

BANKING MARKET IN SERBIA 2006 - CEE BANKING SERIES



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January 2006

Version: 2006/02

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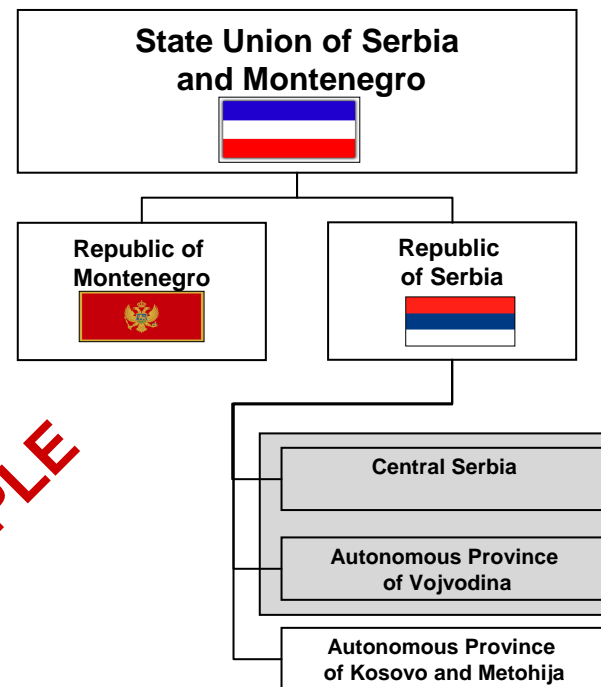
** Note: 2006 data is forecasted, 2005 figures are estimated based on real data as of October/November 2005*

EXECUTIVE SUMMARY – BANKING MARKET IN SERBIA

- The banking system in Serbia has experienced dramatic changes within last few years. In the year 2000 most banks faced problem of low liquidity and bad loans inherited from the previous regime. In course of restructuring efforts lead by the Central Bank together with Bank Rehabilitation Agency, during 2001-2002 many banks have been shut down, some have been merged with stronger ones, and few others have been saved by debt-equity swaps with the State. Since 2003 the overall condition of banks in Serbia is improving. Depositors confidence has been partially restored and money circulating outside the sector is finding the way to banks again
- The banking market is still highly fragmented. More than 40 banks are operating in the country. The majority are small local players with market shares below 1%. A consolidation seems to be unavoidable. Smaller banks will have either to merge and grow or to specialize in niches
- A privatization process and M&A activity is a big issue at the moment. During the year 2005, ten large deals have been closed. Further transactions are expected during 2006, including the privatization of the #5 player: Vojvodjanska banka, drawing attention of a dozen of international banks willing to invest in the region
- Banking market in Serbia is very promising. Extremely low PFA levels and still relatively low PFLs create a big upside potential. Serbia households are still holding cash reserves at home – so called "mattress money" that could be possibly attracted to the banks, provided the confidence in the banking system will be fully restored
- Unfortunately the overall macroeconomic situation is still difficult. Inflation is out of control and the Dinar is constantly depreciating. This situation is obviously discouraging the use of local currency by individuals. As a result banks have problems in asset-liability management as large short term FX deposits can not be easily converted into the long term lending in local currency.

THE STATE UNION OF SERBIA AND MONTENEGRO

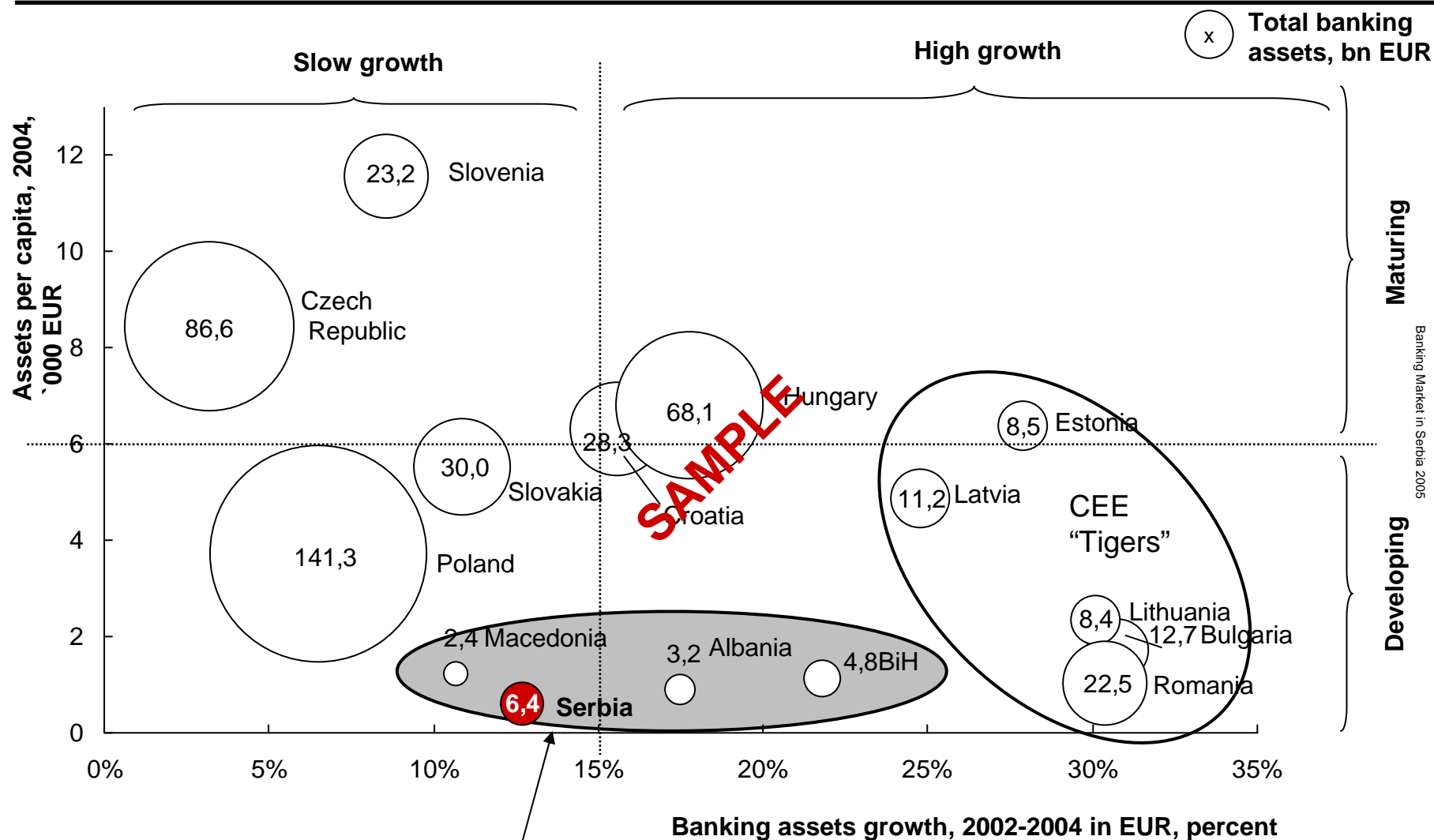
FOCUS OF THIS REPORT



Banking Market in Serbia 2005

- The State Union of Serbia and Montenegro was proclaimed in February 2003 and is based on the equality of the two member states: Montenegro and Serbia including two autonomous provinces: Vojvodina and Kosovo with Metohija
- The legislative power in the State Union is in hands of one chamber Assembly. The Assembly consists of 126 members (91 from Serbia and 35 from Montenegro). The executive power has the President and the Council of 5 Ministers
- The integration started in 2003 is progressing very slowly. The State Union is widely perceived as a product of pressure of international community and EU, which has made the integration a condition for future EU membership. Process often described as an “unhappy marriage”

SERBIA IS A RELATIVELY SMALL BANKING MARKETS IN CEE BUT IT HAS STILL A LARGE POTENTIAL FOR THE FUTURE



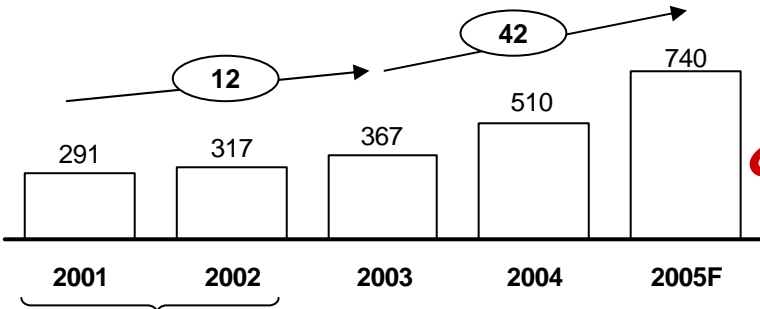
Banking Market in Serbia 2005

Least developed but with significant potential

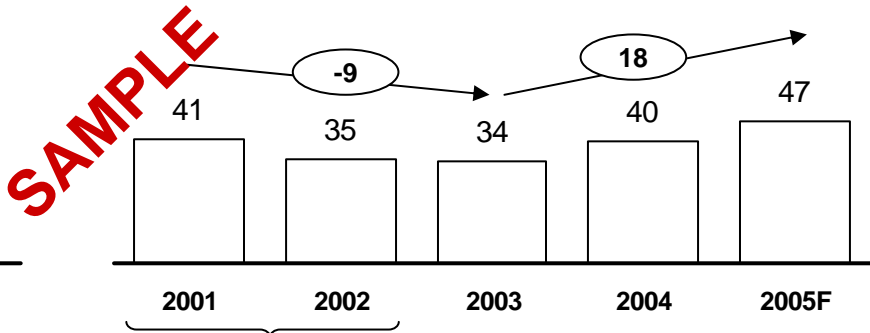
ASSET GROWTH ACCELERATES AND ASSET/GDP PENETRATION JUMPS AFTER 2001-2003 STAGNATION



Banking assets – nominal values**
CSD billion



Banking assets - GDP Penetration**
% of GDP



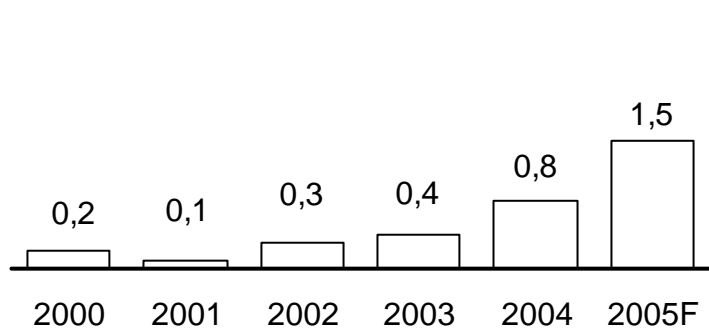
Restructuring of the banking system in 2001/2002

Banking Market in Serbia 2005

** All banks including foreign bank branches
* Compound Annual Growth Rate
Source: NBS, IMF, oanda

PFL GROW QUICK. SMALLER GAP TO OTHER COUNTRIES FROM THE REGION THAN IN CASE OF PFA

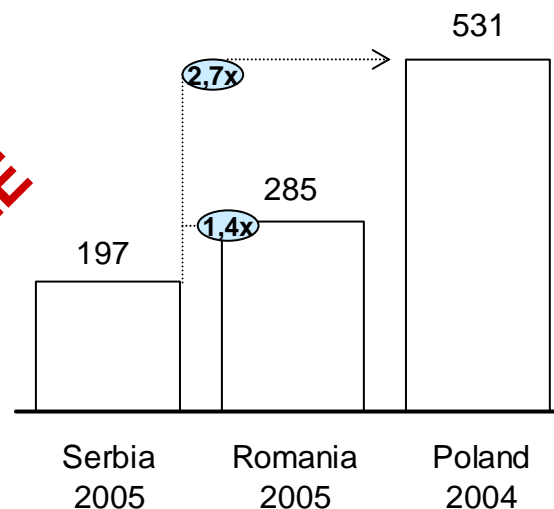
Personal financial liabilities
Evolution 2000-2005, EUR billion



CAGR*
43

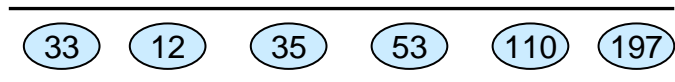
SAMPLE

Personal financial liabilities
Per capita value, EUR




The gap between Poland and Romania in PFL per capita, is not that big as in case of PFA

PFL - EUR per capita



General data	
Address & contact details	
<ul style="list-style-type: none"> Bulevar AVNOJ-a 64a, 11000 Belgrade tel: +381-11-3202-100, Fax: +381-11-3202-119 email: rj.contact@raiffeisenbank.co.yu 	
CEO	
<ul style="list-style-type: none"> Oliver Roegl 	
Shareholders structure	
<ul style="list-style-type: none"> Raiffeisen International Beteiligungs 	90,00%
<ul style="list-style-type: none"> International Finance Corporation 	10,00%
Short history	
<ul style="list-style-type: none"> 2001 Raiffeisenbank Jugoslavija gets a banking license and starts to offer retail and corporate banking services 2002 Bank increase the share capital and introduces a range of new products including mortgage 2003 Raiffeisen launches dedicated offer for SME clients 2004 Raiffeisen becomes the largest bank in the country 	

Distribution network	
Key figures, December 2005:	Number
Branches total:	46
ATMs	57
Employment	630
	
Network focus: -Presence in major cities with focus on Belgrade	
Alternative access: -Call center -Internet banking	

SAMPLE

Banking Market in Serbia 2005

Value proposition

- Among the best on the market offerings in retail, corporate and SME products served through branches in major cities and by electronic channels.
- Dedicated offering for SME clients including a set of segment specific products and services

Retail product offering/Innovations

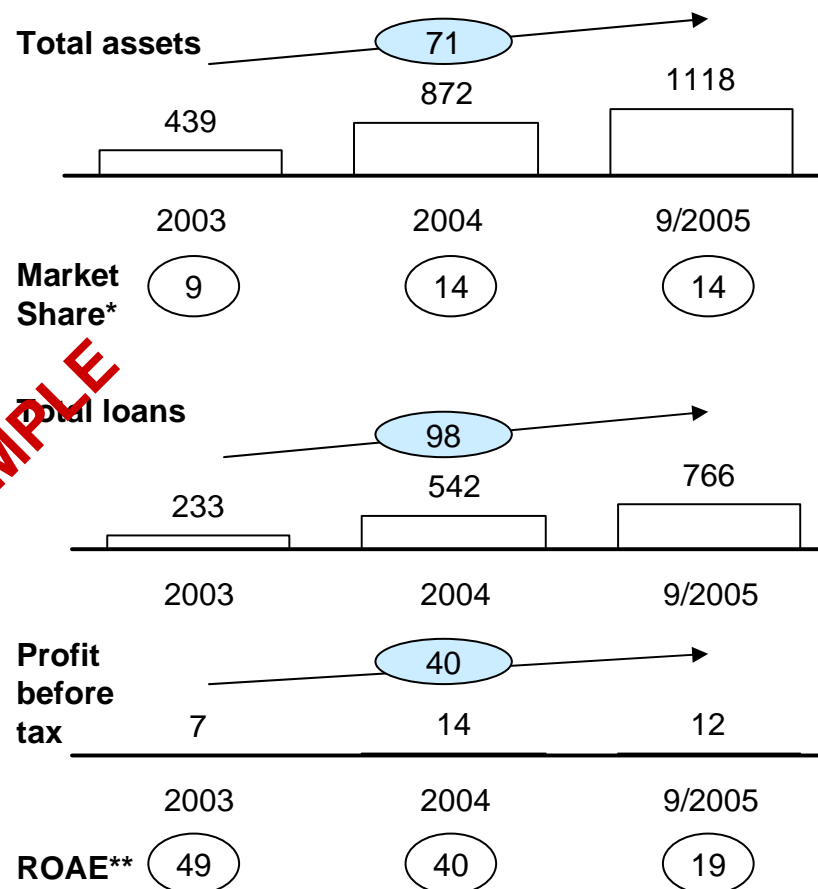
- Current and gyro accounts in local and foreign currencies
- Various saving deposits and Government bonds
- Payment cards
- Rich lending offer including consumer loans, mortgage loans and subsidized loans
- Internet banking solution and SMS service

Recent events

- Raiffeisen plans to double its network size by opening of 50 new branch offices by the year 2008
- Start of distribution of mortgage loans subsidized by the government and dedicated for young individuals

Financials**

EUR million, percent



Banking Market in Serbia 2005

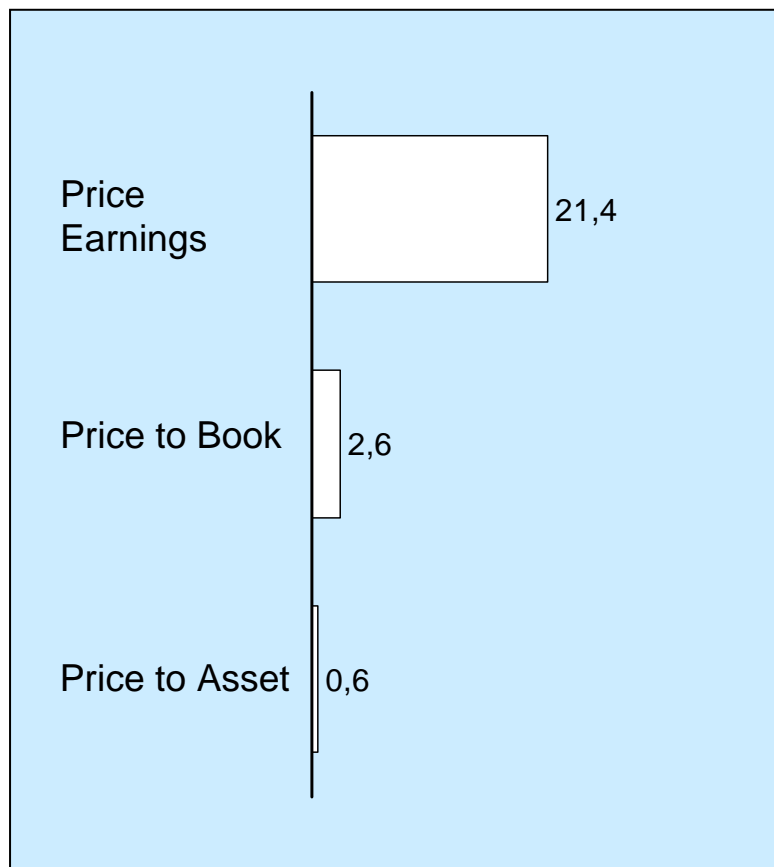
* Share in term of assets

** Profit before tax used





Source: Company website; Press search

OPEN AND UPCOMING BANK M&A TRANSACTIONS IN SERBIA

Average market multiples for banking M&A* in Serbia



Selected pending or upcoming bank privatization offers in Serbia

Bank	Market Share** %	Valuation*** (EUR million)
 • Vojvodanska banka	5,8%	250-400
 • Panonska banka	1,9%	70-120
 • Credy banka	0,5%	25-45
 • Privredna banka Pančevo	0,5%	40-90

Banking Market in Serbia 2005

*** Estimates based on multiples from comparable transactions on the Serbian market

** as of 9/2005

* Weighted average, based on a sample of 11 transactions in 2004/2005, weighted P/E ratio calculated for profitable banks only

Source: banks, press, Intelace Analysis

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