

Overview of Insurance & Banking Market

by Intellinews ISI Emerging Markets

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Insurance market

The insurance market regulator, CSA, has announced that the gross collected premiums amounted to EUR 815 mn (RON 2.96 bn) for January-September this year. Based on the estimations that usually the gross collected premiums account for 93% in gross subscribed premiums, it came out that the latter would amount to EUR 875 mn. However, on the other hand, XPrimm insurance review has published a report for the first nine months on the insurance market according to which the total gross subscribed premiums amounted to EUR 933.97 mn (RON 3.38 bn). The calculation was made based on the data provided by 39 insurance companies out of a total of 42 currently operating in the market.

Taking into account that CSA did not detail on the two market segments, we will further discuss the local insurance market at 9M based on the data provided by XPrimm review.

Thus, the market continues to have as leader Allianz Țiriac insurer with gross written premiums of EUR 167.78 mn, up by 27.25% y/y and enjoying a market share of 17.96%. The second ranks Asiom with premiums of EUR 131.03 mn and a market share of 14.03%, followed by OmniaSIG General Wienerstaedtische – EUR 80.8 mn and a market share of 8.65%.

Total insurance market, 9M, 2005

| | Gross written premiums | | | | Market share |
|------------------------------------|------------------------|--------|----------|--------|--------------|
| | 9M, 2005 | | 9M, 2004 | | 9M, 2005 |
| | EUR mn | RON mn | EUR mn | RON mn | |
| Allianz Țiriac | 167.78 | 607.21 | 131.85 | 537.18 | 17.96 |
| Asiom | 131.03 | 474.18 | 109.3 | 445.3 | 14.03 |
| OmniaSIG General Wienerstaedtische | 80.8 | 292.41 | 54.13 | 220.53 | 8.65 |
| ING | 78.4 | 283.75 | 54 | 220 | 8.39 |
| Asiban | 69.06 | 249.91 | 33.4 | 136.08 | 7.39 |
| BCR Asigurări | 60.76 | 219.91 | 24.13 | 98.29 | 6.51 |
| Unita Wienerstaedtische | 56.3 | 203.75 | 32.86 | 133.87 | 6.03 |
| Ardaf | 55.03 | 199.14 | 34.97 | 142.49 | 5.89 |
| Astra | 39.91 | 144.42 | 37.63 | 153.31 | 4.27 |
| Generali | 24.51 | 88.7 | 17.04 | 69.42 | 2.62 |
| AIG Life | 22.33 | 80.82 | 13.4 | 54.61 | 2.39 |
| AIG Romania | 17.7 | 64.07 | 11.67 | 47.54 | 1.9 |
| BT Asigurări | 14.77 | 53.46 | 6.11 | 24.89 | 1.58 |
| OmniaSIG Life | 13.92 | 50.37 | 10.31 | 42 | 1.49 |
| OmniaSIG - AGI | 12.6 | 45.61 | 7.16 | 29.15 | 1.35 |
| Carpatica Asigurări | 11.6 | 41.98 | 7.68 | 31.29 | 1.24 |
| Aviva | 10.71 | 38.77 | 5.62 | 22.89 | 1.15 |
| Interamerican | 10.14 | 36.69 | 9.45 | 38.5 | 1.09 |
| OmniaSIG Asirag | 9.61 | 34.79 | 6.45 | 26.27 | 1.03 |
| Agras | 7.7 | 27.88 | 6.54 | 26.66 | 0.82 |

Source: XPrimm review based on data provided by companies

The **general insurance segment** continues to hold the highest weight in total market with gross written premiums of EUR 723.56 mn or 77.47% of total. The percentage is decreasing each year but it is still significant versus the weight of life insurance in total market, which is gaining

momentum but on a slower pace. As compared to 9M 2004, the premiums went up by 40.3% y/y, euro terms, or by a real 14.9%, in RON terms.

The market leader is Allianz Țiriac with written premiums of EUR 155.65 mn (21.5% market share), followed by Asirom – EUR 114.69 mn (15.8% market share) and Omnisig General Wienerstaedtische – EUR 80.8 mn (11.17% market share). The top would suffer significant changes per full year taking into account the recent acquisition of Omnisig group by Austrian Wienerstaedtische insurer. The latter already holds Unita and Agras insurers in the local market. Therefore, the leader of local insurance market might be Wienerstaedtische with all its units acquired in the local market.

General insurance market, 9M, 2005

| | Gross written premiums | | | | Market share 9M, 2005 |
|--------------------------------------|------------------------|--------|----------|--------|--------------------------|
| | 9M, 2005 | | 9M, 2004 | | |
| | EUR mn | RON mn | EUR mn | RON mn | |
| Allianz Țiriac | 155.65 | 563.3 | 125.38 | 510.8 | 21.51 |
| Asirom | 114.69 | 415.05 | 92.66 | 377.5 | 15.85 |
| Omnisig General Wienerstaedtische | 80.8 | 292.41 | 54.13 | 220.53 | 11.17 |
| Unita Wienerstaedtische | 53.72 | 194.4 | 30.62 | 124.73 | 7.42 |
| Ardaf | 53.65 | 194.14 | 33.79 | 137.66 | 7.41 |
| Asiban | 51.26 | 185.52 | 26.8 | 109.19 | 7.08 |
| BCR Asigurări | 41.62 | 150.63 | 21.25 | 86.57 | 5.75 |
| Astra | 39.48 | 142.88 | 37.27 | 151.84 | 5.46 |
| Generali | 20.56 | 74.39 | 14.99 | 61.06 | 2.84 |
| ALG Romania | 17.7 | 64.07 | 11.67 | 47.54 | 2.45 |

Source: XPrimm review based on data provided by companies

On the **life insurance segment**, drastic changes occurred but the leader remains ING, though enjoying a lower market share – 36.79%. The total life insurance market stood at EUR 210.42 mn, up by 58% y/y, euro terms, or up by a real 29.3% y/y in RON terms.

Asirom which lost for many years the first place in both general and life insurance markets, ranked now the 5th in the analysed sector, due to huge losses registered in 9M. The floods had a negative impact on the company's business, but also the lack of a strategic investor. Aviva falls on the 8th position after it ranked among first five life insurers, while Grawe manages to advance in the top, ranking the 9th. Significant change is underlined by the advance of BCR Asigurări on the 3rd position.

Life insurance market, 9M, 2005

| | Gross written premiums | | | | Market share 9M, 2005 |
|----------------|------------------------|--------|----------|--------|--------------------------|
| | 9M, 2005 | | 9M, 2004 | | |
| | EUR mn | RON mn | EUR mn | RON mn | |
| ING | 77.42 | 280.17 | 54 | 220 | 36.79 |
| AIG Life | 22.33 | 80.82 | 13.01 | 53 | 10.61 |
| BCR Asigurări | 19.14 | 69.28 | 2.88 | 11.72 | 9.1 |
| Asiban | 17.79 | 64.4 | 6.6 | 26.89 | 8.46 |
| Asirom | 16.34 | 59.13 | 16.64 | 67.8 | 7.77 |
| Omnisig Life | 13.92 | 50.37 | 10.31 | 42 | 6.61 |
| Allianz Țiriac | 12.13 | 43.91 | 6.48 | 26.38 | 5.77 |
| Aviva | 10.71 | 38.77 | 5.62 | 22.89 | 5.09 |
| Grawe | 5.95 | 21.54 | 3.34 | 13.63 | 2.83 |
| Interamerican | 4.43 | 16.03 | 3.8 | 15.47 | 2.11 |

Source: XPrimm review based on data provided by companies

The deadline by which all insurance companies should company with the new minimum capital requirements imposed by CSA expired as of end December 2005. As much

as half of the insurers had to increase their share capital. One insurer, Provitas, announced that it withdraws from the market. The new regulation of CSA stipulates two stages for capital increase, one by the end of 2005 and the second one by end H1, 2006.

The new minimum capital requirements to be fulfilled by end Dec 2005 are:

- EUR 1.4 mn , for general insurance companies without the compulsory insurance
- EUR 2.3 mn for life insurance companies
- EUR 4.6 mn for general (including compulsory insurance) and life insurance companies

The new minimum capital requirements to be fulfilled by end H1, 2006 are:

- EUR 2.3 mn for general insurance companies without the compulsory insurance
- EUR 3.4 mn for life insurance companies

Insurance news

Aviva life insurance has announced a 91% y/y growth in its gross subscribed premiums up to EUR 10.7 mn (RON 38.8 mn) in 9M. As of end September, total assets of the insurer stood at EUR 27.3 mn (RON 98.9 mn), up by 128% y/y. Back in 2004, the insurer ranked the 8th in top of life insurance companies with gross subscribed premiums of EUR 5.5 mn (RON 22.5 mn) and a corresponding market share of 4.54%. For full 2005, Aviva hopes to win several new positions so that to advance till the 5th place. The company intends to increase its market share and in this respect it will attract an important number of financial consultants who will facilitate increasing sales. Therefore, Aviva wants that by 2008 to increase its number of consultants to 6,000.

UK's Aviva group invested so far EUR 23 mn in its subsidiary from Romania in the past five years since it entered the local profile market. However, the company registered no profit since then, while the cumulated losses for the period 2001-2004 amounted to EUR 13 mn (RON 43.6 mn).

Grawe Romania life insurer reported gross subscribed premiums of roughly EUR 6 mn (RON 21.5 mn), up by 78% y/y in 9M. The officials of the company said that this increase was prompted mainly by the sales made by insurance brokers but also by the development of the own company's sales force. As of end of H1, the insurer had a network of 17 agencies and 400 financial consultants.

Generali insurer has already launched a health insurance product in partnership with Diagnosis private health insurance services provider. The product addresses to corporate segment mainly. Officials of the company said that the market of health insurance services for corporate has a high potential. For January-September, the company reported gross subscribed premiums on the life segment of EUR 4.1 mn, which is double in y/y terms. The total gross subscribed premiums amounted to EUR 25.3 mn in 9M, up by 46% y/y. As regards the profit, company's officials consider they are close to zero, after last year they reported losses of EUR 1.1 mn.

Tender group, majority shareholder of **Ardaf** insurer, poured USD 6 mn (EUR 5 mn) in the insurer so that the latter meets now the liquidity requirements. The insurance market regulator (CSA) asked the company to draft a financial recovery plan after it discovered that Ardaf did not meet the

liquidity requirements. The main measure stipulated in the recovery plan was a capital increase by EUR 6 mn. For January-September, the company reported gross subscribed premiums of EUR 55 mn, up by 57% y/y. Out of total amount, premiums on general insurance segment held the highest weight and posted a growth pace of 59% y/y in 9M to EUR 53.6 mn. The life insurance segment logged premiums of EUR 1.4 mn, up by 16% y/y.

In a different note, Transilvania Bank sold a 5% stake in Ardaf on the Rasdaq market for roughly EUR 1 mn. The buyer is QVT Fund investment fund which has recently acquired a 10% stake in Asirom as well.

Allianz Țiriac has reported gross subscribed premiums of EUR 168 mn (RON 615 mn) in 9M, up by 27% y/y. Also, the insurer entered the local health insurance market by launching three specific products addressed to corporate segment. The company hopes to attract premiums of EUR 9 mn on this segment by 2008. Furthermore, the insurer intends to reduce by 5% the benefits paid in case of car insurance policies for 2006. In 2004, Allianz has paid benefits of EUR 120 mn on the said segment. The reduction would be the result of the implementation of an informatic solution, called Audatex. For full 2005, the company expects subscribed premiums of EUR 220 mn which means a growth pace of 23% y/y. Out of this amount, EUR 203.5 mn are expected to come from the general insurance segment. In 2006, the insurer estimates premiums of EUR 255 mn on the general insurance and EUR 23.8 mn on the life insurance.

Asitrans insurer logged gross subscribed premiums of EUR 5.75 mn (RON 20.8 mn) in 9M, up by 27% y/y, euro terms. Also, during the analysed period, the company reported a net profit of EUR 0.24 mn, almost double, y/y terms. The paid benefits reached EUR 1.7 mn in 9M, most of them being made for RCA insurance policies (third party liability). For full 2005, the insurer expects gross premiums of EUR 7.5 mn. Asitrans has increased its capital by EUR 0.4 mn recently, so that to comply with the new minimum capital requirements issued by the insurance market regulator, CSA. Thus, the company's capital amounts now to EUR 2.3 mn.

The gross subscribed premiums of **BCR Asigurări** stood at EUR 60.8 mn in 9M, being driven mainly by the huge and quick growth of the life insurance segment which posted premiums of EUR 19.1 mn, seven times up, y/y. On the general insurance segment, the premiums went up by 96% y/y to EUR 41.6 mn. The paid benefits were EUR 19.4 mn during the analysed period, while most of them were made for terrestrial transport means insurance and credits insurance. Through end August, BCR Asigurări decided that it will partake in the set up of a second insurance company in the group. The future insurer is to be focused on life insurance only and its name is BCR Asigurări de Viață (BCR Life Insurance). BCR Asigurări de Viață has a share capital of EUR 4.1 mn and is 96% held by BCR bank, while BCR Asigurări, Financiară S.A, BCR Leasing and BCR Securities hold each a 1% stake. The newly set up entity waits for licensing from CSA. Following the recent acquisition of BCR by Austrian Erste Bank, the general insurance division of BCR Asigurări might be taken over by Wienerstaedtsche.

The significant minority shareholder in **Asirom** insurer, Tiberiu Postelnicu, managed to sell through Rasdaq market a 10% stake in the insurer out of a total of 11.5% to an American investment fund, QVT Fund. The value of the deal was EUR 9.5 mn. This brings the total market value of Asirom at roughly EUR 95-100 mn. On the other hand, the insurer

has reported losses in Q3 of EUR 2.8 mn after a profit of EUR 0.54 mn in H1. The registered losses are the result of the floods from the summer period. For 9M, the company reported losses of EUR 2.3 mn. As compared to the same period from last year, the loss has been diminished by 4%, euro terms. The paid benefits stood at EUR 53 mn for general insurance policies in 9M. The gross subscribed premiums on general insurance amounted to EUR 114.6 mn, up by 26% y/y.

The gross subscribed premiums of **Unita** insurer have increased by 70% y/y in 9M to reach EUR 56 mn (RON 202.8 mn). However, the company continues to register losses, so that last year, the loss stood at EUR 1.4 mn. For January-September, the figure was not disclosed. On the general insurance side, the insurer reported premiums of EUR 53.5 mn, up by 75% y/y. The life insurance segment grew by a moderate 14%, euro terms, in 9M, to EUR 2.5 mn. Unita paid benefits of EUR 27.5 mn in January-September, up by 70% y/y. Back in September, the insurer increased its capital by roughly EUR 5 mn so that it reached EUR 22 mn.

Interamerican missed its target regarding health insurance segment as it sold by ten times less policies versus the initial forecast. The number of sold policies is 600 since June till end December 2005. For 2006, the target was set at 5,000 closed policies, versus 7,000 estimated for 2005. Interamerican partners with Euroclinic for health insurance policies. Euroclinic is the first private hospital created by Eureka financial group which is present in Romania through Interamerican and Medisystem.

Banking market

The changes in top 5 of banks which concentrate 60% of total assets in the system and an increase by 21.5% of aggregate balance sheet of credit institutions were the main moves in January-September, 2005 in the banking system. In terms of assets, BCR, BRD and Raiffeisen managed to preserve their positions in the local banking system. Changes occurred from the 4th place onward, meaning that Dutch ABN AMRO and CEC savings bank lost their positions in favour of HVB Bank and respectively BancPost. As of end September, total assets of the banking system amounted to EUR 32.7 bn. The first five banks in the system concentrate 59.4% of total assets, 61% of credits and 58.9% of total equity.

As mentioned above, the aggregate balance sheet of the banking system went up by 21.25% in 9M. The increase was prompted by the growth of credits extended to clients – 24%. Within this segment, the credits extended to population surged by 54.2%. Furthermore, ROE went up by 1.3 pps to 16%, while ROA surged to 2%. In 9M, the credit extended to population reached to 6% in GDP versus 5% last year following a 54% increase. In the same time, the credit extended to corporate went up by a real 12.7% and accounted for 15% in GDP. On the other hand, the net profits of all 40 banks operating in the local banking system totalled RON 1.7 bn (roughly EUR 472 mn) in 9M.

Thus, the three banks in top in terms of assets are also the same which top the system in terms of profits. BCR reported a net profit of EUR 180 mn, followed by BRD – EUR 124 mn and Raiffeisen Bank, which however did not reveal the figure for 9M, but it registered EUR 17.4 mn in 6M. Further changes in the banking system are expected to occur once the merger between HVB–UniCredit–Țiriac bank will be completed. The new financial conglomerate is seen to rank exactly on the 3rd position.

| RON mn | Nov-04 | Dec-04 | Jan-05 | Feb-05 | Mar-05 | Apr-05 | May-05 | Jun-05 | Jul-05 | Aug-05 | Sep-05 | Oct-05 | Nov-05 |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Credit to non-government | 39,877.55 | 41,762.35 | 41,329.88 | 41,541.78 | 43,296.60 | 44,949.76 | 47,097.44 | 48,956.43 | 50,548.13 | 52,352.38 | 55,012.00 | 57,485.57 | 59,634.62 |
| ROL denominated credit | 16,155.82 | 16,386.67 | 16,581.97 | 16,793.23 | 17,121.22 | 17,919.50 | 18,823.13 | 19,543.14 | 20,361.03 | 21,269.42 | 22,536.24 | 24,206.02 | 26,109.94 |
| Short term credit | 8,208.90 | 8,191.44 | 8,509.25 | 8,554.25 | 8,800.74 | 9,072.95 | 9,194.43 | 9,302.89 | 9,500.82 | 9,714.42 | 10,084.31 | 10,912.70 | 11,828.94 |
| current | 8,008.75 | 8,042.07 | 8,370.78 | 8,412.75 | 8,650.46 | 8,934.36 | 9,056.98 | 9,167.49 | 9,358.81 | 9,558.66 | 9,950.84 | 10,752.70 | 11,667.49 |
| overdue | 200.14 | 149.36 | 138.46 | 141.49 | 150.28 | 138.58 | 137.45 | 135.39 | 142.01 | 155.75 | 133.47 | 159.99 | 161.45 |
| Medium term | 7,217.70 | 7,412.12 | 7,252.69 | 7,401.50 | 7,389.69 | 7,640.33 | 8,122.90 | 8,403.26 | 8,334.19 | 8,729.57 | 9,278.89 | 9,661.28 | 9,981.04 |
| current | 7,153.02 | 7,353.28 | 7,188.33 | 7,329.90 | 7,322.55 | 7,569.09 | 8,051.39 | 8,329.86 | 8,254.03 | 8,655.08 | 9,197.43 | 9,583.47 | 9,915.84 |
| overdue | 64.67 | 58.84 | 64.36 | 71.60 | 67.14 | 71.24 | 71.50 | 73.40 | 80.15 | 74.48 | 81.46 | 77.81 | 65.20 |
| Long term | 729.21 | 783.10 | 820.02 | 837.47 | 930.77 | 1,206.21 | 1,505.78 | 1,836.98 | 2,526.00 | 2,825.43 | 3,173.02 | 3,632.03 | 4,299.95 |
| current | 728.88 | 782.58 | 819.46 | 836.90 | 930.19 | 1,205.22 | 1,504.80 | 1,836.03 | 2,524.93 | 2,824.31 | 3,171.70 | 3,630.49 | 4,298.51 |
| overdue | 0.33 | 0.52 | 0.56 | 0.57 | 0.58 | 0.98 | 0.98 | 0.94 | 1.07 | 0.11 | 0.13 | 0.15 | 1.44 |
| Convertible currency | 23,721.73 | 25,375.67 | 24,747.91 | 24,748.55 | 26,175.38 | 27,029.96 | 28,274.31 | 29,413.28 | 30,187.10 | 31,082.96 | 32,475.89 | 33,279.55 | 33,524.68 |
| Short term credit | 8,994.75 | 9,667.85 | 9,334.17 | 9,300.59 | 9,618.19 | 9,834.00 | 10,224.54 | 10,412.76 | 10,674.45 | 10,797.58 | 11,116.34 | 10,824.53 | 10,868.76 |
| current | 8,778.06 | 9,453.69 | 9,110.10 | 9,085.77 | 9,400.39 | 9,598.60 | 9,977.83 | 10,220.55 | 10,467.86 | 10,611.77 | 10,911.59 | 10,602.85 | 10,638.90 |
| overdue | 216.68 | 214.16 | 224.07 | 214.82 | 217.80 | 235.39 | 246.71 | 192.20 | 206.59 | 185.81 | 204.75 | 221.68 | 229.68 |
| Medium term | 9,050.61 | 9,923.51 | 9,669.95 | 9,590.97 | 10,079.97 | 10,266.53 | 10,270.16 | 10,532.98 | 10,782.19 | 10,928.24 | 11,372.30 | 11,816.72 | 11,672.97 |
| current | 9,016.24 | 9,894.92 | 9,633.64 | 9,552.85 | 10,038.89 | 10,214.24 | 10,210.82 | 10,477.60 | 10,724.65 | 10,876.14 | 11,332.04 | 11,776.63 | 11,640.89 |
| overdue | 34.37 | 28.59 | 36.31 | 38.12 | 40.08 | 52.28 | 59.34 | 55.37 | 57.54 | 52.10 | 40.26 | 40.09 | 32.08 |
| Long term | 5,676.36 | 5,784.30 | 5,743.77 | 5,856.98 | 6,477.21 | 6,929.43 | 7,779.69 | 8,467.54 | 8,730.46 | 9,357.12 | 9,987.24 | 10,638.28 | 10,982.93 |
| current | 5,673.51 | 5,781.11 | 5,738.94 | 5,854.28 | 6,474.79 | 6,926.62 | 7,775.42 | 8,462.96 | 8,724.45 | 9,351.83 | 9,979.85 | 10,625.24 | 10,978.53 |
| overdue | 2.84 | 3.19 | 4.83 | 2.69 | 2.41 | 2.80 | 4.17 | 4.58 | 6.00 | 5.29 | 7.38 | 13.04 | 4.40 |
| Credit to government | 2,212.96 | 2,224.19 | 1,960.75 | 1,811.60 | 1,561.08 | 1,956.70 | 1,994.54 | 1,995.95 | 1,685.22 | 2,132.07 | 2,481.57 | 2,596.13 | 2,602.60 |
| M2 | 56,874.20 | 64,461.70 | 63,122.30 | 65,213.40 | 67,957.00 | 69,096.00 | 71,965.60 | 74,200.30 | 74,079.90 | 76,744.80 | 80,151.90 | 81,098.10 | 81,401.90 |
| Total credit | 42,090.51 | 43,986.54 | 43,290.63 | 43,353.38 | 44,857.68 | 46,906.46 | 49,091.98 | 50,952.38 | 52,233.35 | 54,484.45 | 57,493.57 | 60,081.70 | 62,237.22 |
| Current total credit | 39,358.46 | 41,307.65 | 40,861.25 | 41,072.45 | 42,817.27 | 44,448.13 | 46,577.24 | 48,494.49 | 50,054.73 | 51,877.79 | 54,543.45 | 56,971.38 | 59,140.16 |
| Overdue total credit | 519.03 | 454.66 | 468.59 | 469.29 | 478.29 | 501.27 | 520.15 | 461.88 | 493.36 | 473.54 | 467.45 | 512.76 | 494.25 |
| Analysis | | | | | | | | | | | | | |
| Total credit/M2 % | 74.01% | 68.24% | 68.58% | 66.48% | 66.01% | 67.89% | 68.22% | 68.67% | 70.51% | 70.99% | 71.73% | 74.09% | 76.46% |
| Current total credit/M2 % | 93.51% | 93.91% | 94.39% | 94.74% | 95.45% | 94.76% | 94.88% | 95.18% | 95.83% | 95.22% | 94.87% | 94.82% | 95.02% |
| Credit to non-government/total credit % | 94.74% | 94.94% | 95.47% | 95.82% | 96.52% | 95.83% | 95.94% | 96.08% | 96.77% | 96.09% | 95.68% | 95.68% | 95.82% |
| Credit to government / total credit % | 5.26% | 5.06% | 4.53% | 4.18% | 3.48% | 4.17% | 4.06% | 3.92% | 3.23% | 3.91% | 4.32% | 4.32% | 4.18% |
| Overdue total/total credit% | 1.23% | 1.03% | 1.08% | 1.08% | 1.07% | 1.07% | 1.06% | 0.91% | 0.94% | 0.87% | 0.81% | 0.85% | 0.79% |

Source: BNR, IntelliNews calculations

| RON mn | Nov-04 | Dec-04 | Jan-05 | Feb-05 | Mar-05 | Apr-05 | May-05 | Jun-05 | Jul-05 | Aug-05 | Sep-05 | Oct-05 | Nov-05 |
|-------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Broad Money (M2) | 56,874.20 | 64,461.70 | 63,122.30 | 65,213.40 | 67,957.00 | 69,096.00 | 71,965.60 | 74,200.30 | 74,079.90 | 76,744.80 | 80,151.90 | 81,098.10 | 81,401.90 |
| Narrow broad money (M1) | 14,020.10 | 15,288.10 | 14,240.80 | 14,776.80 | 15,465.30 | 16,375.60 | 17,145.60 | 18,495.00 | 19,161.60 | 20,455.50 | 20,964.30 | 21,288.80 | 21,132.50 |
| Currency outside the banking system | 7,309.60 | 7,464.60 | 7,239.50 | 7,658.00 | 7,785.90 | 8,749.80 | 8,689.20 | 9,581.50 | 9,790.40 | 9,984.50 | 10,341.20 | 10,257.60 | 10,348.40 |
| Demand money | 6,710.50 | 7,823.50 | 7,001.10 | 7,118.80 | 7,679.40 | 7,625.80 | 8,456.50 | 8,913.50 | 9,371.20 | 10,471.10 | 10,623.20 | 11,031.20 | 10,784.10 |
| Quasimoney | 42,854.20 | 49,173.70 | 48,881.70 | 50,436.50 | 52,491.70 | 52,720.40 | 54,819.90 | 55,705.30 | 54,918.30 | 56,289.20 | 59,187.60 | 59,809.30 | 60,269.40 |
| Population savings | 13,085.30 | 13,616.00 | 14,006.50 | 14,809.10 | 15,105.10 | 15,364.80 | 15,405.40 | 15,457.40 | 15,666.60 | 15,867.80 | 16,176.70 | 16,193.40 | 16,305.40 |
| Time and restricted money | 10,565.90 | 12,094.10 | 11,690.80 | 13,024.00 | 14,363.60 | 14,694.80 | 14,763.70 | 14,882.80 | 15,046.70 | 16,026.10 | 17,422.30 | 17,155.90 | 17,762.60 |
| Foreign currency deposits | 19,203.00 | 23,463.60 | 23,184.30 | 22,603.40 | 23,023.10 | 22,660.90 | 24,650.90 | 25,365.00 | 24,205.00 | 24,395.30 | 25,588.60 | 26,460.00 | 26,201.30 |
| Domestic credit | 35,675.38 | 36,518.66 | 35,795.39 | 36,903.92 | 39,000.21 | 39,800.35 | 41,778.07 | 41,490.23 | 42,253.69 | 44,112.54 | 46,213.63 | 46,699.72 | 49,739.47 |
| credit to non-government | 39,877.55 | 41,762.35 | 41,329.88 | 41,541.78 | 43,296.60 | 44,949.46 | 47,097.44 | 48,956.43 | 50,548.13 | 52,352.88 | 55,012.13 | 57,485.57 | 59,634.62 |
| credit to government, net | -4,202.16 | -5,243.69 | -5,534.49 | -4,637.86 | -4,296.38 | -5,149.11 | -5,319.36 | -7,466.19 | -8,294.44 | -8,239.84 | -8,798.5 | -10,785.8 | -9,895.15 |

Source: BNR

The latest data issued by the central bank have indicated that the non-government credit went up by a real 37% y/y at end November after a 32% y/y growth as of end October, to reach EUR 16.3 bn. Detailing on the issue, the stock of foreign currency credits continued to post a quicker growth pace than the local currency credits, but it eased following the tight measures taken by the central bank back in September which were aimed at curbing the quick growth of this segment. The data revealed that the measures seemed to be effective as the volume of foreign currency loans stagnated over October-November to EUR 9.1-9.2 bn. Furthermore, the local currency credits surged by a real 7.9% y/y, quite close to the October growth of 7.4%. Still, despite the tight regulations of the central bank, it seems that the stock of consumer and mortgage loans accelerated during November. Thus, the stock of consumer loans went up by 92% y/y to EUR 4.3 bn as of end November versus 84% y/y in October. Also, the consumer loans posted a 49% y/y growth in November to EUR 1.37 bn.

Banking news

Austrian Erste Bank won the tender for 61.8% stake in Romania's largest lender, BCR (Romanian Commercial Bank) for the record amount of EUR 3.751 bn. That means that the Austrian bank paid EUR 7.65 per share. Following this deal, the value of BCR increased to EUR 6.06 bn, taking into account the price paid by Erste for the mentioned stake in the Romanian bank. Two years ago, the state had sold a 25% stake in BCR to IFC and EBRD. At that time, the two IFIs have paid a total of USD 250 mn (EUR 208 mn) for the said stake. Now, after this deal, EBRD and IFC will cash EUR 1.51 bn. The privatization process in BCR will be completed in Q2, 2006. EBRD said that it will sell its stake in 3-4 months after the announcement of tender's winner. The 61.8% stake acquired by Erste in BCR is compiled by a 36.88% stake coming from the state and a 25% stake coming from EBRD/IFC. The rest of shares in BCR will continue to be held by SIFs – 30.12% and BCR's employees – 8%.

Who is Erste Bank?

- one of largest European banks with assets of EUR 140 bn;
- has 12 mn clients in the SEE and CEE markets;
- it has not been so far present on the Romanian banking sector like its main competitors, Bank Austria (through HVB), and Raiffeisen Bank;
- the bank operates in Austria, Czech Republic, Hungary, Slovenia, Serbia, Croatia and Slovakia through Ceska Sportelna, Erste Bank Croatia, Erste Bank Hungary, Erste Slovenia, Novosadska Bank and Slovenska Sportelna.

How will Erste pay for the acquired stake in BCR?

In order to finance the acquisition, Erste operates a capital increase worth EUR 2.4 bn. The move was scheduled for early 2006. This capital increase along with the integration costs of the two banks (seen at roughly EUR 90 mn) and consolidation of BCR's results with Erste Bank's results in Q2, 2006, will lead to a diminishing in Erste' profit by 17% in 2006 and further by 7.4% in 2007, according to estimations made by Raiffeisen's analysts. The same analysts consider that BCR will have a EUR 217 mn profit this year, EUR 272 mn in 2006 and EUR 336 mn in 2007.

Going back to capital increase needed for paying the acquisition, Erste Bank announced on January 26 that it managed to gather EUR 2.65 bn through the sale of shares on Vienna stock exchange. Furthermore, the bank will have to bring another EUR 1.1 mn from its own resources so that to match the total of EUR 3.75 bn it has to pay for the stake acquired in BCR. The IPO that took place on Vienna stock exchange was made at a price per share of EUR 45. The pre-emptive rights of Erste Bank's shareholders were exerted in a weight of 60%, while for the rest of investors acquired the remainder of the stake which was actually oversubscribed by 1.7 times.

Erste's goals for BCR in the next four years:

- reduce costs/revenues ratio from 54% in 2004 to 48% in 2009;
- return on investments should exceed 10% in 2009;
- ROE should reach to 35% versus 17% in 2004.

Main stipulations in BCR's privatisation contract

- representatives of AVAS (privatisation agency), IFC and EBRD will have to give up their positions within BCR's Supervision Council;
- BCR's shares will be listed on the Bucharest Stock Exchange in three years;
- if Erste Bank does not list BCR's shares within three years, the it will be activated the clause according to which major decisions in the Board may be taken with a minimum 75% of shares;
- no guarantees are stipulated for BCR's employees;
- if BCR's value drops by a minimum of EUR 300 mn between the momentum of signing and finalising the deal, Erste Bank is entitled to unconditionally give up the takeover;

- Erste is neither allowed to sell BCR in the next three years nor to give up at name or corporative identity of the bank;
- employees' wages will not be increased by more than 5%;
- if stock of clients' deposits fall by 20% as compared to July 30, 2005, Erste may give up the deal.

Just after the announcement of BCR's acquisition by Erste, S&P has affirmed the A-2 short term rating for Erste Bank der Oesterreichischen Sparkassen AG (Erste Bank). In the same time, S&P has upgraded BCR's rating to BBB-. Analysts of S&P have grounded this decision on the strategic value of the deal and that the estimated capital increase of Erste will be completed successfully (which has actually happened already).

For January-September, BCR logged a net profit of RON 650 mn (EUR 180 mn) very close to the EUR 190 mn target set for this year. As of end September, BCR's assets amounted to RON 28.7 bn (EUR 8 bn). The stock of extended credits stood at EUR 3.9 bn as of end September.

BancPost managed to rank the 5th in top of local banking system in terms of assets as of end September, with reported total assets of EUR 1.5 bn, according to latest report of the central bank in this respect. Furthermore, the bank logged a net profit of EUR 12 mn in 9M. Mihai Bogza, president of BancPost, said that the bank's main goal is to rank the third in the system in three-four years, which means a considerable increase in its market share. Furthermore, bank's majority shareholder, Greek EFG Eurobank, intends to buy back the stakes held by EBRD and IFC in BancPost next year. The two IFIs hold a cumulated 7.28% stake in the bank. The shareholders of the bank approved a capital increase which would bring the capital at a total of EUR 55.3 mn. The capital increase operation is expected to be completed in Feb 2006.

Second largest bank in the system, **BRD – Groupe Société Générale**, reported a net profit of RON 448 mn (EUR 124 mn) for January-September, which is higher by 104%, in EUR terms, y/y, confirming this way the strong growth posted by the bank in H1. As of end September, total assets of the bank amounted to EUR 5 bn on the back of increase of consumer credit. The stock of extended credits to physical persons went up by 96% y/y in 9M, posting a quicker growth than in case of deposits which advanced by only 28% y/y for the same analysed period. However, the stock of extended credits to corporate had a moderate growth, by only 14% y/y, significant below the growth posted by the deposits – by 153% y/y. In terms of profitability, ROE was 41% in 9M, slightly down versus 43% in H1.

HVB Bank and **Țiriac Bank** which are currently under merger process have entered as well under the umbrella of **UniCredit** group. In the upcoming period, the local branch of UniCredit will integrate as well. Thus, the new created entity will rank on the third place in the local banking system, outpacing Raiffeisen which used to occupy this position. The new group has total assets of EUR 3 bn as of end September 2005. Each bank brings something different in this conglomerate, meaning: HVB brings its corporate clients portfolio, Țiriac Bank comes with the retail segment, while UniCredit will contribute with a combination of retail and corporate business. Furthermore, the three banks serve as much as 800,000 clients through their networks of 121 units, out of which Țiriac Bank holds 67 and UniCredit 50. In a first stage, the three banks will operate separate.

National Bank of Greece will pour as much as EUR 130 mn in **Banca Românească** in order to overcome the constraints imposed by the central bank regarding crediting in foreign currency. The constraint refers to the fact that the stock of credits extended by a bank in foreign currency cannot exceed the level of three times its own funds. The measure was taken by the central bank as of end September.

For January-September, the bank reported a net profit of EUR 3.2 mn, down by 36% y/y on the back of increase of expenses. The stock of extended credits went up to EUR 383 mn, while the largest increase was noticed on the segment of crediting of physical persons and SMEs – by 9 times to reach EUR 144 mn. The corporate segment surged by only 2.5 times to EUR 239 mn. This fall, NBG acquired Alpha Insurance Romania and Banca Românească has already signed a contract with it for bancassurance.

Raiffeisen Bank, third player in the local banking system up until recently, eyes a 12% market share by the end of this year which is considerably high as compared to the 8.8% figure reported for H1, 2005. The market share is calculated in terms of assets. Herbert Stepic, CEO of Raiffeisen International, was quoted by local press saying that the bank will continue its aggressive approach on the market by launching new products and expanding its network.

Raiffeisen is committed to approach the rural segment where it will extend small financing. As a first step, Raiffeisen Bank has received a EUR 30 mn credit from German KfW Bankengruppe. The credit will be directed to financing of SMEs in the rural areas. Also, the credit facility is part of a program aimed at supporting SMEs and it was initiated by EU. Thus, EU will provide technical assistance for the project worth a total of EUR 3 mn. The first financings will be extended in early 2006, as by that time, specific products need to be developed.

For January-September, Raiffeisen reported total assets of EUR 2.88 bn as of end September, which marks an advance by 38.5% as compared to end December 2004. Despite the good results for 9M, the bank has lost the third position in the banking sector as the conglomerate formed by UniCredit, HVB and Ţiriac Bank outpaced with total assets of EUR 2.98 bn, for the same analysed period. Noteworthy is that the three players will continue to operate separately for the time being while the merger is to be made next year under the umbrella of UniCredit.

CEC savings bank managed to recover the losses reported in H1 and posted a profit of RON 3 mn (EUR 0.87 mn) in 9M, as stated by Eugen Rădulescu, bank's president. For comparison, CEC logged a net profit of RON 66 mn. Rădulescu added that the cover of loss registered as of May 31 this year was possible due to the quick increase of RON denominated credits. As of end September, the stock of RON denominated credits amounted to RON 1.5 bn (EUR 428 mn). The bank will continue its restructuring process. Since March this year, a number of 1,500 of employees were laid off. As regards the units network, it is stipulated in the privatization contract as well, that the buyer should keep at least 700 units out of a total of 900 units located in cities with minimum 50,000 citizens. The upgrade of the IT system will continue in the first quarter next year.

On the privatisation side, the authorities seemed not very "happy" with the bids submitted by the seven investors interested in the savings bank. Therefore, not decision has been taken yet whether CEC will be privatized on the spot or not. The seven investors in race for CEC are EFG Eurobank, National Bank of Greece, Raiffeisen, OTP, Monte dei Paschi di Siena and Dexia Bank (Erste Bank, winning the majority stake in BCR said it is no longer interested). The first deadline for binding bids was set for November 28, but it was meanwhile postponed and the last time "the end of January" was indicated as possible next deadline.

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