

BANKING MARKET IN BULGARIA 2006 - CEE BANKING SERIES



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EXECUTIVE SUMMARY – BANKING MARKET IN BULGARIA

- **Stable growth of the economy.** The Bulgarian economy has been growing steady since 2000. The average GDP growth rate remained stable in the 4%-6% p.a. range during 2000-2006 and the initially high unemployment rate dropped below 9% in 2006. High growth of the economy together with a tight budget policy of the government resulted in the impressive budget surplus of over 3% GDP in 2005. The only two problems that could not be solved so far are: relatively high inflation and negative current account balance. The key reason for C/A deficit is growing foreign trade imbalance, caused by exploding internal demand and growing prices of imported resources. Fortunately Bulgaria is able to draw more and more FDIs, which are compensating a big part of the trade deficit
- **EU accession and reforms.** The long expected accession to EU (Jan 1, 2007) is getting closer. Bulgaria has done a big effort to comply with various EU requirements and regulations. Nowadays authorities are already looking ahead to make most of the EU membership. The Parliament has just cut the corporate tax rate to 10% (effective Jan1, 2007), making Bulgaria one of the most attractive places to invest in the whole Europe. It is expected that setting favorable economic conditions will attract new foreign investors and will draw more FDIs, similarly to other countries that have already joined EU: Slovakia, Czech Republic, Baltic etc. Bulgaria is also expected to join ERM II shortly after enlargement as it fulfills most of the convergence criteria. The adoption of EURO is likely in 2010
- **Banking market growth.** Since the year 2000 banking market is developing quickly with the annual assets growth rate exceeding 26%. One of the major growth drivers was an explosive lending growth. During 2004/2006 banks lending accelerated dramatically, raising concerns about the overall macroeconomic stability in view of worsening current account, and inefficiency* of traditional monetary policy instruments. The Central bank has reacted in early 2005 with introduction of drastic penalties on excessive lending growth at banks. Applied measures proved to be successful and contributed to moderating lending growth. As a side-effect the unsatisfied demand for loans (especially in corporate sector) moved to other financing forms as: leasing, corporate bonds or equity increases
- **Good future prospects.** Available banking penetration benchmarks (for example assets per capita: 2400 EUR) indicate that there are still significant growth opportunities laying ahead. In the retail segment further strong growth of mortgage and consumer lending is expected. The use of cash (nowadays cash makes ~43% of retail deposits) is likely to drop and its conversion into deposits and other PFA categories is likely. In the corporate business a significant growth of deposits can be assumed, resulting from reduced taxation and cash accumulation prior to using of EU structural funds. Lending growth will most probably relax below current growth levels

* Bulgaria introduced a „Currency Board” mechanism and maintains a fixed exchange rate regime: 1 EUR = 1.9558 BGN

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BULGARIA – GENERAL OVERVIEW

Bulgaria - Country Map



Bulgaria - Key facts

Area: 111 thousand square kilometer

Population: ~ 7.7 million, of which:
– 51% female, 49% male
– 86% aged 15 and over
– 70% urban population

Annual growth rate: –0.9%

Average life expectancy:
– 69Y male
– 76Y female

Major cities: (inhabitants in million): **Sofia** (1.09), Plovdiv (0.34), Varna (0.31), Bourgas (0.19), Ruse (0.16)

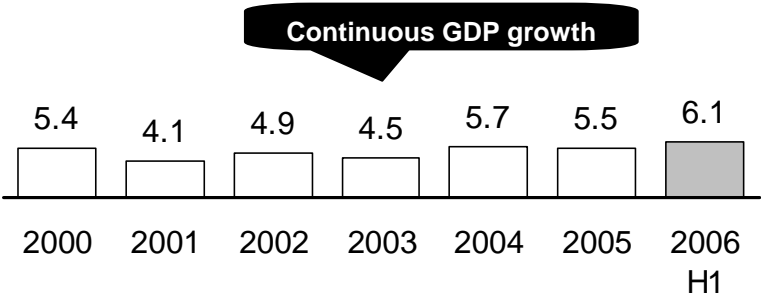
Membership in major organizations:
– NATO (2004)
– EU (2007- expected)

BULGARIAN GDP IS GROWING STEADY BUT INFLATION IS STILL A PROBLEM

CAGR*

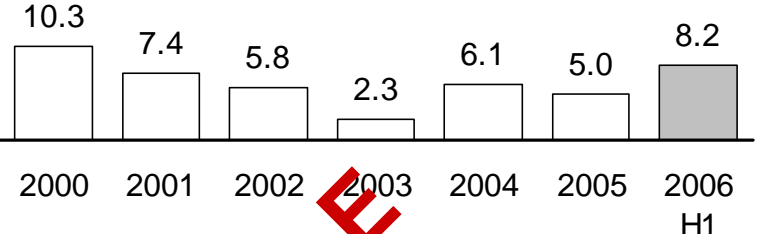
GDP real growth rate

%



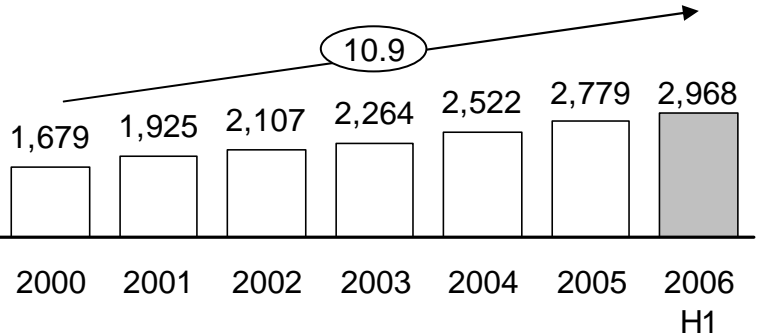
Average Inflation

%



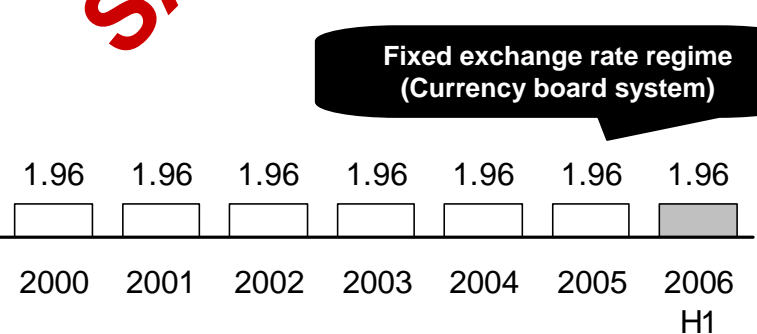
GDP per capita

EUR



Average exchange rate

EUR/BGN

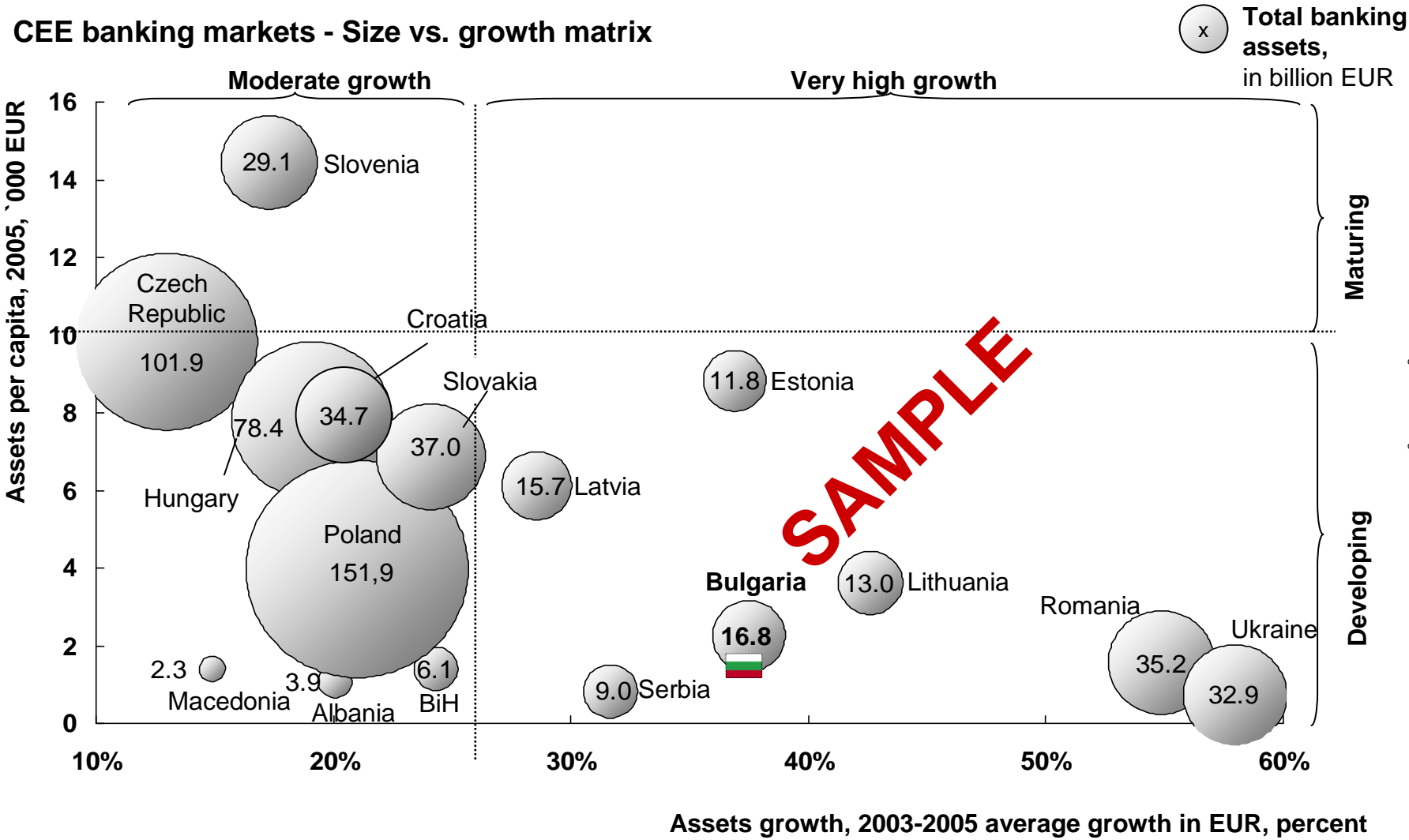


Banking Market in Bulgaria 2006

* Compound Annual Growth Rate
Source: BNB, Intelace Research

BULGARIA HAS A PROMISING, UNDERPENETRATED BANKING MARKET

CEE banking markets - Size vs. growth matrix

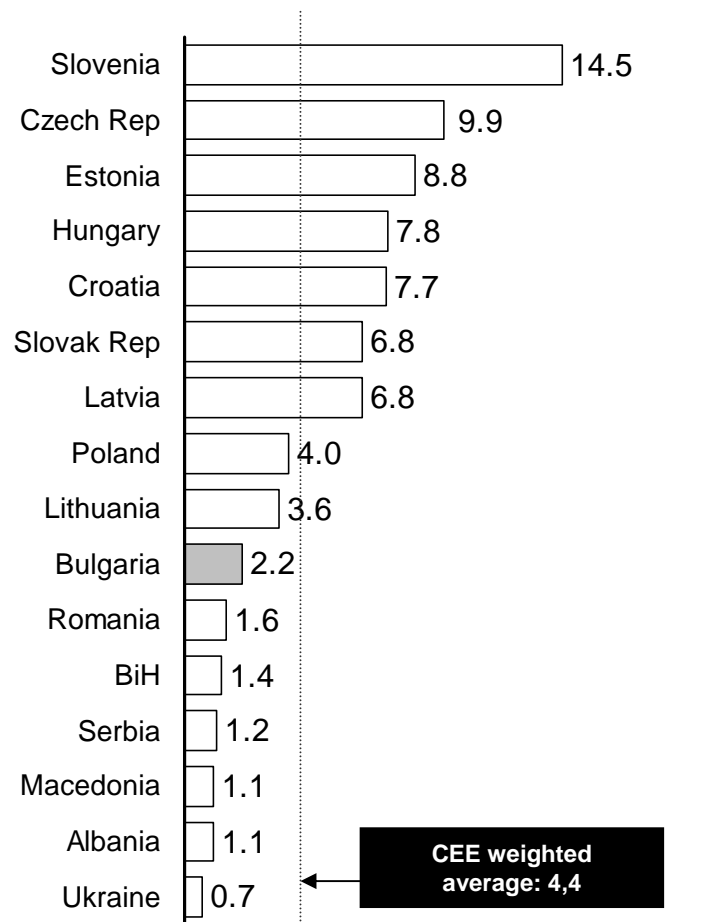


Source: Central banks, IMF, Census, Intelace Research

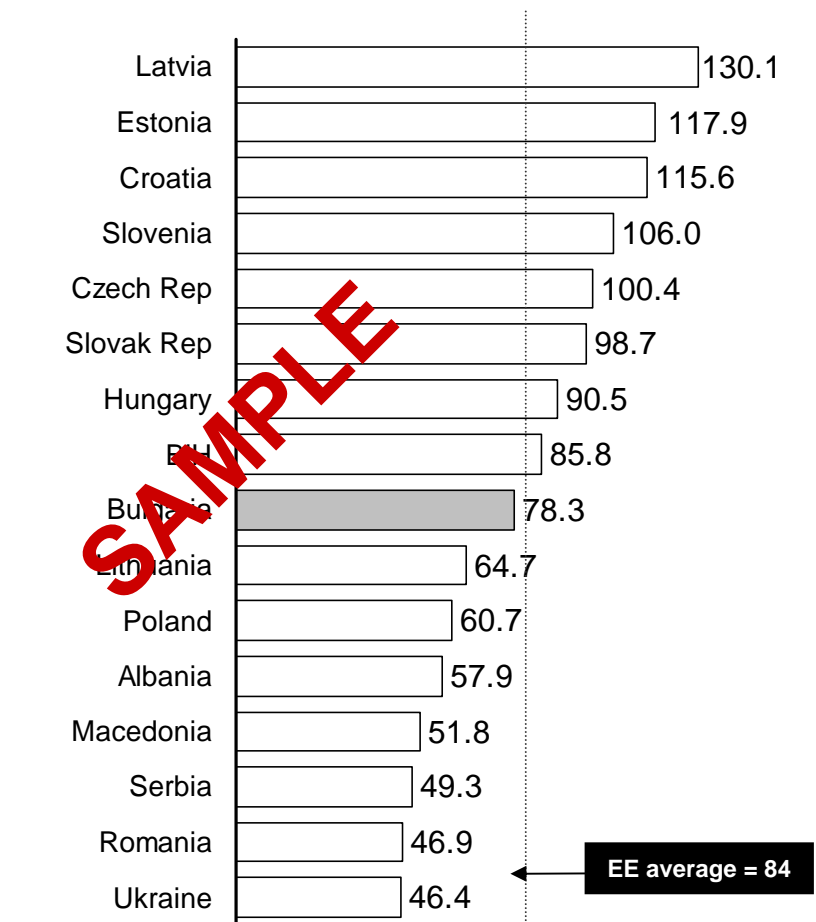
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PENETRATION BENCHMARKS ARE BELOW AVERAGE FOR THE REGION

Banking assets/capita, 2005
EUR `000



Banking assets/GDP, 2005
percent

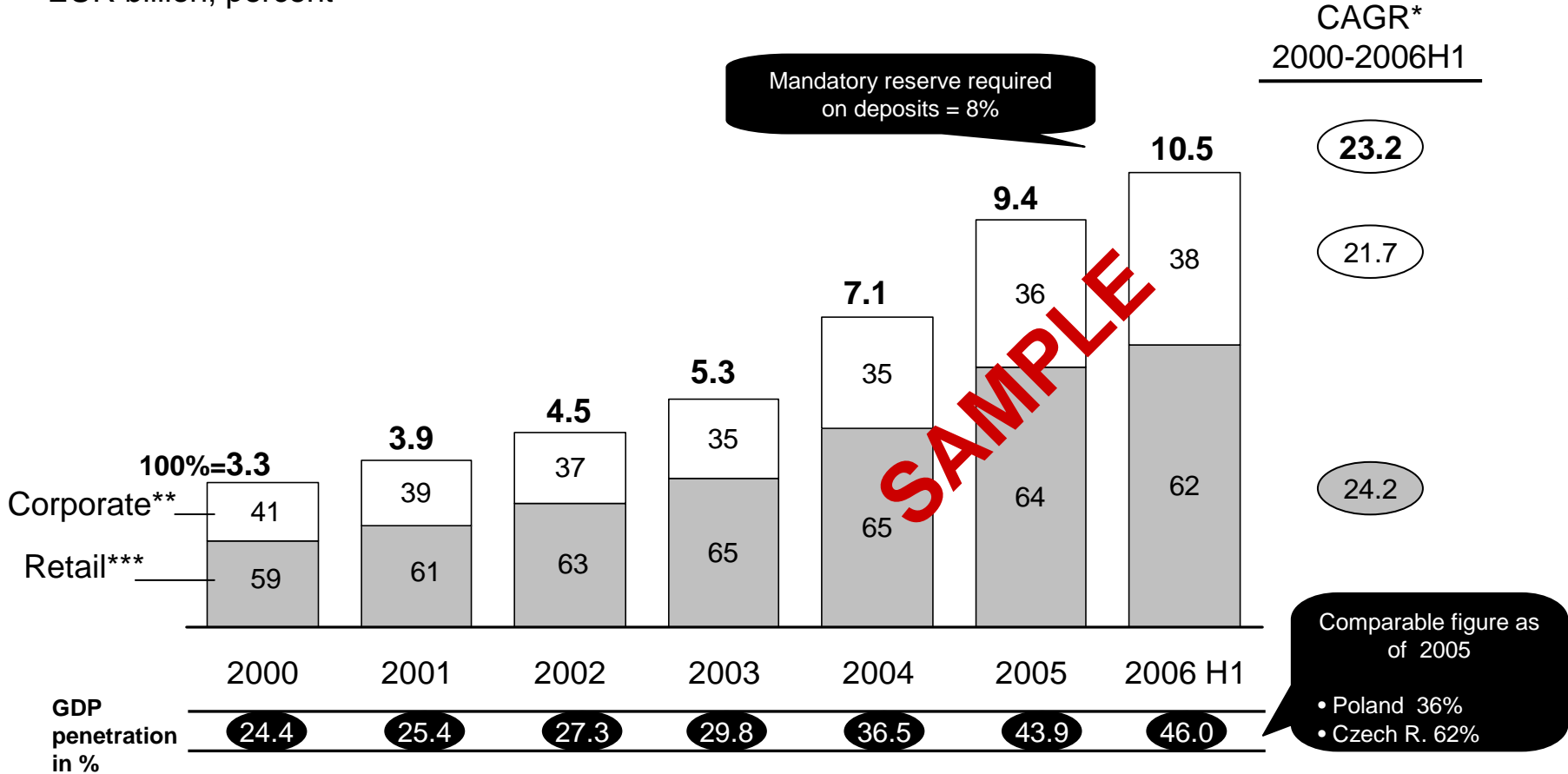


Banking Market in Bulgaria 2006

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DEPOSITS RISE QUICKLY. CORPORATE PART ACCELERATES SINCE 2004

Client deposits by origin, 2000-2006 H1
 EUR billion, percent



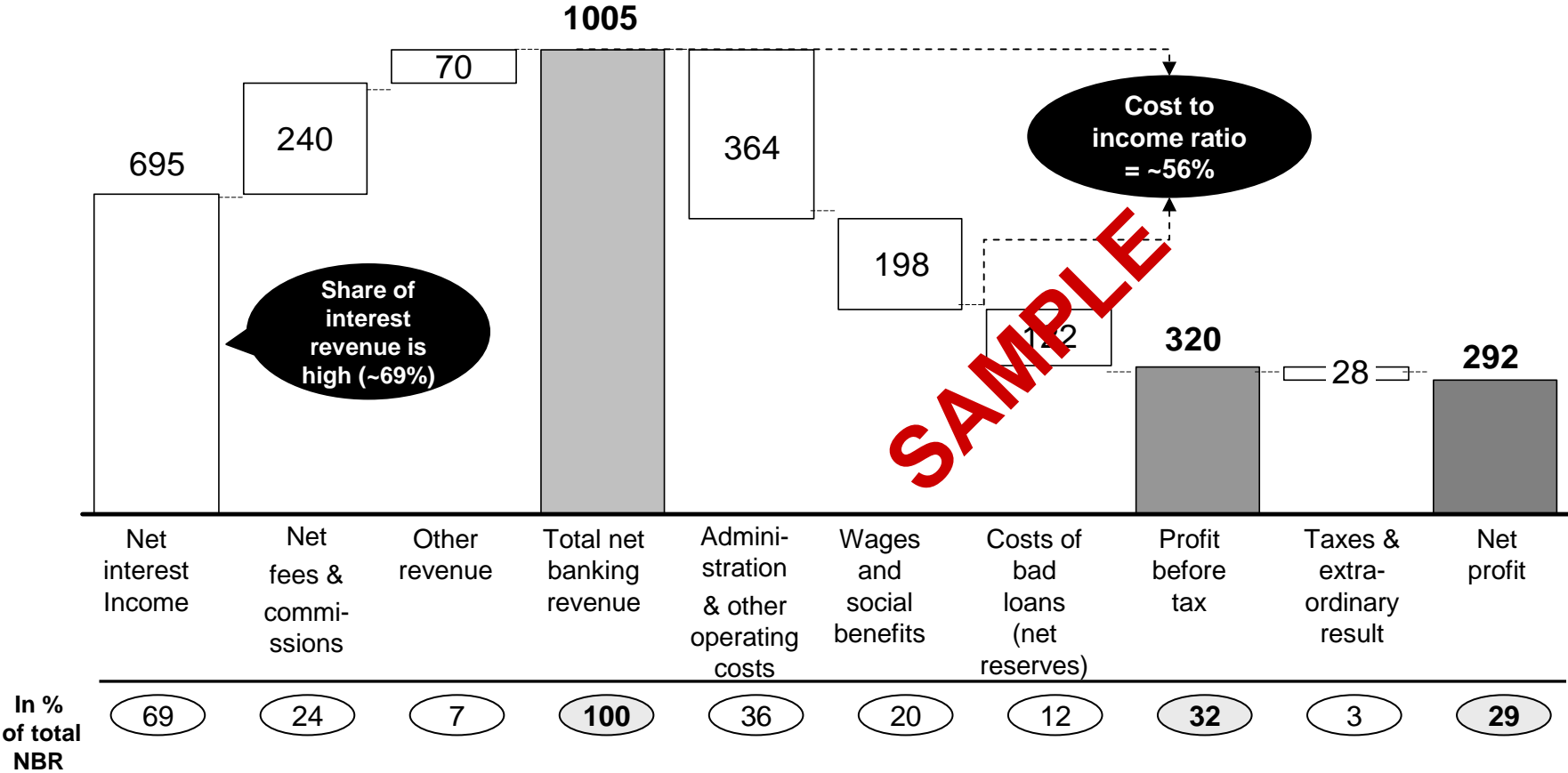
Banking Market in Bulgaria 2006

* Compound Annual Growth Rate
 ** Non financial corporations only. Local & central government excluded
 *** Households & non-profit institutions serving households
 Source: BNB, Intelace Research

IN 2005 BULGARIAN BANKS RECORDED ~1 BILLION EUR IN REVENUES AND 292 MILLION EUR IN NET PROFITS

2005 RESULTS

Commercial banks - Profit and loss accounts, 2005
EUR million



Banking Market in Bulgaria 2006

TOP BANKS (2/5) – BULBANK***



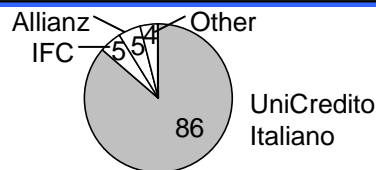
Background

- Bulbank*** alone is the 2nd largest bank in the country. It has a universal banking profile
- Recently it has been growing slower than its main competitors and lost the market leadership position to DSK bank

History

- 1964 Bulgarian Foreign Trade Bank – predecessor of Bulbank established
- 1994 Name of the bank changed to Bulbank
- 2000 Privatization of Bulbank – Unicredit Group becomes majority shareholder of the bank
- 2001-2005 Restructuring and repricing. Betting on profitability bank is losing market share quickly
- 2006 Consumer finance subsidiary Clarima is created. Merger process with other UCI subsidiaries Hebros and Biochim is commencing

Shareholders



Products

- Bulbank is offering product packages addressed to client segments:
 - “UNICO” series for retail clients
 - “Business leader” packages for SME customers
- Corporate offer is comprehensive with advanced: financing, trade, cash management and settlements options

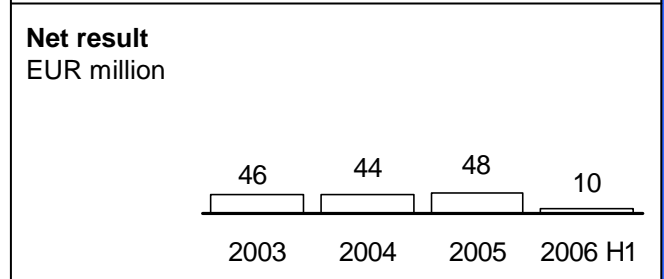
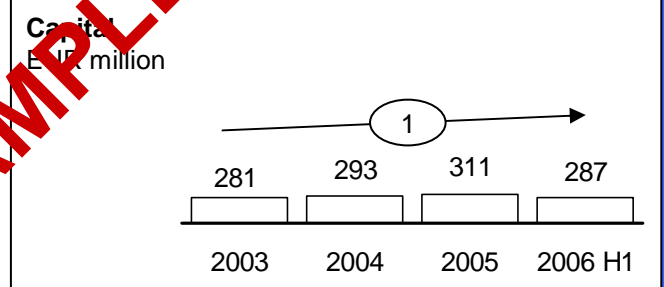
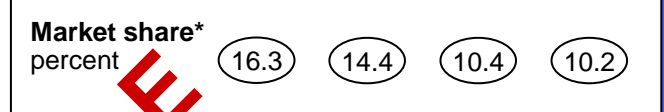
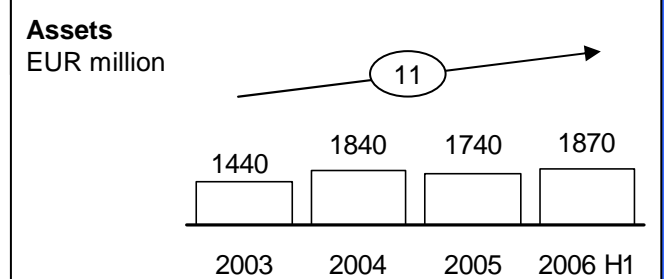
Channels:

- Bulbank branch network consists of 105 outlets spread across the whole country
- Bulbank has ~270 own ATMs and 1900 POS terminals
- Bank offers alternative access via internet: “Bulbank online”

Customers

- Retail business is generating ~40% of Bulbank revenues while corporate segment and treasury account for ~60%
- Number of retail clients exceeds 300 thousand

Results



Banking Market in Bulgaria 2006

* By total assets

** Compound Annual Growth Rate

*** Since 2005 Bulbank together with HVB Biochim and Hebros Bank constitute the new UCI group. Final merger of 3 banks is expected in 2007

Source: BNB, Bank, Intelace Research

NOTES ON METHODOLOGY

FX rates:

- As a general rule all balances like: assets, deposits, loans etc. have been converted from the local currency into Euro using **end of year** exchange rate
- All results achieved during a period of time like: profits, revenues, new sales etc. have been converted from the local currency into Euro using **average** exchange rate
- Exchange rates used in the report:

EUR / BGN	2000	2001	2002	2003	2004	2005	2006 H1
End of year	1.956	1.956	1.956	1.956	1.956	1.956	1.956
Average	1.956	1.956	1.956	1.956	1.956	1.956	1.956

Estimates and Forecasts:

- In some cases, recent or verified data was not available. Therefore, necessary short-term estimations have been done to fill the gaps. Estimates have been always indicated with the letter “E”
- When preparing forecasts we have built models using latest observed trends, available forecasts of main economic indicators, seasonal changes observed in the past and other specific factors considered important.

Multiple sources:

- In some cases multiple sources of similar data exist. In this situation we try to select the most appropriate one /in our view/. The source is indicated in the footer area of each slide. Nevertheless in specific cases, before interpreting the data it is recommended to get a good understanding on the methodology of data collection.

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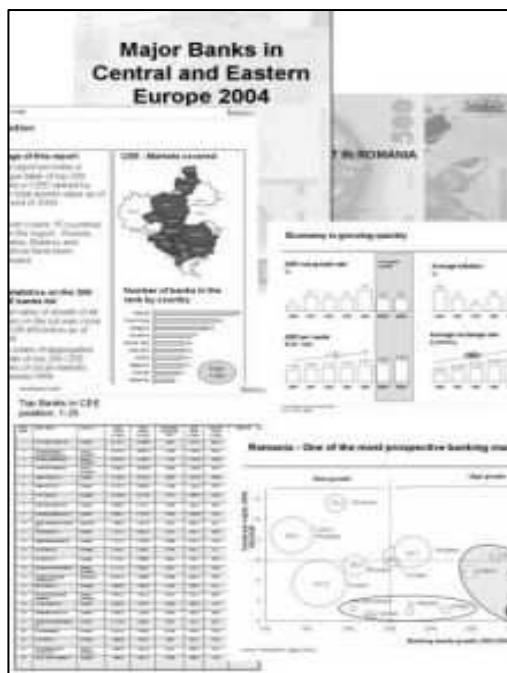
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