



cutting through complexity

Opportunity to enter Serbian banking market

**Sale of Jugobanka Jugbanka a.d.
Kosovska Mitrovica**

KPMG d.o.o., Beograd

September 2014



Background information

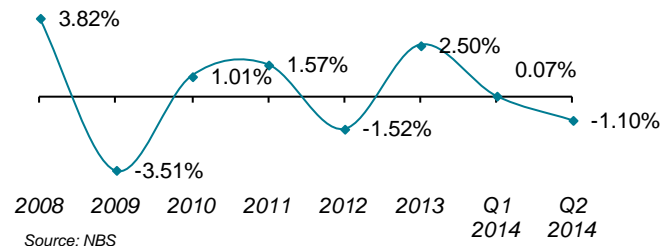
Transaction background

- The Deposit Insurance Agency as trustee of Jugobanka a.d. Beograd in bankruptcy and Beobanka a.d. Beograd in bankruptcy ("the Vendors") consider the sale of their stake in Jugobanka Jugobanka a.d. Kosovska Mitrovica ("the Bank").
- The shares available for sale represent 61.25% of the total equity of the Bank. According to the Law on banks no person may acquire ownership in a bank which is above 5% of voting rights without the prior consent of the National Bank of Serbia. The purchaser may purchase the remaining shareholdings in a later stage if that is in line with its business plan.

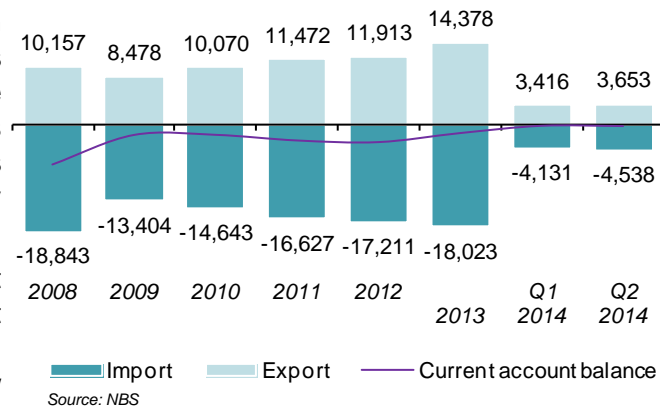
Serbian macroeconomic overview

- Located in Southeast Europe, the Republic of Serbia is the largest successor state of former Yugoslavia with a population of over seven million inhabitants. Serbia has made good progress towards a market dominated by market forces in recent years and has been determined to advance its integration into the international economic community and to join the European Union as full member.
- The Serbian economy relies on manufacturing, exports, agriculture and has been driven by foreign investment. Serbia has taken large steps towards trade liberalization and privatization, but many large enterprises are still owned by the state. Agriculture is of particular importance to the Serbian economy as agricultural production accounts for approximately 8% of Serbia's GDP.
- Major challenges ahead include: high unemployment rates and the need for job creation; high government expenditures for salaries, pensions, healthcare, and unemployment benefits; a growing need for new government borrowing; rising public and private foreign debt; attracting new foreign direct investment; and getting the IMF program back on track.
- Factors favorable to Serbia's economic growth include its strategic location, a relatively inexpensive and skilled labor force, and free trade agreements with the EU, Russia, Turkey, and countries that are members of the Central European Free Trade Agreement (CEFTA).
- Latest credit rating of Serbia from January 2014 is B+ with stable outlook according to Fitch.

Real GDP growth



Trade balance (MEUR)



Credit rating (change of rating and outlook)

	2008 Mar	2009 Dec	2010 Nov	2011 Mar	2012 Aug	2013 Jul	2014 Jan
S&P	BB- neg	BB- stable	-	BB stable	BB- neg	-	-
Fitch	BB- neg	-	BB- stable	-	BB- neg	-	B+ stable
Moody's	-	-	-	-	-	B1 stable	-

Source: NBS

Serbian banking market

Opportunity for new market entrants to take advantage against traditional commercial banks

Overview of the Serbian banking market

- As at 31 March 2014, the banking sector in Serbia counts 29 banks, 5 less than in 2008, with expectation of further consolidation of the market. The market is dominated by foreign owned banks (75%), however participation of the domestic and state ownership is still highest in the region.
- Serbian banking sector is well fragmented in all key categories which has been supporting overall stability of the financial system. Top five banks participate with 53% in total assets, 54% in total loans, 52% in total deposits and 51% in total revenue.
- Total assets of the banking sector increased from 2008 onwards by 3.9% in average. However, decrease has been reported first time in recent history in 2013 and continued in 2014, mainly due to weak macroeconomics. Slowdown of lending activity has resulted in excessive liquidity in most of the banks which reduced interest rates on deposits taken and overall decreased funding costs. This has helped the banks to compensate for credit losses and decrease in interest revenues.
- Major slowdown in lending activity is noted in corporate segment in 2013 and 2014. Banks are at the moment mainly focused on retail, micro and SME segment, however with very few specialized banks. Most of the banks are traditional commercial banks with universal products, many of them being rather static and passive, dealing with current issues.
- Negative development of NPLs caused fall in profitability over observed period escalating in reported net loss for 2013 for the first time in observed 6 years period.
- Despite weak results, capital adequacy ratio is substantially above NBS prescribed limit of 12% followed with strong liquidity position enabling banks to pertain their financial stability.

Key indicators of Serbian banking sector								CAGR
	2008	2009	2010	2011	2012	2013	Q1 2014	
Sector numbers								
Number of banks	34	34	33	33	32	30	29	
Share of banks in domestic ownership	17.5%	18.2%	20.3%	19.7%	19.0%	25.6%	25.3%	
Share of banks in foreign ownership	75.0%	74.0%	73.0%	73.0%	74.0%	74.4%	74.7%	
Balance sheet								
Total assets (EUR mn)	20,055	22,530	24,204	25,324	25,322	24,827	24,475	3.9%
% GDP	61.4%	77.8%	86.5%	80.5%	85.5%	77.6%	82.9%*	-
Gross loans (EUR mn)	12,717	14,528	15,747	17,556	16,911	16,405	15,880	4.3%
Loan loss provisions (EUR mn)	1,118	1,075	1,198	1,579	1,504	1,697	1,697	8.3%
Net loans (EUR mn)	11,598	13,453	14,549	15,978	15,407	14,708	14,183	3.9%
Loans to corporate sector (EUR mn)	7,135	6,957	7,986	8,198	8,454	7,422	6,958	-0.5%
Loans to household sector (EUR mn)	4,112	3,731	4,386	4,713	4,683	4,786	4,777	2.9%
Total deposits (EUR mn)	11,565	13,570	14,264	14,584	14,936	15,067	14,662	4.6%
Deposits corporate sector (EUR mn)	3,565	3,616	3,371	3,969	3,736	3,602	3,470	-0.5%
Deposits households (EUR mn)	5,127	6,411	7,385	8,005	8,529	8,923	8,888	11.0%
Gross loans (% of Total deposits)	110.0%	107.1%	110.4%	120.4%	113.2%	108.9%	108.3%	
Profitability and efficiency ratios								
ROA	2.1%	1.00%	1.10%	1.23%	0.97%	-0.07%	1.15%	
ROE	9.3%	4.60%	5.40%	6.04%	4.65%	-0.36%	5.42%	
NIM (% of total assets)	5.7%	5.1%	4.6%	4.6%	4.3%	4.2%	4.2%	
Cost to income	68.3%	70.0%	69.7%	65.2%	67.3%	66.1%	66.1%	
Capital adequacy ratio	21.9%	21.4%	19.9%	19.1%	19.9%	20.9%	21.2%	
NPL as % of total loans	11.3%	15.7%	16.9%	19.0%	18.6%	21.4%	22.2%	
NPL of corporate sector as % of loans	n/a	20.9%	21.8%	24.6%	21.2%	27.1%	29.3%	
NPL of household sector as % of loans	n/a	8.1%	7.9%	7.9%	8.5%	9.4%	9.6%	

Source: NBS web site and KPMG Analysis

Overview of the Bank

Chance to enter the market by acquiring small and straightforward balance sheet and solid basis to develop business

Registered in **1995**. Present mostly in north part of Kosovo and Central Serbia

Shareholders:

51% - Jugobanka in bankruptcy
31% - Serbian development fund
10% - Beobanka ad in bankruptcy
8% - Other

108 employees
14 branches & **12** tellers
2,165 customers

Banking license

Through the acquisition of the Bank, an investor would get access to Serbian banking market, bypassing robust and lengthy process (at least 1 year) of obtaining banking license from the National bank of Serbia.

Solid operating basis

The Bank operates through its head office in Kosovska Mitrovica, 14 branches and 12 tellers which together cover significant part of territory in Central Serbia and north region of Kosovo and Metohija (representing market leader in north part of Kosovo). The Bank has 108 employees – average experience 13 years; age 41; 62% of women.

Small and straightforward balance sheet

Although investor would have to make capital injections to meet minimum capital requirements of EUR 10 million, the Bank has small and straightforward balance sheet with total assets being around EUR 11.1 million (please see note regarding the asset).

Key financials overview

in TRSD		2012	2013	H1 2014	Annualized 2014	CAGR
P&L	Net interest income	55,066	52,929	26,100	52,200	-2.6%
	Net fee and commission income	75,702	67,530	38,678	77,356	1.1%
	Other income	24,540	41,260	1,961	3,922	-60.0%
	OPEX	(126,018)	(157,821)	(62,797)	(125,594)	-0.2%
	Operating profit	29,290	3,898	3,942	7,884	
	Net risk provisions	(9,668)	22,637	4,922	9,844	
	Profit before tax	19,622	26,535	8,864	17,728	
Net Income	18,336	22,085	8,864	17,728	-1.7%	
Balance sheet	Total assets	1,289,306	1,284,619	1,321,097	1,321,097	1.6%
	Net loans	141,028	150,757	152,220	152,220	5.2%
	Deposits	166,032	150,236	182,364	182,364	6.5%
	Equity	1,074,756	1,096,842	1,105,705	1,105,705	1.9%
Key ratios	ROAA	0.39%	2.06%	n/a	1.36%	
	ROEA	1.83%	2.44%	n/a	1.61%	
	Net interest margin	1.08%	4.11%	n/a	4.01%	
	Risk cost	-0.19%	1.76%	n/a	0.76%	
	Cost / Income ratio	96.37%	131.02%	96.94%	96.94%	

Despite difficult economic and political environment in which it operates, the Bank is managing to survive in such circumstances, even being profitable throughout the whole observed period

According to the Bank's management, total assets include certain items of property and investments with total value of TRSD 722,154 formally owned but currently not controlled by the Bank, located on the territory of Kosovo.

Source: Audited FS 2012, 2013, NBS web site

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