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Deployment of the Debt Market
– Experience and Prospective –

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SOCIETE GENERALE
SRBIJA

BEOGRADSKA BERZA

SADRŽAJ

- Debt market
- State debt instruments
- Municipal debt instruments
- Corporate debt instruments
- Experience of Societe Generale Bank
- Expected Future Market Development

DEBT MARKET

- Law on Capital Market defines **debt securities** as "bonds and other negotiable securitized debt instruments, excluding securities that are equivalent to shares of companies or those which, if converted, or if the rights exercised allow for the acquisition of shares or securities equivalent to shares“.

- The most significant ways which debt securities are divided:
    - Maturity - Short, Medium and Long-term debt
    - Issuer – State Government, Municipal Governments and Corporate Debt
    - Way of providing payment: - Asset backed, guaranteed and non-guaranteed debt securities.

- Debt securities may be traded on:
    - Primary market,
    - Secondary market.

DEBT MARKET

- Some **positive** signals following the recent legislative changes:
  - Strengthening domestic institutional investors;
  - Investor demand for new, liquid forms of assets and portfolio diversification;
  - Growing interest of foreign investors to purchase local currency, debt securities;

- Despite positive developments in the debt securities market, it is **still underdeveloped**:
  - no dinar debt securities, with a maturity longer than 5 years;
  - hardly any corporate bonds (with or without a currency clause) issued for a period longer than one year;
  - the corporate, including the public sector, still relies heavily on bank loans to finance current operations, as well as longer-term, developmental needs;
  - Illiquid secondary markets;
  - small number of debt securities listed on a regulated market;
  - minimum participation of individuals in primary and secondary trading in debt securities.

STATE DEBT INSTRUMENTS

Bonds issued for the settlement of obligations arising from foreign currency savings

- Issuance of foreign currency savings bonds with issuance size being EUR 4.2Bn;
- The bonds were issued in 15 series, from A 2002 to A 2016;
- Near 2 million former bank depositors received these bonds.
- Secondary trading - Every day, on the stock market (Prime listing) and OTC.
- There are still nearly EUR 1.3Bn in bonds which will mature by 2016.

Bills of Republic of Serbia

- T-Bills are issued by the RS Treasury in order to finance the national budget;
- Low-risk securities, therefore interest from domestic and foreign investors;
- Issued with different maturities and in different currencies (RSD or EUR);
- Primary market – OTC, via the Ministry of Finance Web applications.
- Secondary trading - Occasionally, OTC. There is no trading platform that would enable their trading on a daily basis.

MUNICIPAL DEBT INSTRUMENTS

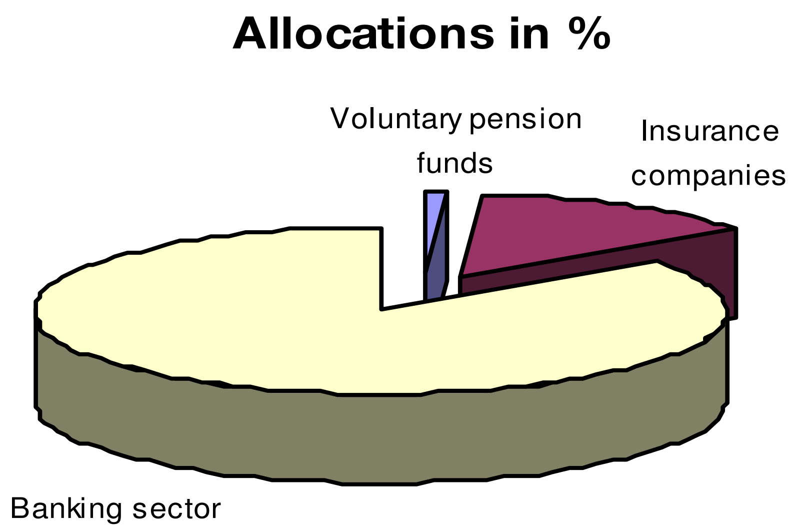
- Issued by cities, municipalities, regions and other entities which are recognized public authorities:
- Issued to raise funds in order to finance a budget deficit and infrastructure projects;
- In 2011 and 2012, the first successful issues of municipal bonds by:
  - Novi Sad
  - Pancevo
- The main issues associated with the existing municipal bonds
  - Investor base
  - Secondary trading – does not exist
- Requirements for further development:
  - Lower risk associated with Issuer
  - Lower interest rates

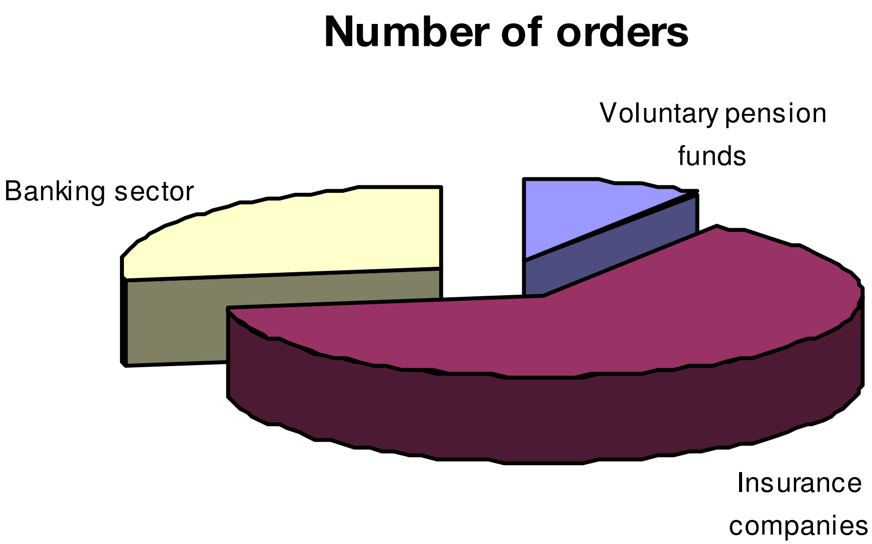
CORPORATE SECURITIES

- Corporate bonds issued by companies and banks and other financial institutions;
- Basic characteristics of most domestic corporate bonds:
  - A small number of companies have chosen to finance themselves in this manner,
  - Issuance maturities are up to one year,
  - Application of a protective FX clause,
  - The securities are not guaranteed,
  - The largest group of investors are domestic, institutional investors
  - In 2012, banks actively participated as issuers of debt instruments:
    - **Societe Generale Banka Srbija** – issuance of the first long-term Dinar debt instrument, without a protective FX clause
    - **Erste bank a.d. Novi Sad** – finalized the first primary sale of Dinar debt instrument on the organized market
- Basic problems in relation to trading corporate debt securities:
  - Number of investors - the primary sales realized only due to professional investors participation,
  - Secondary trading – does not exist. To date, only bonds issued SocGen and Erste
  - Foreign institutional investors are not ready to buy debt securities which have higher risk than sovereign bonds
  - Poor image from the past - due to delays in servicing of debt by some issuers.

EXPERIENCE OF SOCIETE GENERALE BANK

- In May 2012, Societe Generale Banka Srbija successfully sold its first three-year, local currency bond, in the amount of RSD 1.7Bn, with a total demand of nearly RSD 2.8Bn.
- The Bank decided to issue bonds, with the intent being:
  - expand and further diversify funding sources;
  - acquire long-term and stable Dinar funds which are to used for Dinar denominated loans;
  - contribute to the overall "dinarisation“ process of the financial system;
  - create a new product;
- Eleven investors were from the insurance and pension fund sectors (total of 8, who purchased 15%) and the banking sector (total of 3 who purchased 85%)





EXPERIENCE OF SOCIETE GENERALE BANK

Basic characteristics of the issued bonds

- **The first bond issue** of this kind on the Serbian market;
- **Public offer** – directed towards a pre-selected group of qualified investors;
- Maturity:**3 years**;
- The interest rate is **variable** and the **quarterly**;
- **Payment of principal:** at maturity;

- Interest rate components:
  - **Variable component** – Reference Rate of the National Bank of Serbia
  - **Fixed part of interest rate** - 5.25% per annum.

- **Nominal value:** 1,000.00 dinars;
- **Issue price**: 100% of the nominal value;

- Additional benefits for investors:
  - **Put clause**
  - On September 14, 2012, listed on the **Belgrade Stock Exchange's Regulated Market**

EXPERIENCE OF SOCIETE GENERALE BANK

Most important questions that must be answered before issuing bonds:

Maturity period for the bonds

- That that time, the optimal maturity period of 3 years was chosen for several reasons:

The inclusion of bonds on the BSE regulated market

The choice of the variable component of the interest rate

- Considered many types of rates (CPI Belibor, NBS Key Policy Rate);
- The final choice - NBS Key Policy Rate.

Put Clause

- Wish of the investors to be completely freed from uncertainty and risk that they may have to at some point need liquid paper.

EXPECTED FUTURE MARKET DEVELOPMENT

- Active role of Banks:
  - technical assistance and agent and underwriting services
  - issuing own debt securities.

- Increasing interest of financially strong companies to issue debt as an alternative form of financing;

- Issuance of debt securities with longer maturities;

- Inclusion of broader sections of society into the working of primary and secondary trading of debt securities (for example - the purchase of municipal bonds);

- Tax relief for those who choose to invest in debt securities, particularly if the securities issues are of longer term in local currency (support the dinarisation of the financial system);

- Solve the issues regarding rating of debt securities;

- Involvement of international financial institutions (with the support of local banks and the NBS) as a potential issuers of debt securities locally

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