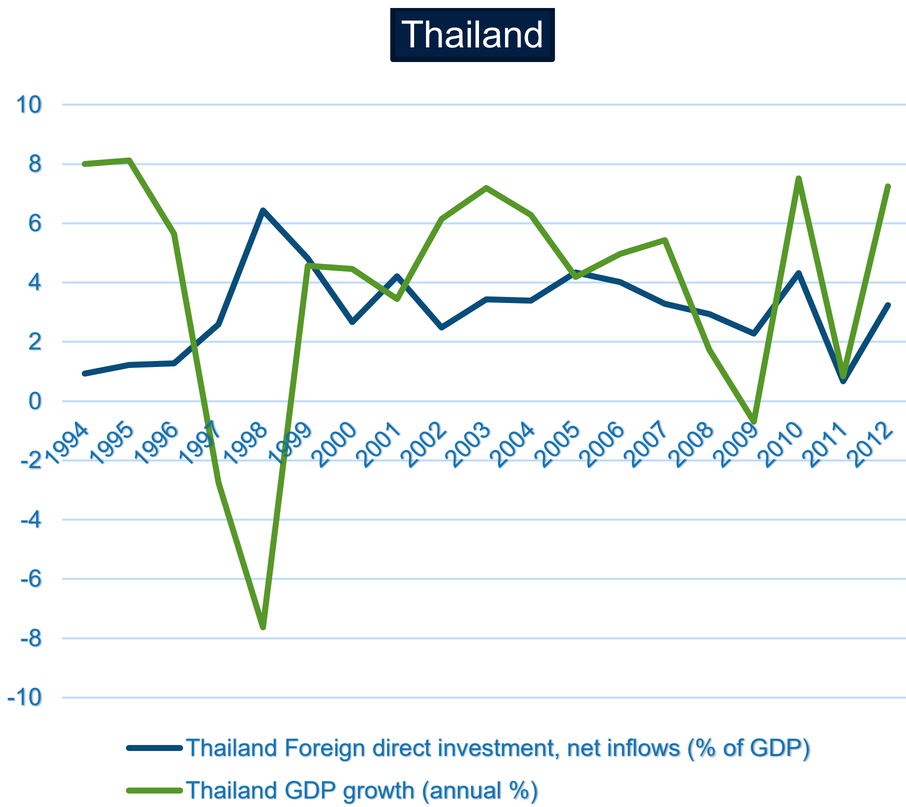
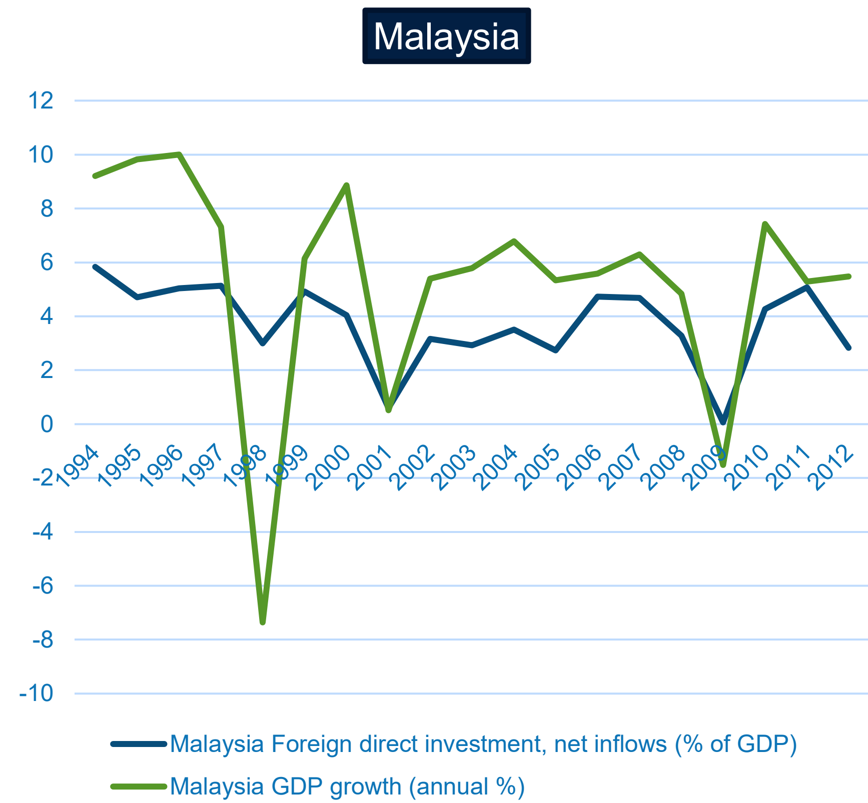
4. FDI inflows and GDP growth (I/III)





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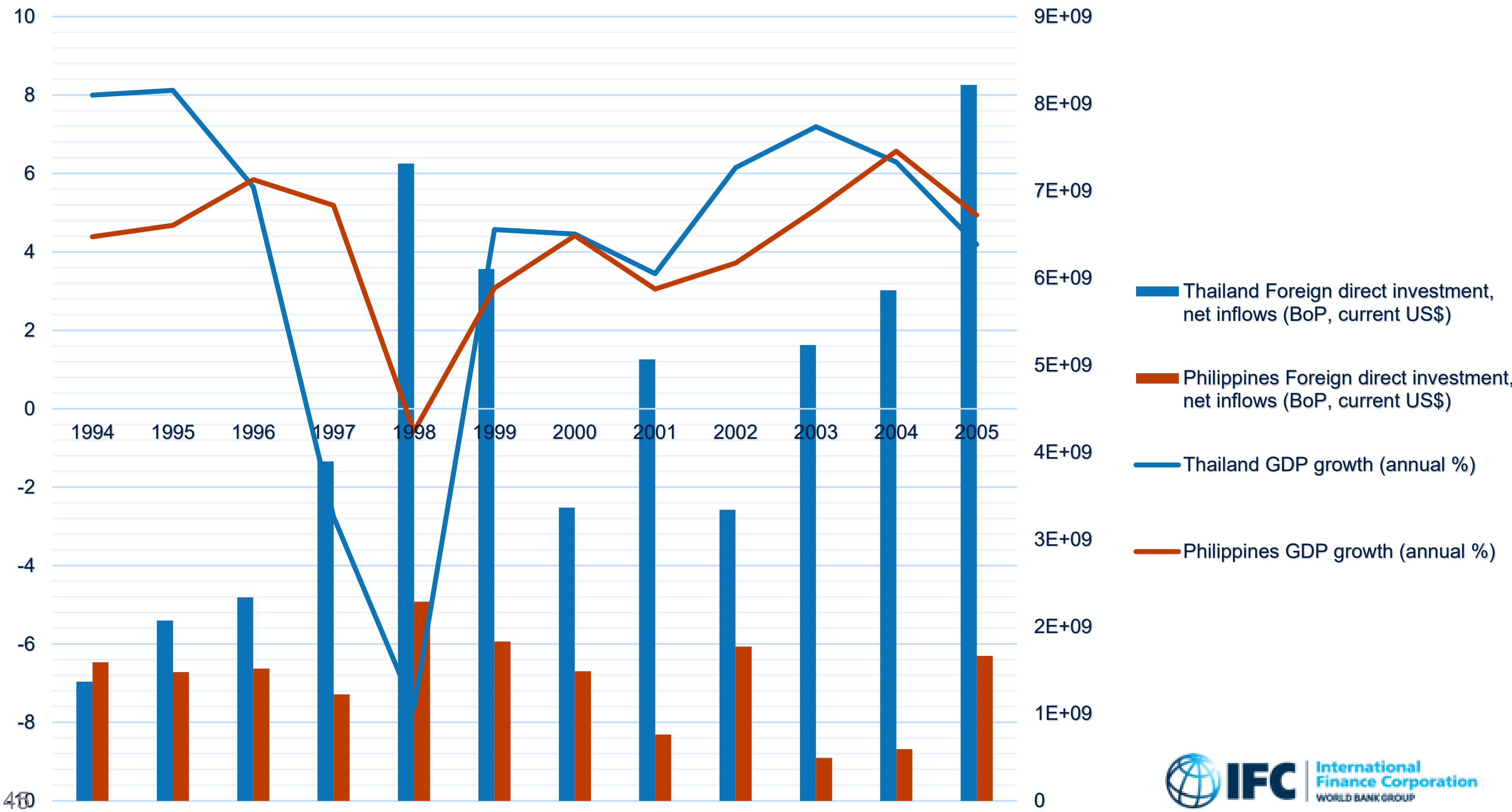
4. FDI inflows and GDP growth (II/III)

Asian Financial Crisis 1997



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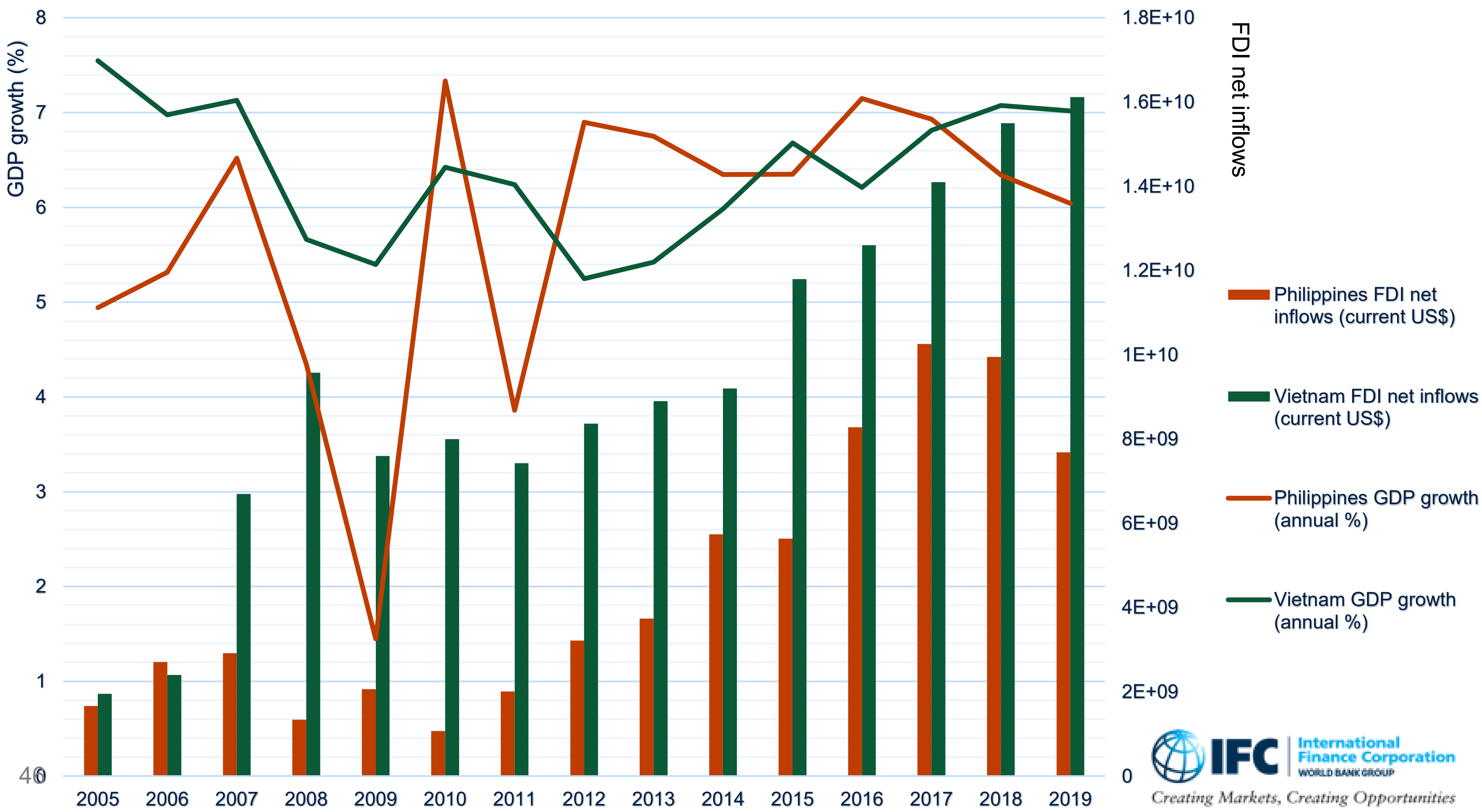
4. FDI inflows and GDP growth (III/III)

Global Great Recession 2008



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5. Vietnam's stock market Reclassification

- According to MSCI, Vietnam is currently in the Frontier Markets category and is expected to move closer to Emerging Markets status when assessed against its market classification criteria.
- Vietnam has been on the Secondary Emerging Market watchlist by FTSE Russell since 2018
- Upgrading to Emerging Market by MSCI requires improvements in three key areas:
    1) Foreign ownership limitation or, at least, foreign room levels
    2) Clearing and settlement
    3) Equal rights to foreign investors and information flow
- Upgrading to Secondary EM by FTSE Russell requires improvement in one key area:
    1) Removing the pre-funding of trade requirements

5. Use of Management Contracts

"Management control is more important to most foreign investors than 100% ownership"

a. **Management Contracts can be used to bridge control issues that are important to foreign investors while maintaining lower ownership.**

   i. **Case Study: Poland**

      - 1991: Poland government undertook to corporatize the banks and all new banks had been transformed into join stock companies 100% owned by Ministry of Finance
      - Weaknesses: lack of autonomy, small branch networks, limited product range, lack of banking skills, inadequate financial structure
      - World Bank suggested to pursue **twinning arrangements** between foreign banks and newly created Polish banks

5. Twinning Arrangements: Case Study in Poland

- Perform broader scope of services than under more defined TA schemes and the duration is much longer (2-3 years)

- Use experience to deal with operational problems, that might happen with counterparts at earlier stage of development

- Tap into reservoir of ready-made systems, products, procedures, can use operational experience and in-house resources (i.e. international accounting firms)

- More flexibly adjust its staffing to the absorptive capability of the counterpart. Staffs from foreign partner are available for back-stopping and follow-up on implementation of recommendations, ensuring the assistance is productive

- Counterpart can access to commercial services offered by the foreign twinning partner more easily (banking relationship, co-financing or guarantess for attractive, large lending operations)

5. Foreign Banks' Internal Decision-Making

Will the investment achieve our shareholder return requirements, fit within our risk appetite and diversify our global risk profile?

Do state-owned institutions enjoy implicit or explicit subsidies that distort markets, undercutting the private sector and raising risk?

Are regulations and regulatory enforcement exercised on a level playing field for foreign investors and owners?

How do we ensure we can exercise sufficient influence to achieve our objectives and protect the value of our investment?

Will volatility in the local market cause volatility in earnings that pressure our global share price?

Can we recruit staff - domestic and foreign - required to manage our local operations?

Are shareholder rights respected and can we exit this investment without undue regulatory interference?

Is there a history of nationalization, or transfer and convertibility issues, that might work against us at some point?

5. Stylized Financial Sector Map

Government

Legislature
- Laws
- Taxes
- Bankruptcy code

Central Bank
- Monetary, FX Policy
- Reserves, "lender of last Resort"
- FI Regulations and Supervision

Deposit Insurance Co.
- Insurance administration
- Supervision
- Bank Resolution

MOF
- Fiscal policy, tax collection,
- Government debt Mgt, bond issuance, yield curve management

Securities Regulator
- Listing/reporting requirements
- Investor Protection

Insurance Regulator
- Insurance Regulations
- Investment restrictions

Courts
- Case Judgements
- Penalties

Law Enforcement
- Investigations
- Enforcement

SOE Roles in Resolution

State Banks and SOFIs:
- State directed credit allocation
- Maintain market discipline

Asset Resolution Co Manage:
- Remove problem assets from banks
- Auction distressed asset pools to private sector
- Manage selected assets
- Pursue legal remedies in courts

Land Registries, Collateral Registries Manage:
- Collateral tracking
- Realization process related to problem asset resolution and ownership transfer
- Enforce title claims/repossess assets

State Insurance and Pension Cos
- Guarantee pensions of failed companies
- Manage State contractual savings pools
- Manage Investments in distressed assets, real estate, stocks and bonds

Private Sector FI Functions Domestic and Foreign

Good Local Commercial Banks & Fis
- Continue financial intermediation
- Lend to good borrowers
- Lead innovation
- Continue to make payments

Good Foreign Banks
- Invest/restructure problem Fis
- Bring in technology and know-how

Foreign and domestic Private equity
- Invest in pools of distressed debt
- Invest in and restructure companies
- Bring in technology and know-how

Securities Cos Manage:
- Listing process – stocks, bonds, asset pools (NPL's securitizations)
- Securities sales and purchases
- Liquidity and derivatives

Insurance and Pensions Manage:
- Contractual savings inflows and policy payouts
- Investments