



Weekly Briefing

Serbia economy briefing:
Privatization of the largest Serbian state-owned bank
IIPE


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Privatization of the largest Serbian state-owned bank

Abstract

Serbia has sold its largest state-owned bank - Komercijalna banka. After almost a year of waiting, a strategic partner for Komercijalna banka was found. It is a Slovenian NLB bank, which already has a subsidiary bank in Serbia. A price for 83,23 percent of ownership was 387 million euros.

“On 26 February 2020, Nova Ljubljanska banka (NLB bank) entered into a share purchase agreement (“SPA”) with the Republic of Serbia for the acquisition of an 83.23% ordinary shareholding in Komercijalna Banka a.d. Beograd. The closing of the transaction is expected in Q4 2020 and is subject to mandatory regulatory approvals from, amongst others, the European Central Bank, Bank of Slovenia and the National Bank of Serbia”.

This notice was issued by NLB Bank announcing that the Komercijalna Banka purchase transaction has finally been completed. The purchase contract has been signed, the payment of the agreed amount remains. After obtaining the regulator's approval, the final acquisition will follow. As it was said in NLB Bank, the consideration for the 83.23% shareholding amounts to 387 million euros will be payable in cash on completion.

Serbian Ministry of Finance expects that the transaction will be completed within the period of five to nine months, upon the signing of the Agreement. During that period is expected that NLB Bank will get the approval of the European Central Bank, the National Bank of Serbia, central banks, and competition authorities in the countries in which NLB and Komercijalna Banka operate - Bosnia-Herzegovina and Montenegro.

This purchase price in this transaction implies that a value of whole Komercijalna banka is 465 million euros for 100% of its ordinary share capital.

“The purchase price will be subject to a 2% annual interest rate between January 1st 2020 and closing, with NLB benefiting from Komercijalna Banka's earnings during that period under a "locked-box" mechanism. Subject to National Bank of Serbia approval, declared but unpaid dividends and employee benefits for prior financial years will be paid before closing. These are fully provided for in Komercijalna Banka’s financials. Its existing shareholders will also receive

a dividend equating to 50% of 2019 net income up to a maximum of 38 million euros before closing”, it was said in NLB Bank announcement.

The transaction strengthens NLB’s presence and its focus on markets in South East Europe, consolidating its position as the largest banking group in the West Balkan region. Serbia will become the largest foreign subsidiary of the NLB Group, contributing 24% of the enlarged assets.

Komercijalna Banka has more than 770.000 active retail clients and the largest branch network in the Serbia, with 203 branches. It has accumulated the largest foreign currency savings in the country, over 1 billion euros.

The latest financial official data shows that the Komercijalna Banka in 2018 made a profit over 8 billion dinars (over 68 million euros). In 2019, even better results are expected.

Komercijalna Banka is highly positioned in the Serbian banking market, in a high third position in total assets of 420 billion dinars (around 3,5 billion euros).

NLB Group, on the other hand, generated net profit in the amount of 193,6 million euros in 2019 - the Supervisory Board of NLB confirmed the unaudited results of the NLB Group for 2019.

When it was started

The process of finding a strategic partner for Komercijalna Banka was initiated with a public invitation on May 31st 2019. During that time, Lazard Investment Bank, which is an advisor to the Republic of Serbia – Ministry of finance in this process, contacted 28 reputable financial institutions worldwide, half of that number were constituted banks and the other half were investment funds. In first level, Ministry of finance got six sent Letters of Interest. Next, second level of privatization, there were four non-binding offers. And finally, in third level, Republic of Serbia got binding ones. Although it was never officially confirmed, in that list level of privatization, offers were sent by NLB Bank Ljubljana (Slovenia), Raiffeisen bank (Austria) and AIK banka (Serbia). It was only announced that the best offer, which means the best price, was given by NLB Bank.

NLB Bank was ranking as No 1. Negotiations with the first-ranked bidder, Nova Ljubljanska banka, began on December 27, 2019. Upon completion of the negotiations, the

Government of the Republic of Serbia, at its session on February 20, 2020, adopted the Draft Purchase Agreement for 83,23% of Komercijalna Banka's shares.

“The procedure was two-stage, fully transparent, and with the active participation of a reputable advisor. This process is one of the reform objectives in the current arrangement of „the Policy Coordination Instrument “of the Republic of Serbia and the International Monetary Fund (IMF)”, said Ministry of finance in its official statement.

Sell of not to sell

The privatization of Komercijalna banka was followed by many concerns and different interpretations of experts. To explain this, it is needed to start from the very beginning, from 2006, when the EBRD entered in the share capital of the Komercijalna banka.

In February 2009, Republic of Serbia signed the contract with European Bank for Reconstruction and Development. EBRD bought 25 % of bank shares for 70 million euros.

As it was explained EBRD's pre-privatization equity investment in Komercijalna Banka would be the first step for full privatization through an IPO in 3 to 5 years.

“EBRD's presence will be particularly important as it will actively participate in the preparation for the IPO through the design and implementation of a comprehensive institution building plan, with particular emphasis in such key areas as improved corporate governance, strengthened credit and risk management procedures, internal re-organization and upgraded customer services”, said in the EBRD official statement. “EBRD's investment will fund necessary investments particularly in IT, branch network upgrading and staff training. The main objective will be the development of KB into a modern, efficient bank in an increasingly competitive financial sector, taking full advantage of its branch network, the largest in Serbia”.

At that moment, Komercijalna banka was Serbia's third largest bank by assets with a market share of 9,8%. Komercijalna Banka was also Serbia's largest financial institution still majority owned by the State, which directly and indirectly holds 70% of the bank's capital.

At December 2005, Komercijalna Banka recorded total assets of 874 million euros, and equity of 104,5 million euros.

Not long after that, the EBRD was considering an investment of 4,6 billion dinars alongside the International Finance Corporation, DEG (Deutsche Investitions- und Entwicklungsgesellschaft) and Swedfund as part of an 11,4 billion dinars capital increase of

Komercijalna Banka. The capital increase would be in form of a new class of non-voting preference shares, qualifying as tier 1 capital, that are convertible upon notice by the investor from January 1st 2013 for a period of 4,5 years into newly issued ordinary shares.

“The purpose of the investment is to support a systemically important bank in Serbia at a time of crisis by equipping Komercijalna Banka with a capital buffer in light of the expected deterioration of the Serbian economy; enabling Komercijalna Banka to increase the capital in its subsidiaries in Montenegro and Bosnia and Herzegovina and allowing Komercijalna Banka to maintain its loan portfolio and lending operations to the real economy, thereby maintaining or increasing market share in Serbia”, said EBRD in its Project Description in September 2009.

The contract was signed on December 17th 2009. It was shareholder agreement on the capital increase of Komercijalna banka in the amount of 120 million euros.

That agreement with the shareholders EBRD, IFC, DEG and Swedfund was not open to public. As it was later disclosed, the State of Serbia then undertook to pay a certain amount to those shareholders, whether or not the bank would be privatized. The global economic crisis, meanwhile, has slowed the privatization process. The state, however, purchased the shares at a price higher than one at the market -Belgrade Stock Exchange (around 261 million euros for the ownership of all four EBRD, IFC, DEG and Swefund), but also higher than the one offered by the NLB bank for Komercijalna Banka.

Conclusion

The high price of buying shares back from foreign shareholders was one of the main reasons for opposing the privatization of Komercijalna banka. Other reasons concerned the bank's business performance – it was profitable, highly capitalized, domestic bank, with the highest saving value kept by citizens. But, agreement from 2009 was mandatory for State.

An interesting detail is that the new owner - Slovenian NLB Bank itself was in trouble, and in the meantime it had emerged. The state of Slovenia holds only 25 percent of its capital, while the EBRD is also one of its shareholders, but this time with ownership below 10 percent of the stock. It can be said that NLB Banka is not Slovenian anymore - according to the ownership, around 62% shares are held by the Bank of New York Mellon.

Serbia now has only three state-owned banks: Banka Poštanska štedionica, Srpska banka and MTS banka.