

BANKING MARKET IN BULGARIA 2009 - CEE BANKING SERIES



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February 2009

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EXECUTIVE SUMMARY – BANKING MARKET IN BULGARIA

- **Economic outlook.** In recent years the Bulgarian GDP has been growing stable at 4 to 7% p.a. resulting in almost tripling of GDP per capita to 4520EUR in 2008 against 1999. The initially high unemployment rate dropped below 6% in 2008. Growth of the economy together with a tight budget policy of the government resulted in cash surplus and impressive reduction of public debt. The major problem that could not be solved so far is persisting inflation and widening current account imbalance. A fixed FX rate regime will put the currency as well as the whole economy under certain pressures in 2009, although the overall stability of the Bulgarian economy is better if compared with other CEE countries maintaining fixed FX rates, especially Baltics.
- **EU accession and reforms.** The long expected accession to EU came true in Jan. 2007. On the way to EU Bulgaria has done a big effort to comply with various EU requirements and regulations. Moreover, to make the country competitive and attractive place to invest, the fiscal policy has been significantly eased, including introduction of low corporate tax rate of 10% (effective 2007), and personal income tax flat rate of 10% (effective 2008), changes that made Bulgaria an attractive place to invest in Europe. On the other hand persisting corruption and frequent scandals in public sector are affecting quick development of infrastructure and delay flow of EU subsidy payments.
- **Banking market growth.** The banking market has been developing fast from 2001 on. Since 2004 both, retail and corporate lending volumes are surging. Already in 2005 the Central Bank addressed acceleration in loans with introduction of penalties on excessive credit growth. Applied measures proved to be successful and contributed to moderating of 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 markets. Unfortunately, at the end of 2008 a significant deceleration of growth in case of key banking volumes could be observed, which is the first sign of worsening economic climate.
- **Neutral future outlook.** In our view, despite the global turmoil, future prospects for the banking sector in Bulgaria are still relatively good. The year 2009 may be difficult with stagnating volumes, falling margins and mounting operating costs. However, most banks in Bulgaria seem to be well prepared for the situation with enough own funds and retained profits. The adequate response to growing costs and lending portfolio quality will be unavoidable.

Intelace Research expects that banks assets will keep growing at 9% in nominal terms through 2011, to reach 89 billion BGN. It can be also expected that most of volumes growth will come from retail segment since corporate business is likely to stagnate in 2009, resuming growth first in the years 2010-2011.

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BULGARIA – GENERAL OVERVIEW

Bulgaria - Country Map



Bulgaria - Key facts, 2009

Area: 111 thousand square kilometer

Population: ~ 7.5 million, of which:
– 51% female, 49% male
– 86% aged 15 and over
– 70% urban population

Annual pop. growth rate: –0.9%

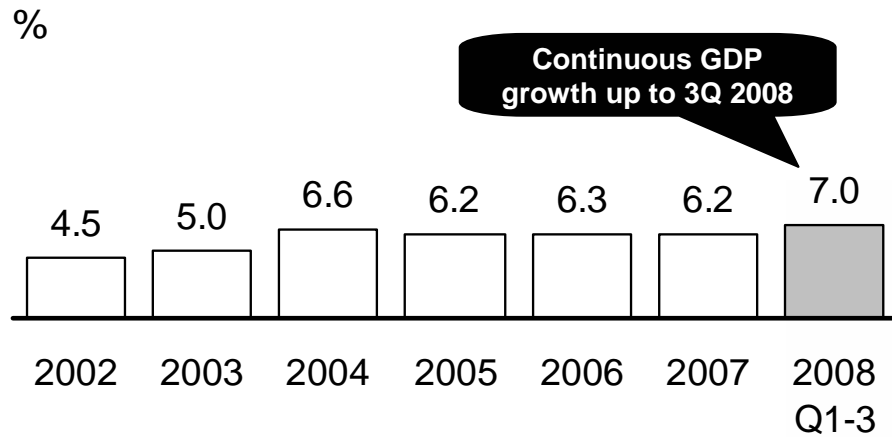
Average life expectancy:
– 69Y male
– 76Y female

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

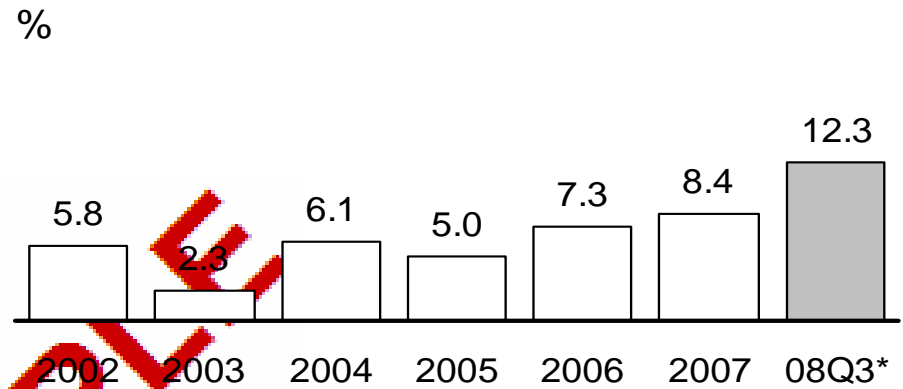
Membership in major organizations:
– NATO (2004)
– EU (2007)

UP TO 3Q 2008 BULGARIAN GDP HAS BEEN GROWING STEADY

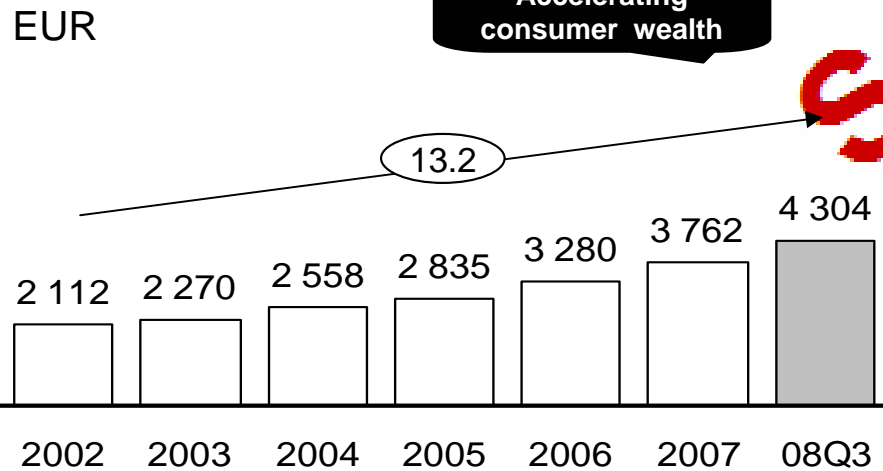
GDP real growth rate



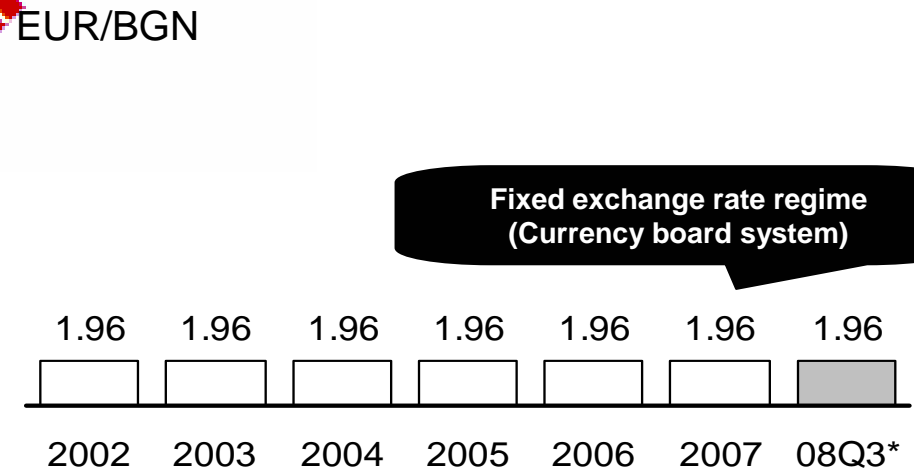
Average Inflation



GDP per capita



Average exchange rate

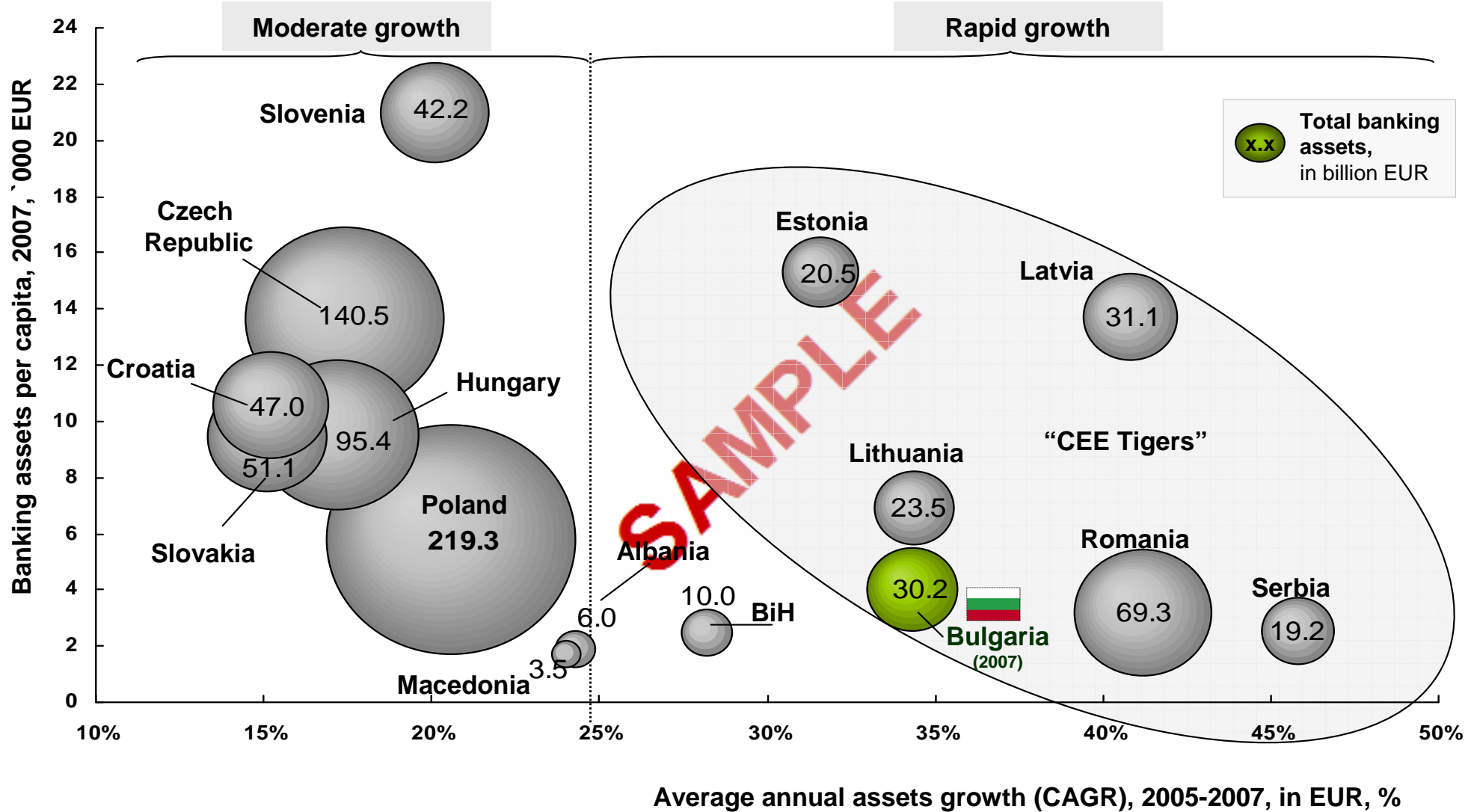


Fixed exchange rate regime
(Currency board system)

* Average for the period Q1-Q3
 ** Compound Annual Growth Rate
 Source: BNB, Intelace Research

BULGARIA BELONGS TO CEE15* BANKING TIGERS

CEE15* banking markets - Size vs. growth matrix, 2005-2007



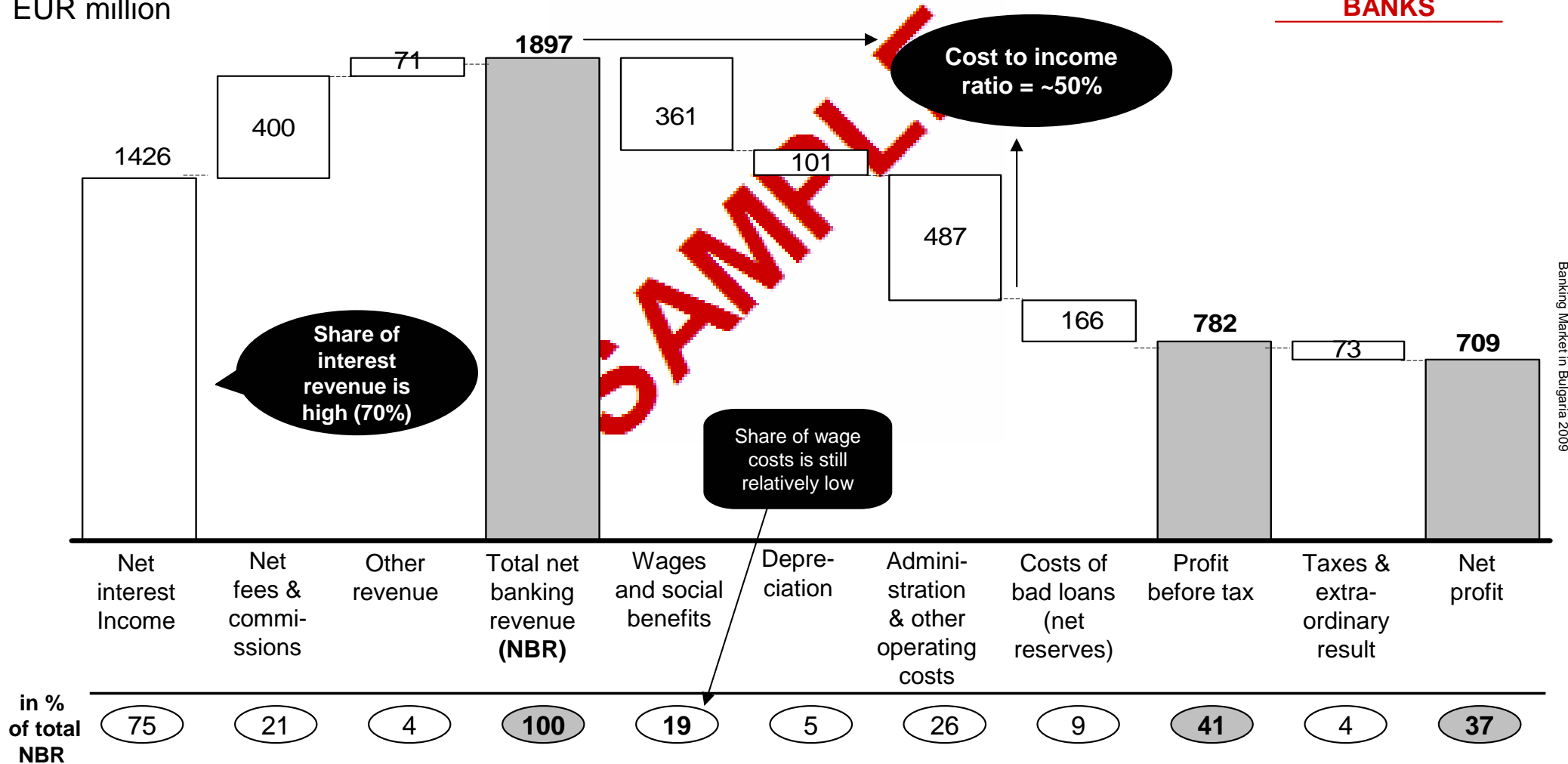
Banking Market in Bulgaria 2009

* Major 15 CEE countries. Russia, Ukraine and Belarus not included
 Source: Central banks, IMF, Intelace Research

DURING 2008 BULGARIAN BANKS RECORDED ~1.9 BILLION EUR REVENUE AND 0.7 BILLION EUR NET PROFIT

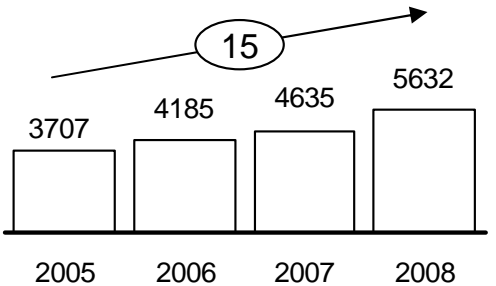
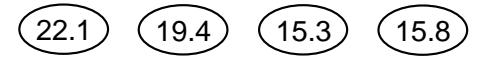
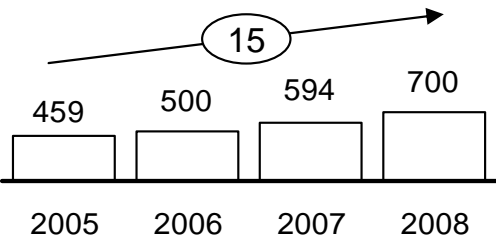
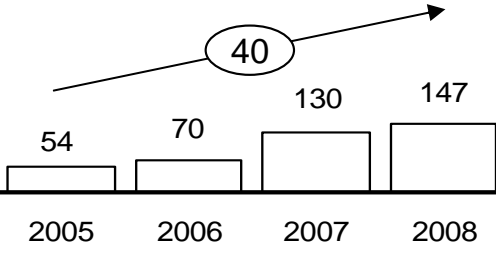
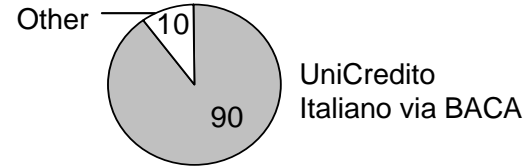
Commercial banks - Profit and loss accounts, 2008
EUR million

COMMERCIAL BANKS



TOP BANKS (1/5) – UNICREDIT BULBANK

CAGR**

Background	Products	Results										
<ul style="list-style-type: none"> After the merger of 3 UniCredit subsidiaries (Bulbank, Hebros, Biochim) bank has regained the leadership position in the country. The consolidation of 3 banks resulted market share loss, since cross-group volumes have been eliminated 	<ul style="list-style-type: none"> UniCredit is offering product packages addressed to client segments: <ul style="list-style-type: none"> “UNICO” series for retail clients “Business leader” packages for SME customers Corporate offer is comprehensive with advanced financing, foreign trade, leasing and factoring solutions 	<p>Assets EUR million</p>  <table border="1"> <tr> <th>Year</th> <td>2005</td> <td>2006</td> <td>2007</td> <td>2008</td> </tr> <tr> <th>Assets (EUR million)</th> <td>3707</td> <td>4185</td> <td>4635</td> <td>5632</td> </tr> </table>	Year	2005	2006	2007	2008	Assets (EUR million)	3707	4185	4635	5632
Year	2005	2006	2007	2008								
Assets (EUR million)	3707	4185	4635	5632								
<p>History</p>	<p>Channels:</p>	<p>Market share* (%)</p>  <table border="1"> <tr> <th>Year</th> <td>2005</td> <td>2006</td> <td>2007</td> <td>2008</td> </tr> <tr> <th>Market share (%)</th> <td>22.1</td> <td>19.4</td> <td>15.3</td> <td>15.8</td> </tr> </table>	Year	2005	2006	2007	2008	Market share (%)	22.1	19.4	15.3	15.8
Year	2005	2006	2007	2008								
Market share (%)	22.1	19.4	15.3	15.8								
<ul style="list-style-type: none"> 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 2006 Consumer finance subsidiary Clarima is created. Merger process with other UCI subsidiaries Hebros and Biochim is commencing 2007 UniCredit takes market leadership 	<ul style="list-style-type: none"> UniCredit branch network consists of ~260 outlets spread country. Total emplo UniCredit has netwo and 3200 POS termi Bank offers online at “Bulbank online” 	<p>Capital EUR million</p>  <table border="1"> <tr> <th>Year</th> <td>2005</td> <td>2006</td> <td>2007</td> <td>2008</td> </tr> <tr> <th>Capital (EUR million)</th> <td>459</td> <td>500</td> <td>594</td> <td>700</td> </tr> </table>	Year	2005	2006	2007	2008	Capital (EUR million)	459	500	594	700
Year	2005	2006	2007	2008								
Capital (EUR million)	459	500	594	700								
<p>Shareholders (in percent)</p>	<p>Customers</p>	<p>Net result EUR million</p>  <table border="1"> <tr> <th>Year</th> <td>2005</td> <td>2006</td> <td>2007</td> <td>2008</td> </tr> <tr> <th>Net result (EUR million)</th> <td>54</td> <td>70</td> <td>130</td> <td>147</td> </tr> </table>	Year	2005	2006	2007	2008	Net result (EUR million)	54	70	130	147
Year	2005	2006	2007	2008								
Net result (EUR million)	54	70	130	147								
	<ul style="list-style-type: none"> Retail business is generating ~40% of Bulbank revenues while corporate segment and treasury account for ~60% Number of clients exceeds 1 million of which most is retail 											

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* By total assets
 ** Compound Annual Growth Rate
 Source: BNB, Bank, Intelace Research

NOTES ON METHODOLOGY

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”
- Forecasts presented in the report have been marked with the letter “F”. When preparing forecasts we have built models using various factors including: latest observed economic trends, available forecasts of main economic indicators, seasonal changes observed in the past and other specific data 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.

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: 1EUR = 1.9558BGN

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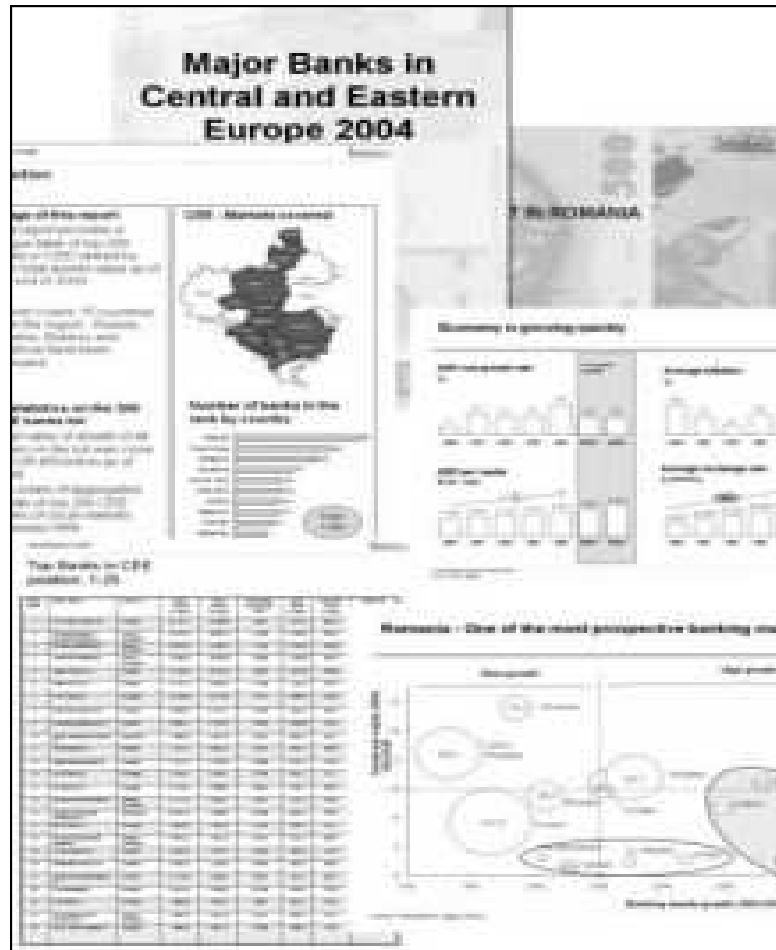
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The lead researcher and founder of Intelace Research is Marcin Mazurek.

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