

# **BANKING MARKET IN SERBIA 2007 - CEE BANKING SERIES**



**by Marcin Mazurek, Intelace Research  
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**SAMPLE**

# EXECUTIVE SUMMARY – BANKING MARKET IN SERBIA 2006/2007

- **Stable growth of the economy.** Despite increasing political tensions, unresolved issues including failed State Union with Montenegro and uncertain status of Kosovo, the Serbian economy continues to grow fast. The average GDP growth rate remained stable (~6%) during 2005-06, and the mid-term forecasts indicate similar growth for the near future. A consequent restrictive policy of the Central Bank has contributed to the drop of inflation rate to a single digit value at the end of 2006 and it has also helped the Dinar to gain in value against Euro. Some other issues like high unemployment and C/A imbalance still need to be addressed. Fortunately thanks to continued privatization, attracting FDIs and increased transfers from emigrants, most of the foreign trade gap can be covered.

- **Banking market growth.** The banking market is developing rapidly since the year 2004. The annual assets growth rate during 2004-2006 surged to nearly 50%. In the league table of most rapidly growing banking markets in the CEE15 area Serbia has advanced to the second place after Romania. In 2006 most of the growth came from surging deposits, in particular in the retail segment as well from retail lending with particularly strong retail mortgage. The ownership changes and increased activity of foreign banks is leading to gradual growth of the market concentration. Out of top 12 banks, 11 are controlled by foreign industry investors and most of them belong to strong pan-EE players like UniCredit or Raiffeisen.

In 2006 the Central bank policy was very restrictive. High interest rates and extreme required reserve ratios (up to 45% in case of FX deposits) have hampered ability of commercial banks to expand lending. As a result major players were looking for additional funding abroad and offered direct financing from abroad provided by their parent banks.

- **Good future prospects.** Despite the recent rapid market growth, if compared to other CEE15 banking markets, Serbia has still a long way to go. Current banking penetration benchmarks (assets per capita: <2 thousand EUR) indicate that there are still significant growth opportunities laying ahead. Under-penetrated products like mortgage (2% of GDP) or consumer credit (8% of GDP) are extremely promising. At the same time the use of cash (~23% of households deposits) is dropping in favor of current accounts and cards, thanks to increasing client's confidence.

***Intelace Research expects the banking sector in Serbia (assets) to grow on average 26% p.a. through 2009. Most of the growth will come from households segment although a strong performance of corporate deposits is also likely.***

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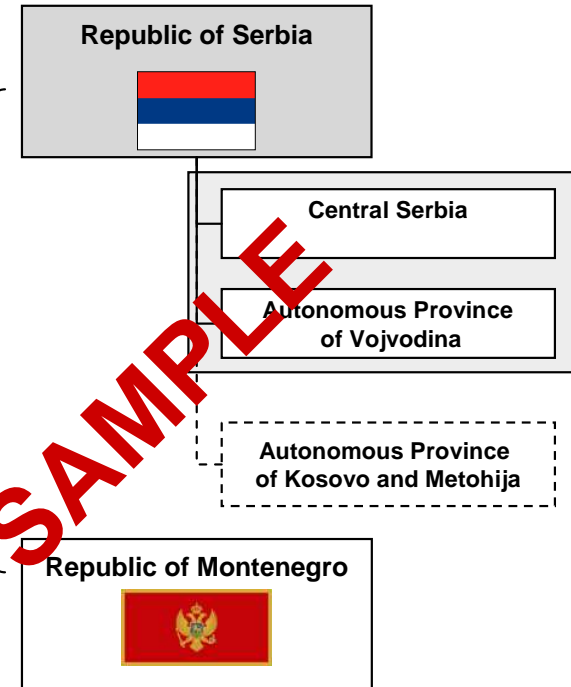
# SINCE JUNE 2006, THE STATE UNION OF SERBIA AND MONTENEGRO HAS CEASED TO EXIST

FOCUS OF THIS REPORT

## Serbia & Kosovo Map, 2006



Former State Union of Serbia and Montenegro

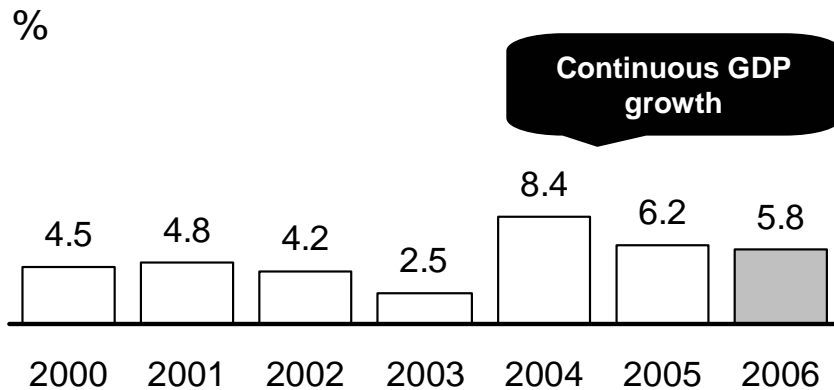


Banking Market in Serbia 2007

- The State Union of Serbia and Montenegro was proclaimed in February 2003, based on the equality of the two member states: Montenegro and Serbia including two autonomous provinces: Vojvodina and Kosovo with Metohija
- The integration was progressing very slowly and was called “unhappy marriage”. The State Union was widely perceived as a product of pressure of international community and EU, which intended to make the integration a condition for Serbia/Montenegro EU membership.
- In May 2006 Montenegro held an independence referendum. Majority of Montenegrins voted against the Union with Serbia. As a result Montenegro declared independency in June 2006.

# SERBIAN GDP IS GROWING QUICKLY. INFLATION IS STILL HIGH BUT UNDER CONTROL

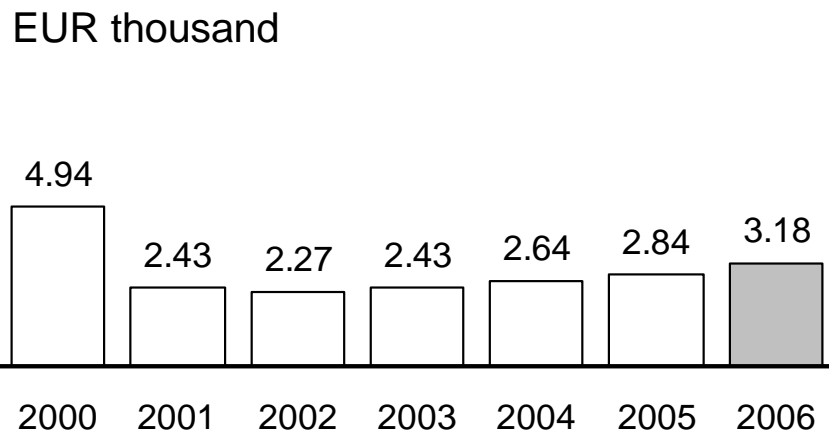
**GDP real growth rate**



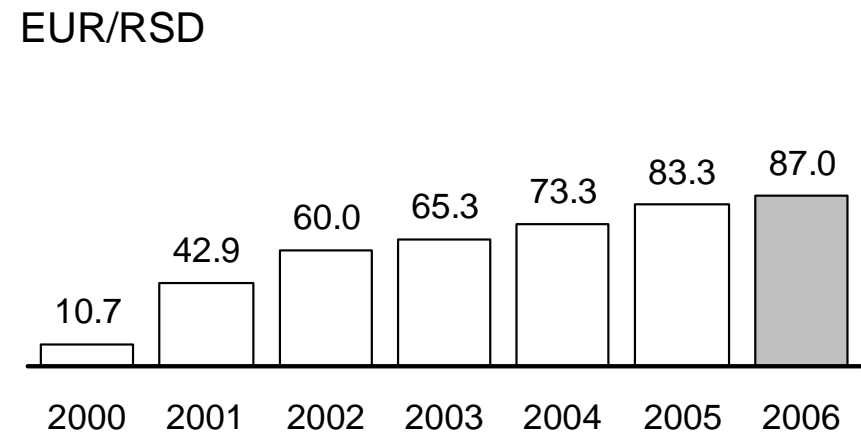
**Average Inflation**



**GDP per capita**



**Average exchange rate**

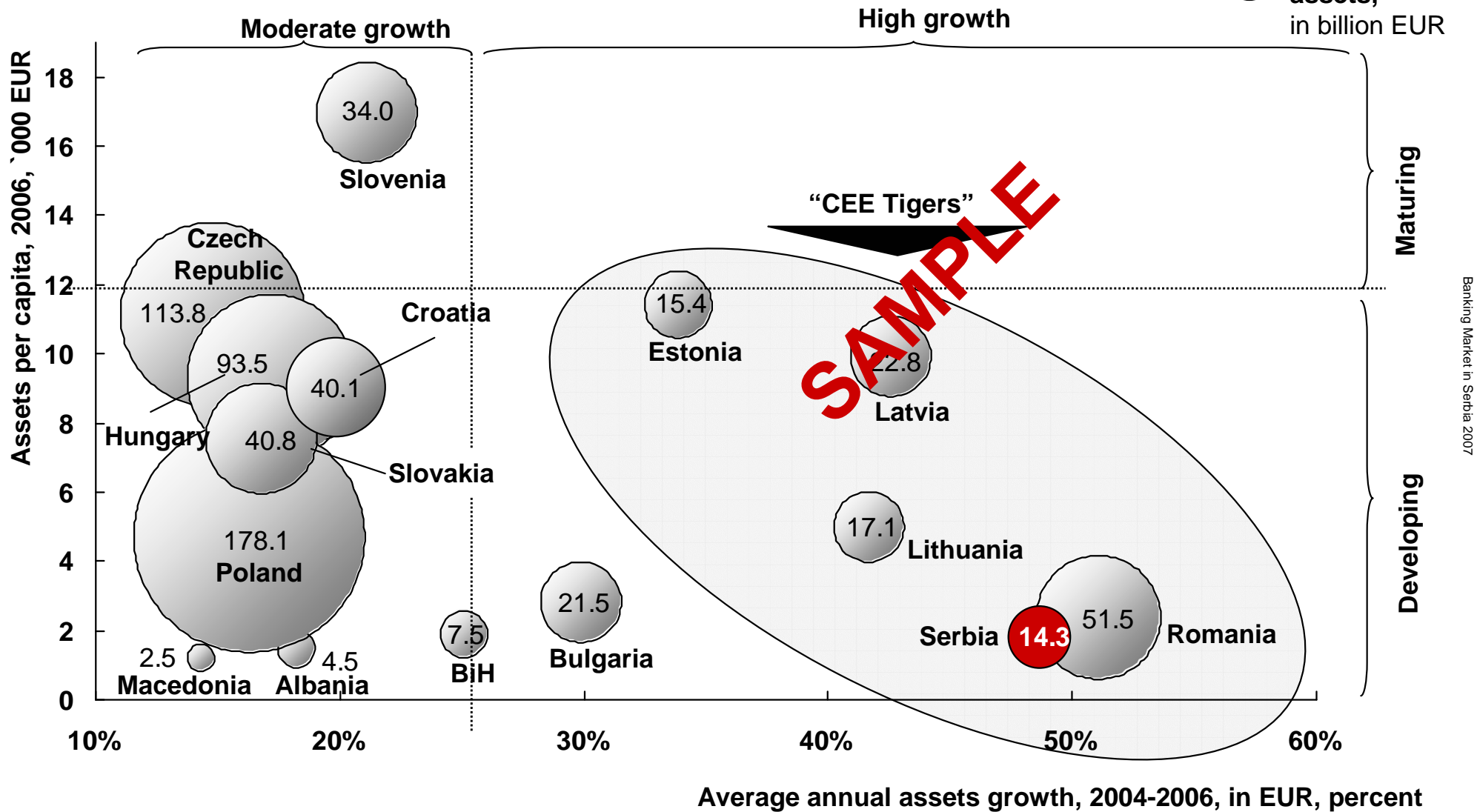


Banking Market in Serbia 2007

# SERBIA HAS ONE OF THE MOST RAPIDLY DEVELOPING BANKING MARKETS IN THE CEE15 AREA

PRELIMINARY  
2006 DATA

CEE15\* banking markets - Size vs. growth matrix



\* Major 15 CEE countries. Russia, Ukraine and Belarus not included

Source: Central banks, IMF, Intelace Research

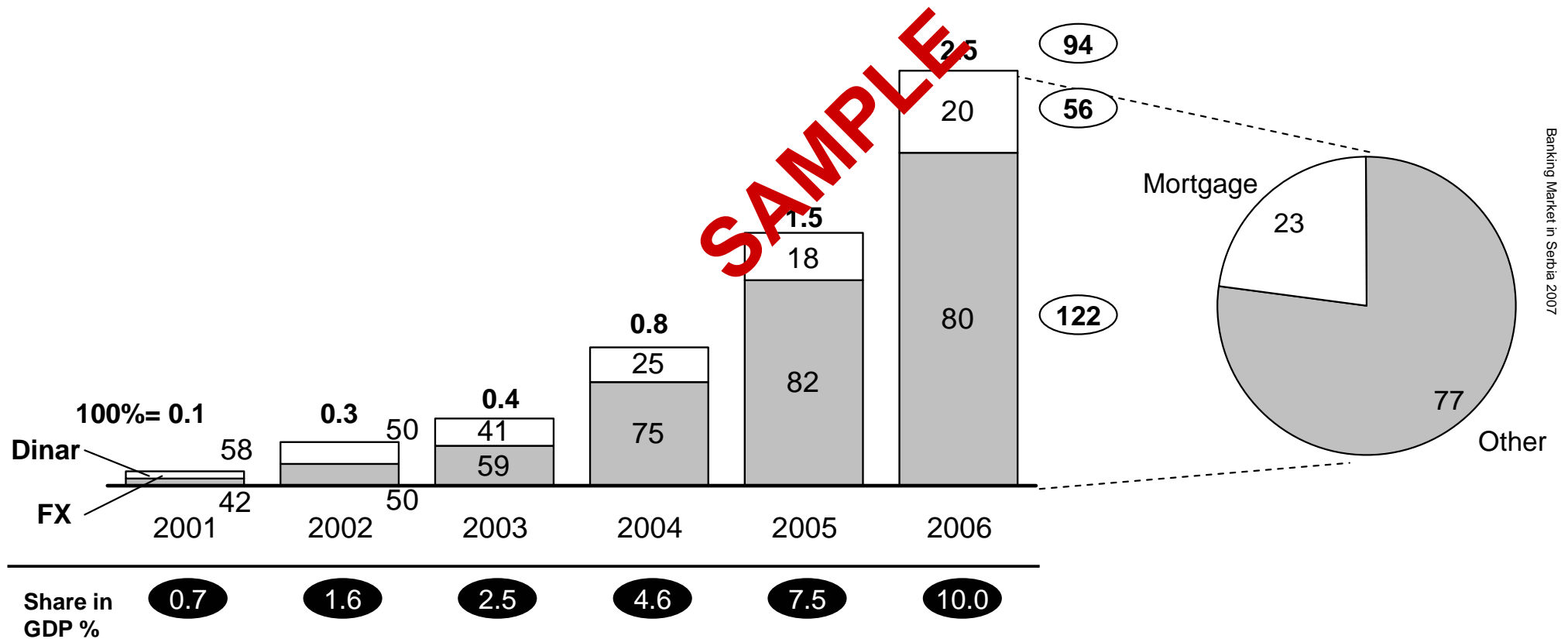
# RETAIL LOANS GROW RAPIDLY. FX DENOMINATED LOANS ARE MORE POPULAR DUE TO LOWER INTEREST RATES

2006 DATA, BS OF COMMERCIAL BANKS

**Households loans**  
EUR billion, percent

**CAGR\***  
2001-2006

**Loans by type**  
percent



Banking Market in Serbia 2007

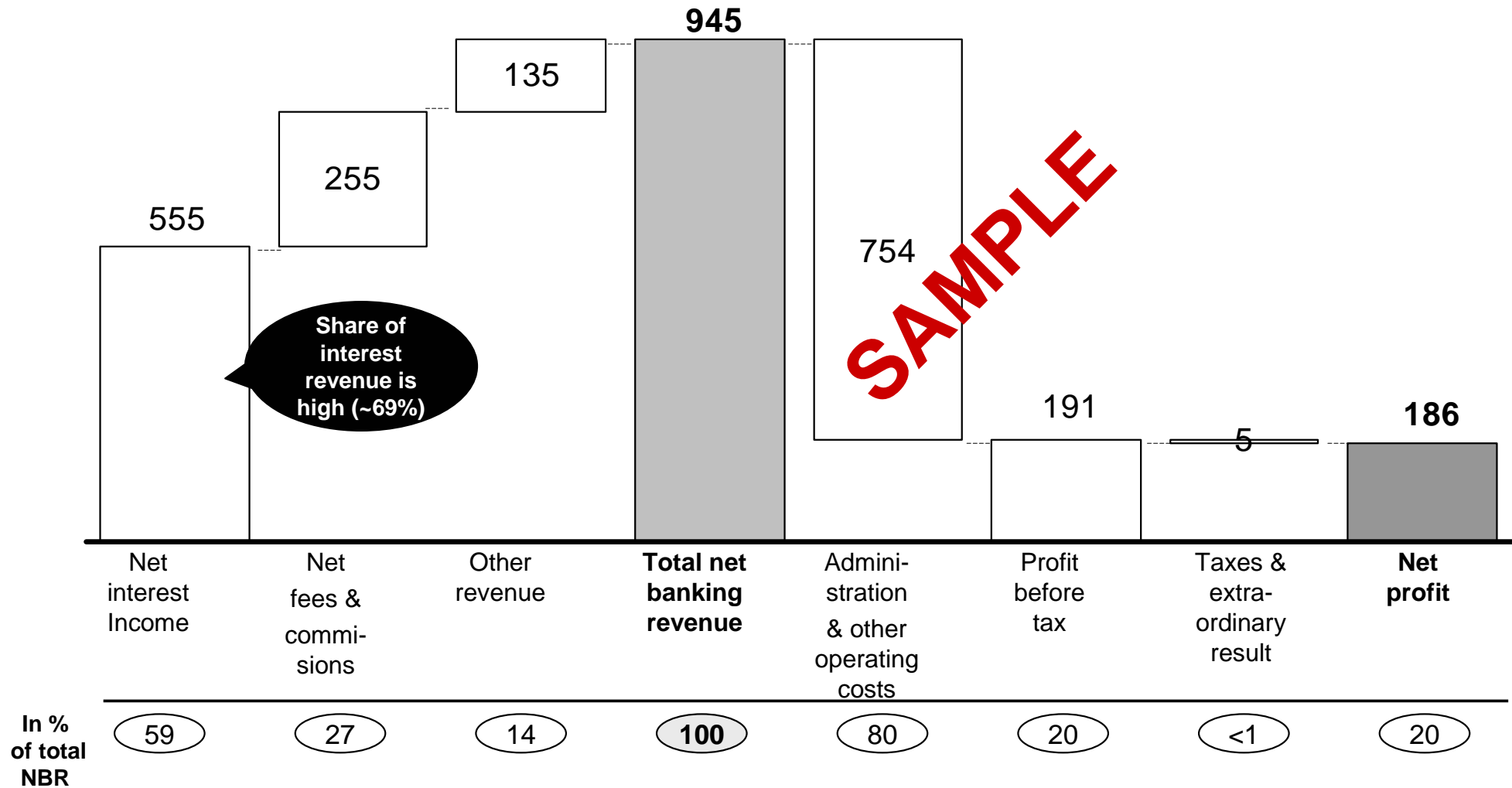
\* Compound Annual Growth Rate  
Source: NBS, Intelace Research

# IN 2006 SERBIAN BANKS RECORDED ALMOST 1 BILLION EUR IN REVENUES AND 186 MILLION EUR IN NET PROFITS






**2006 RESULTS**

## Commercial banks - Profit and loss account, 2006

EUR million



## RECENT BANK PRIVATIZATION AND M&A DEALS IN SERBIA (3/3)

Date	Buyer	Target	Stake & Price	Valuation multiples		
				P/A*	P/BV **	P/E***
2005	Laiki Bank	 CENTROBANKA A. D.	<ul style="list-style-type: none"> <li>• 100% of <b>Centrobanka</b></li> <li>• 42 million EUR</li> </ul>	0.8	2.6	34.7
2005	EFG Eurobank	 Nacionalna štedionica	<ul style="list-style-type: none"> <li>• 52,5% of <b>NS</b></li> <li>• 41 million EUR</li> </ul>	0.8	6.2	101.6
2005	Findomestic Banca	 NOVA BANKA	<ul style="list-style-type: none"> <li>• 95% of <b>Nova banka</b></li> <li>• 23 million EUR</li> </ul>	0.8	2.1	46.9
2005	Piraeus Bank	 ATLAS BANKA AD	<ul style="list-style-type: none"> <li>• 80% of <b>Atlas banka</b></li> <li>• 19.5 million EUR</li> </ul>	0.4	2.1	17.1
2004	Bank Austria Creditanstalt	 EKSIMBANKA Ekspert - import banka A.D.	<ul style="list-style-type: none"> <li>• 98% of <b>Eksimbanka</b></li> <li>• 48 million EUR</li> </ul>	0.3	3.5	47.6

\*\*\* Price to Earnings, "n/a" in case of a loss

\*\* Price to Equity

\* Price to Assets

Source: banks, press, Intelace Research

### Background

- Raiffeisen bank is the largest bank in Serbia
- Bank has a universal profile and is serving three major groups of customers: retail, corporate and SME
- Recently bank has been experiencing lower growth of local volumes as direct financing from abroad is necessary to close the funding gap on the local market

### History

- 2001 Raiffeisenbank gets a banking license and starts to offer services
- 2002 Bank increases the share capital and introduces a range of new products including mortgage
- 2003 Raiffeisen launches dedicated offer for SME clients
- 2004/2005 Raiffeisen becomes the largest bank in the country

### Shareholders

Other: 0%  
Raiffeisenbank (Austria): 100%

### Customers

- Raiffeisen is serving:
  - over 400,000 individual customers,
  - 17500 SMEs
  - 3200 corporate subjects

### Channels:

- Raiffeisen physical network consists of: 69 branches and agencies (Dec.2006), present in major towns
- >80 ATMs
- Internet access, telephone banking and call center

### Recent events/plans

- Raiffeisen plans to increase further its network by adding new branches
- In mid-2006 bank announced capital increase by EUR 100m
- In Dec. 2006 Raiffeisen Bank was awarded the "Bank of the year" prize by the Banker

### Results

#### Assets

EUR million

Year	2003	2004	2005	2006
Assets (EUR million)	439	872	1390	1758

#### Market share\*

percent

Year	2003	2004	2005	2006
Market share (percent)	8.6	13.5	15.4	12.3

#### Customer loans

EUR million

Year	2003	2004	2005	2006
Customer loans (EUR million)	233	542	884	861

#### Profit after tax

EUR million

Year	2003	2004	2005	2006
Profit after tax (EUR million)	7	14	1	29

Banking Market in Serbia 2007

\* By total unconsolidated assets

\*\* Compound Annual Growth Rate

Source: NBS, Bank, Intelace Research

## About this report

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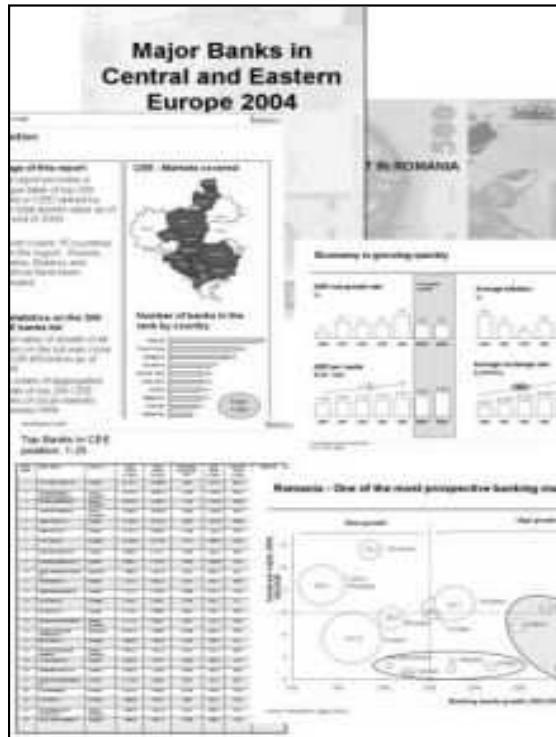
Through our customized research services we help our clients to better understand their consumers, competitors and overall market dynamics.

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