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Management

The Serbian & SEE Bond Market in A Year That Caught the World Off Guard

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The World Between CBONDS

1. April 3rd “Panama papers” unravels
2. May 19th Egypt Air Flight 804 crashes
- 3. June 23rd majority in UK votes for Brexit**
4. August 31st President of Brazil impeached
5. September 3rd US and China join Climate Agreement
- 6. November 8th Trump wins US elections**
7. December 19th Russian ambassador to Turkey assassinated
8. December 23rd UN condemns Israel acts in Palestine
9. December 25th Tupolev Tu-154 crashes
- 10. January 20th Trump Inauguration**
- 11. March 2017 FED Raises rate by 0.25**



Quick Overview

Serbia, like most sovereigns in the region, issues bonds in a number of denominations:



- The USD denominated bonds are traded OTC and settled via Euroclear.
- Most liquid of the three and have the tightest bid/ask spreads.
- They are also the most volatile.

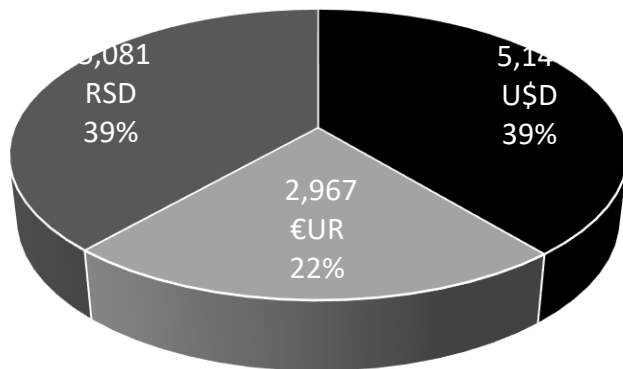


- The Euro denominated bonds are traded and cleared locally via the central Securities depository and Clearing house in Belgrade (CRHoV).
- They are less liquid and more costly to trade actively but much less volatile

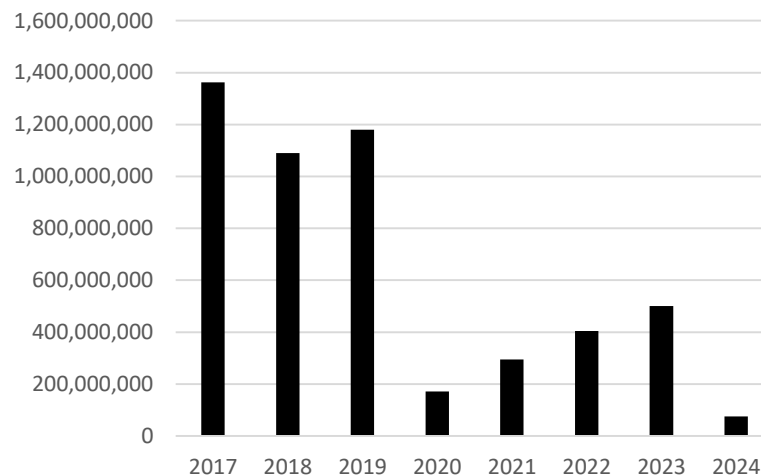


- The RSD denominated bonds are traded and cleared locally via central Securities depository and Clearing house in Belgrade (CRHoV).
- They are fairly liquid due to high percent of local participants (banks and insurance companies) and recently uptick with foreign interest.
- FX risk but can be offset via FX swaps

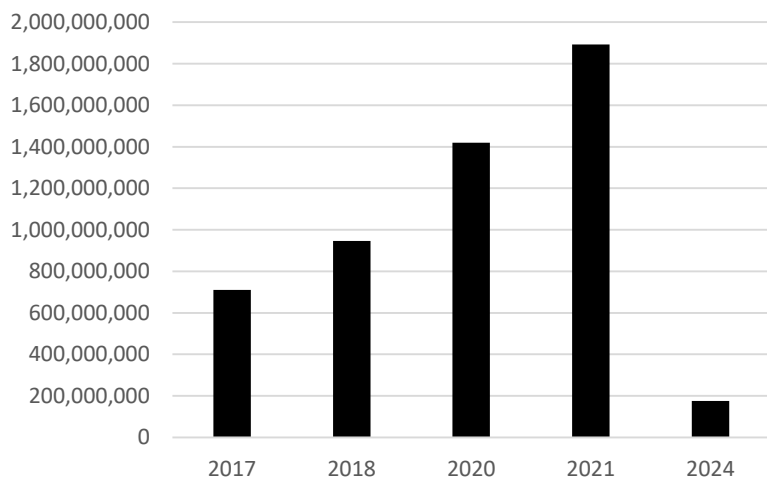
€13.19 bil. of maturities
outstanding (in mil.)



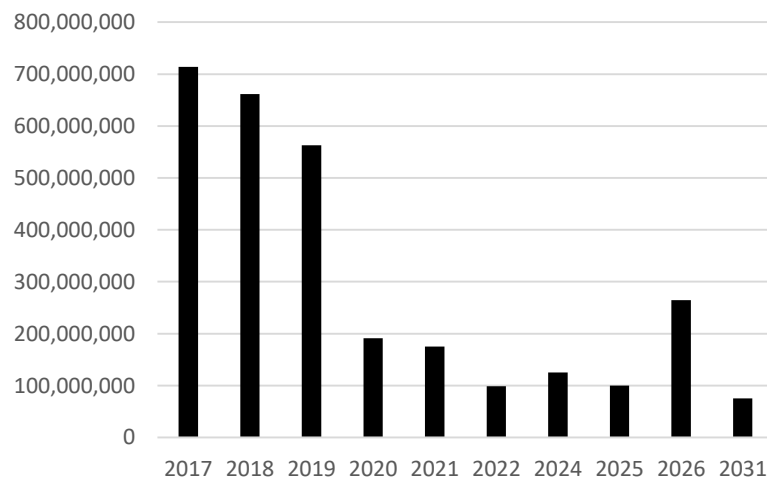
5.08 Bil. Outstanding RSD bonds (in EUR)



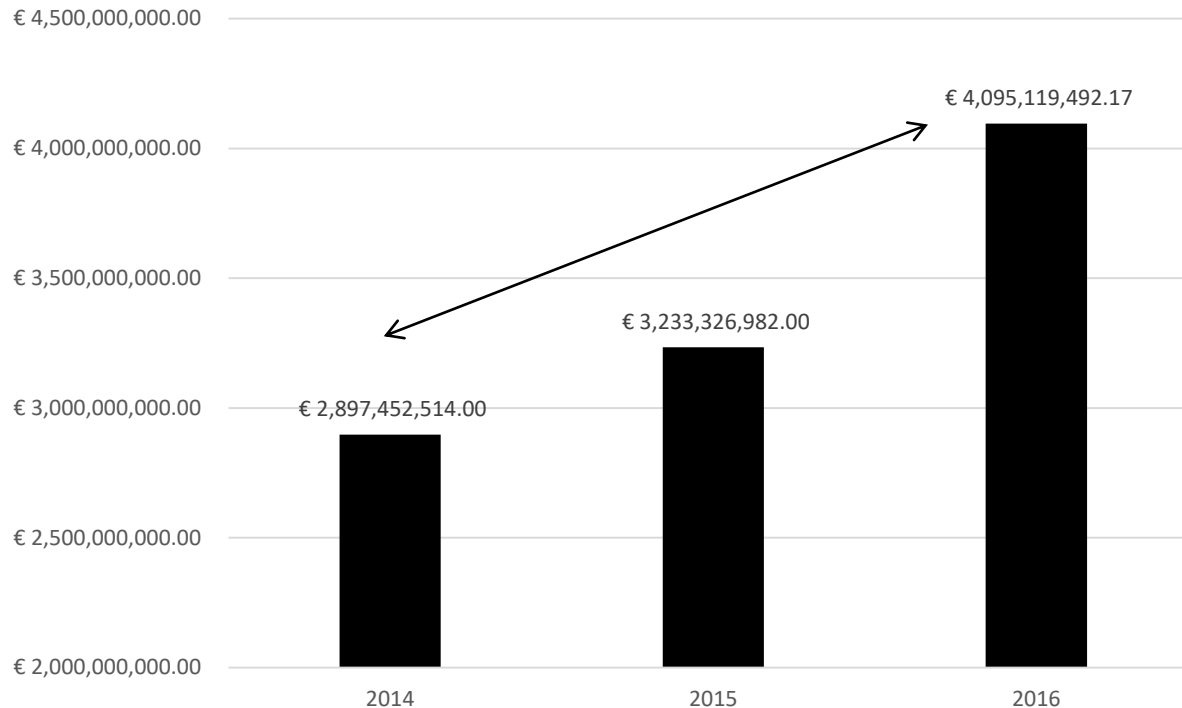
5.15 Bil. Outstanding USD bonds (in EUR)



2.97 Bil. Outstanding Euro bonds (in EUR)



Growing Local OTC Market



Local OTC trading volume increased almost 25% yoy to and 41% since 2014.

Part of this can attributed to the fact that more London banks, brokers and funds, started actively quoting local issuances and Bloomberg launch of ***E-OND*** platform for Serbian bonds.

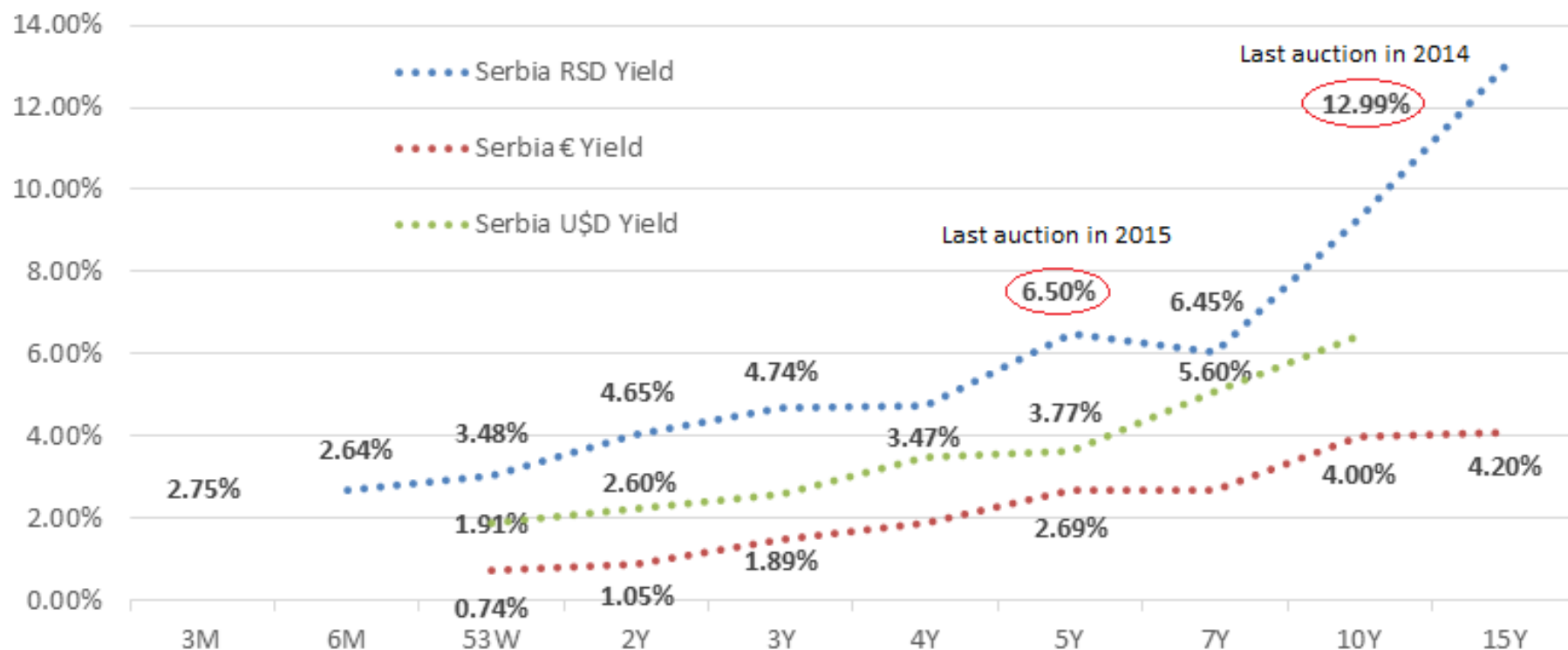
But also driven by local banks lack of alternatives for deployment of cash.



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Yield Curves for SRB RSD, SRB€ and SRB\$ Bonds



Serbia between CBONDS

Despite significant external events Serbia made substantial progress:

- **Credit rating upgraded By Moody's from B1 to Ba3, outlook stable.**
- **Macroeconomic improvements – GDP comes in above forecast**
- **Fiscal consolidation, stability continue**
- **“Dinarization” process successfully implemented**
- **SRB Bonds show Resilience to external shocks**

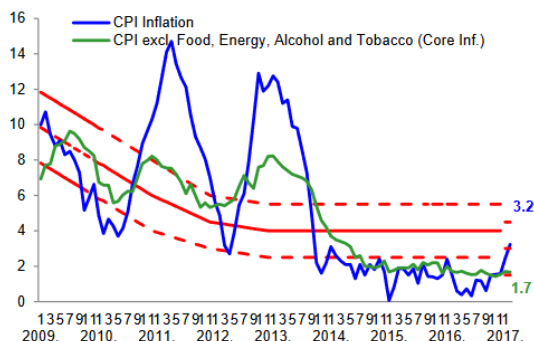
Credit rating upgrade – as predicted on CBONDS ‘16

- *The key drivers of the upgrade are the results of fiscal consolidation, implementation of structural reforms.*
- *Better than expected economic growth and improved outlook, price stability.*
- *Progress with the EU accession.*

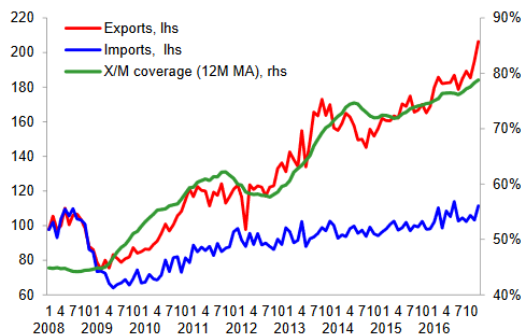
Rating Agency Name & Rating Type	Rating	Rating Date	Outlook	Outlook Eff. Date	Rating Endorsement
S&P Long-term Issuer Rating (Foreign)	BB-	07-Aug-2012	POSITIVE	16-Dec-2016	EUR
	BB	16-Mar-2011			
	BB-	18-Jul-2005			
S&P Long-term Issuer Rating (Domestic)	BB-	07-Aug-2012	POSITIVE	16-Dec-2016	EUR
	BB	16-Mar-2011			
	BB-	18-Jul-2005			
Moody's Long-term Issuer Rating (Foreign)	Ba3	17-Mar-2017	--	--	EUR
	B1	14-Jul-2013			
Moody's Long-term Issuer Rating (Domestic)	Ba3	17-Mar-2017	--	--	EUR
	B1	14-Jul-2013			
Moody's Derived Long-term Issuer Rating (Foreign)	Ba3	17-Mar-2017	STA	17-Mar-2017	EUR
Fitch Long-term Issuer Default Rating (Foreign)	BB-	17-Jun-2016	Sta	16-Dec-2016	EUR
	B+	17-Jan-2014			
	BB-	25-Apr-2006			
Fitch Long-term Issuer Default Rating (Domestic)	BB-	17-Jun-2016	Sta	16-Dec-2016	EUR
	B+	17-Jan-2014			
	BB-	25-Apr-2006			

Macroeconomic improvements – Economic Growth continues

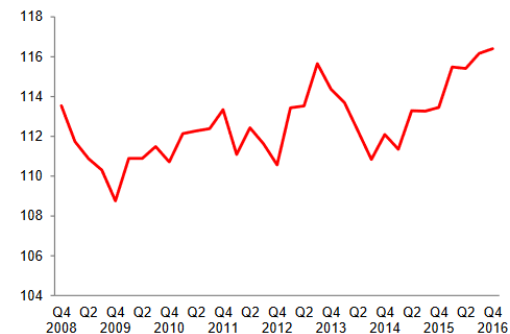
1. CPI at 1.7% within the targeted band of 2,5%.
2. Current account deficit reduced – circa 3.9% of GDP . Exports grew 11.8%, imports by 5.6%
3. GDP at 2.8% vs. forecast of 1.8% with 2017 forecast 3%-3.2%
4. FDI Inflows at €1.9bn, 3.2% higher compared to 2015.



CPI Developments



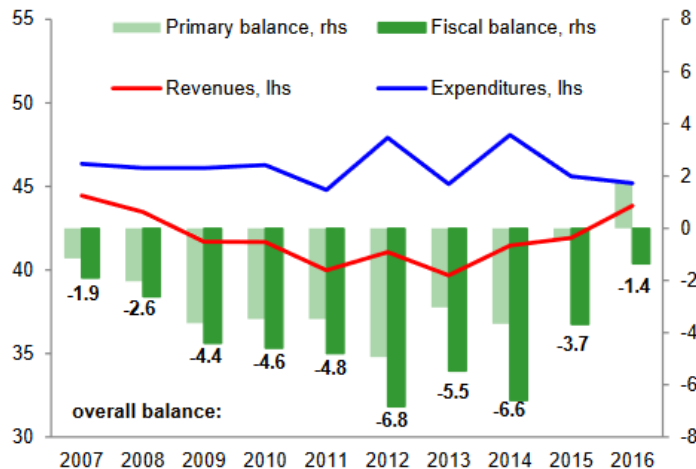
Exports & Imports



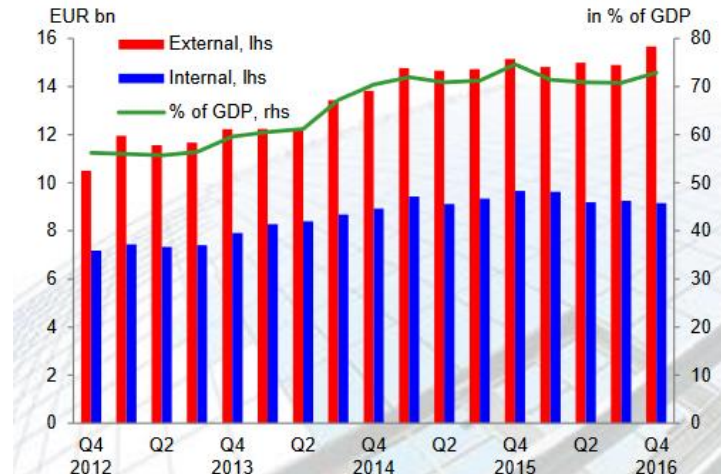
GDP (Q1 2006=100)

Fiscal stability

1. After a 3.7% of GDP in 2015 fiscal deficit further contracted to 1.4% of GDP
2. Primarily driven by higher revenues (1.9pp) and savings (0.4 pp)
3. Public investment increased by 0.5%



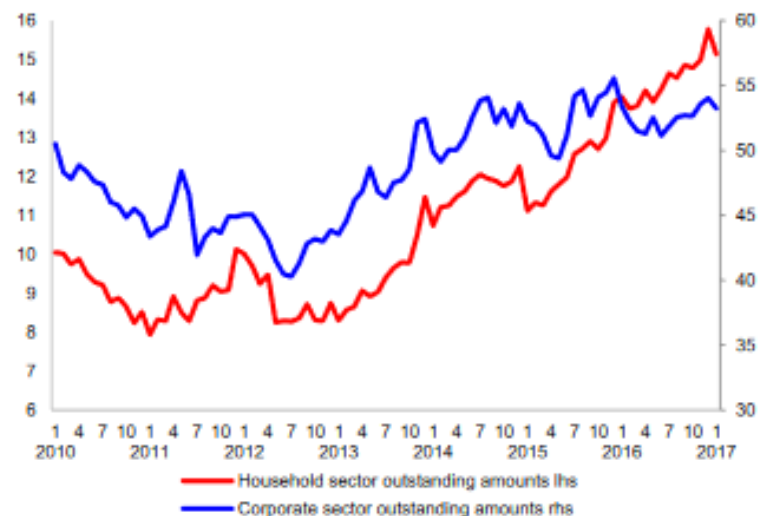
Fiscal revenues & expenditures (% of GDP)



Public Debt (Central Government)

Upward trend of Dinarisation

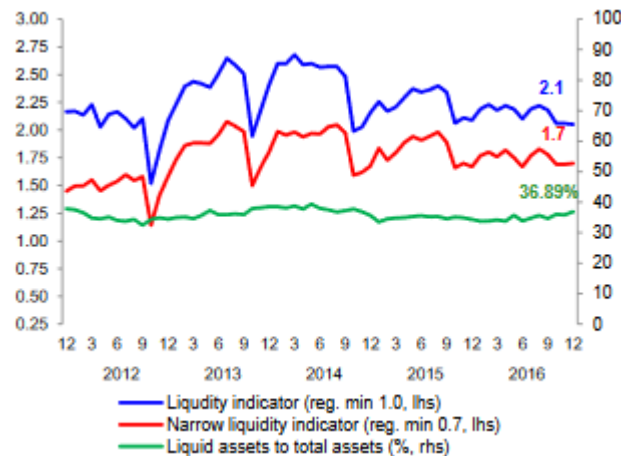
1. New “Dinar” benchmark issues in 3Y and 7Y tenors, RSD 110 bn (\$ 1bn) each.
2. RSD share of total Government debt rose to 20.8% from 2.5% in 2008.
3. RSD loans now stand at 31.5% in the private sector, deposits over 55%
4. EBRD issued inaugural RSD bond (RSD2.5bn 3Yr. Note Priced @ 3M BELIBOR +0.4 pp).



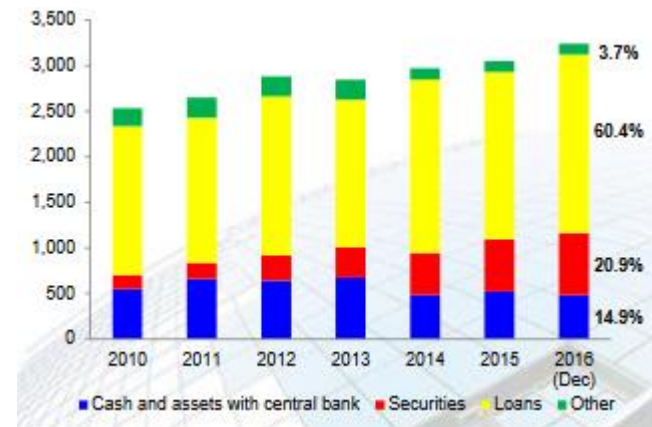
RSD share of total bank deposits

Banking sector rebounds

1. After years of consolidation banking is on solid footing with CAR at 21.8%, Tier I to RWA at 20%.
2. Bank's balance sheets structure is highly liquid with 15 % in cash and 21% in securities.



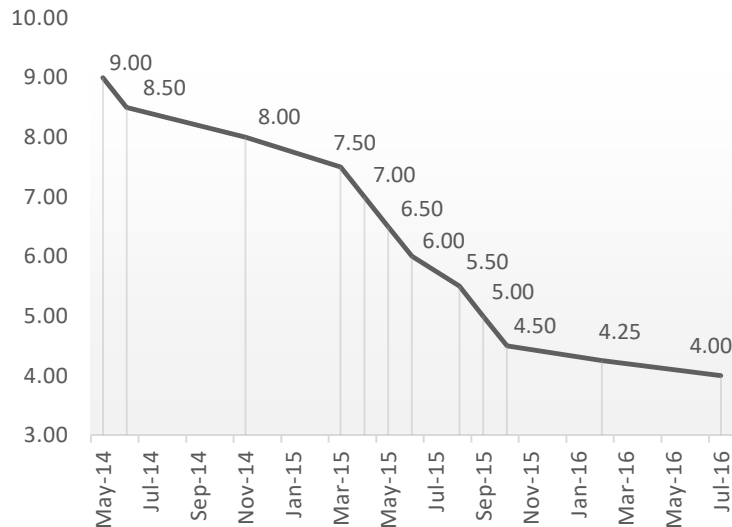
Liquidity Indicators of Banking Sector



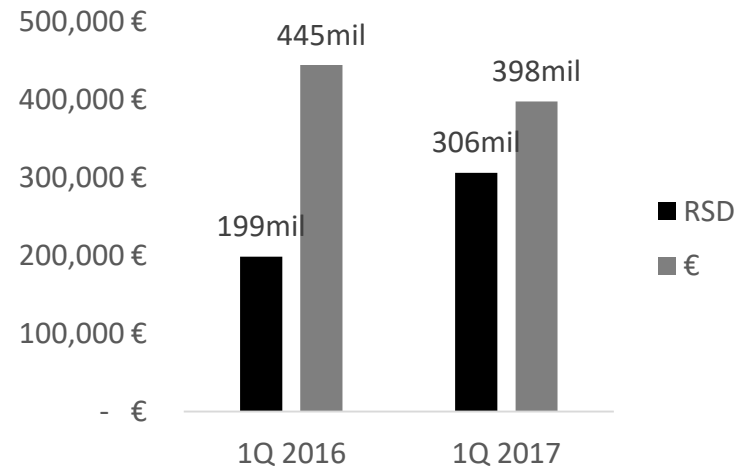
Structure of Banks Assets

NBS and MinFin succeeding in key objectives

1. Key policy rate stable at 4%, no change over the last 8 months.
2. Stable exchange rate without excessive NBS interventions.
3. RR relaxation released €730 mil of liquidity into the system.
4. Local debt issuances completely covered funding needs in 2016.



NBS key policy rate



€644mil

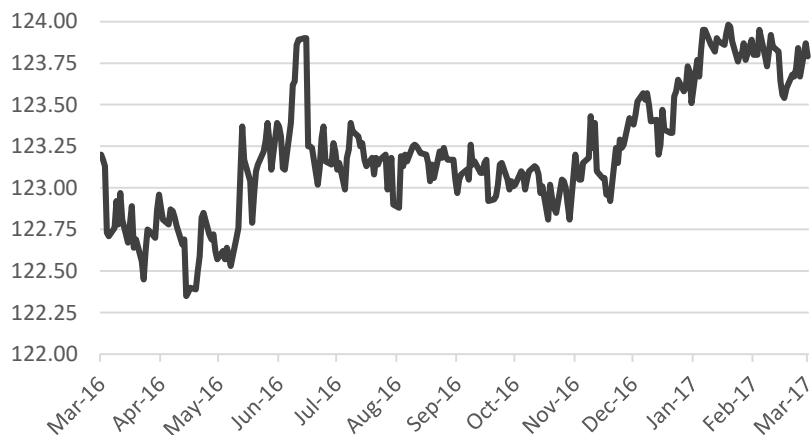
€704mil

NBS and MinFin succeeding in key objectives (cont).

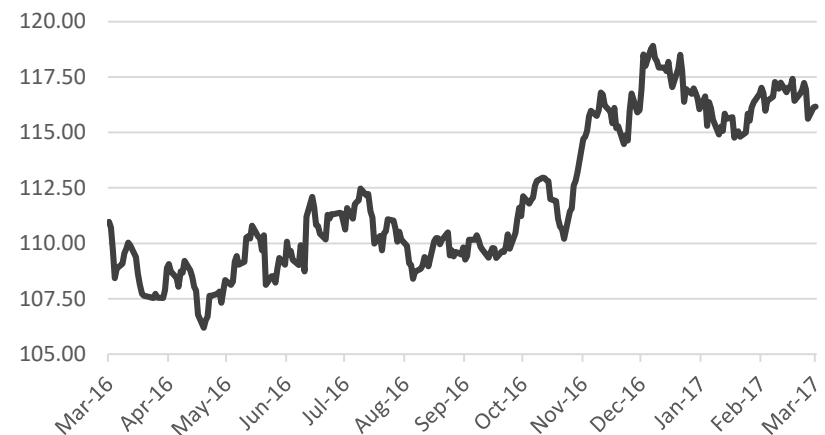
62% of Serbia's sovereign debt is in USD and Euro.

NBS is committed to a stable currency and has shown that it is prepared to intervene on the FX market as the situation requires.

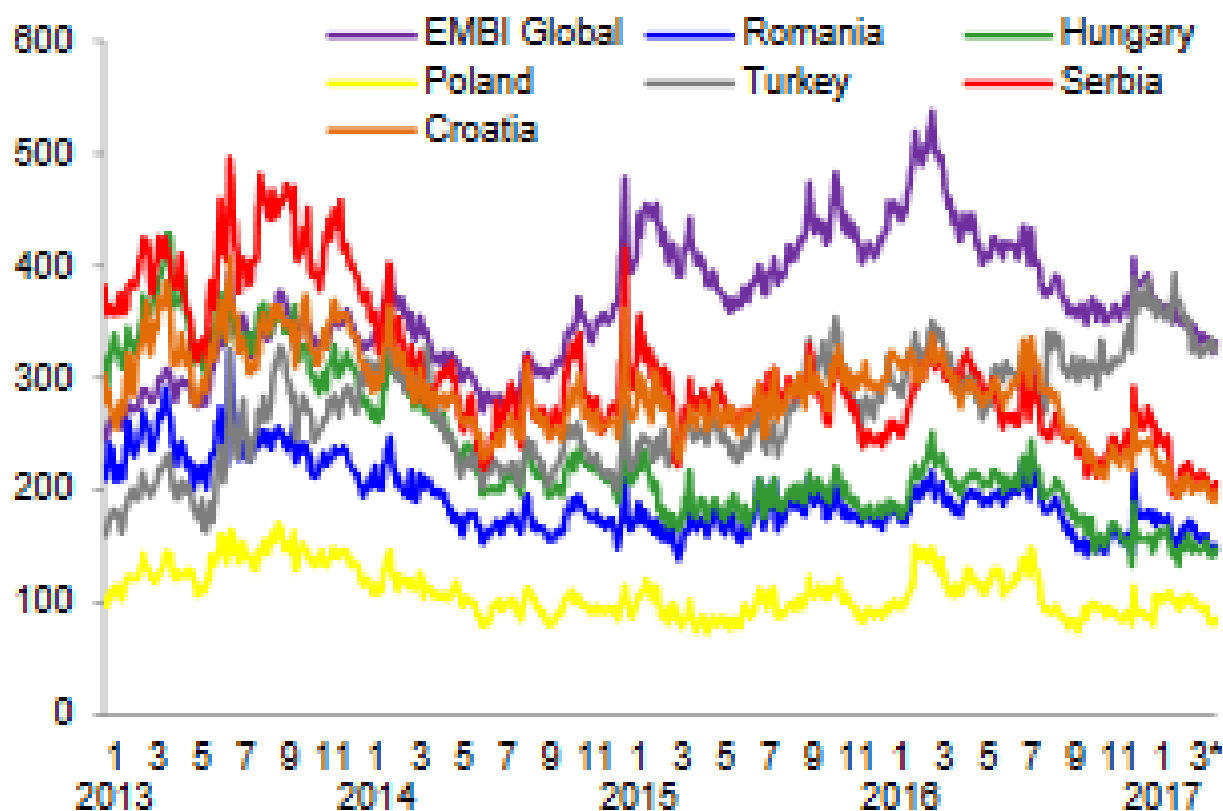
EUR/RSD FX Rate



USD/RSD FX Rate



Risk premium decreases 90bp since Q1 2016 from 300 bp to 210 bp





What's the Story?



Strong resilience of
Eurobond issues

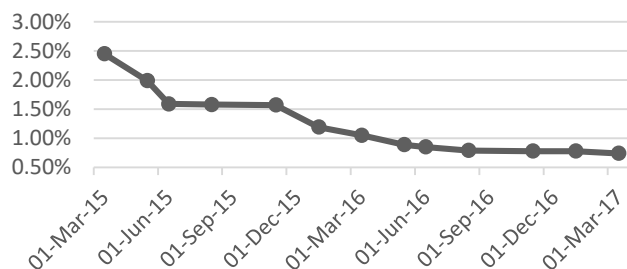
Local issues proved almost
immune to external shocks

continued opportunity in
SRB sovereign bonds(USD
& RSD)

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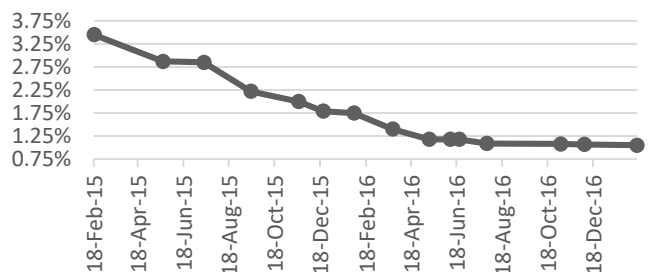
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SRB€ 53W



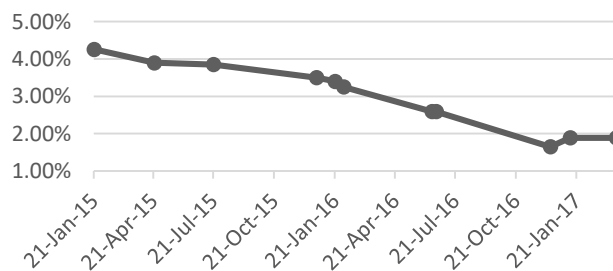
The Serbian (and neighboring Croatia bonds), over the last few years have arguably been one of the best performing bond markets with total returns outperforming many equities.

SRB€ 2Y



Yields for 1yr, 2yr, 3yr €bonds all have double digit yoy contractions.

SRB€ 3Y



Yields are still declining but at slower rate.

€uro Bonds	Yld. 2016	Yld. 2017	Bps	YoY chng%
53W	1.19%	0.74%	0.45	-37.8%
2Y	1.75%	1.05%	0.70	-40.0%
3Y	3.40%	1.89%	1.51	-44.4%

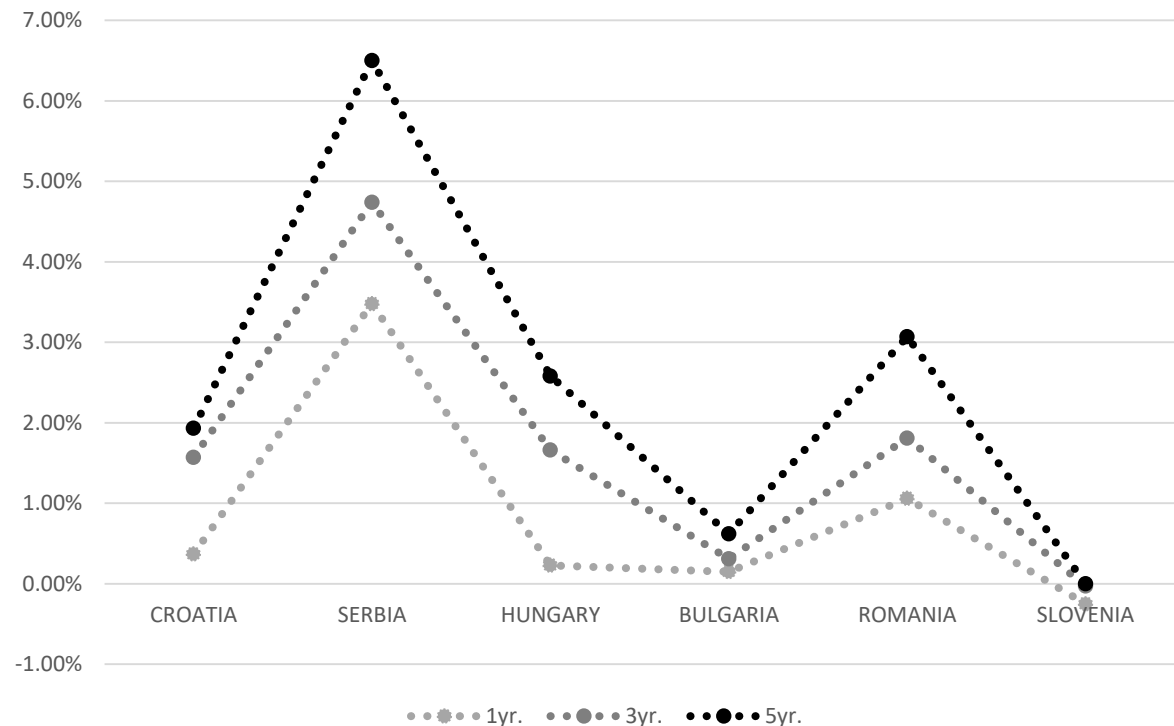
“Perceived risk vs actual risk”

Often yields, of emerging market sovereigns, are weighted more by their “perceived” risk than real risk. These “perceived” risks, are often out of correlation with the real or actual risk of the underlying Sovereign.

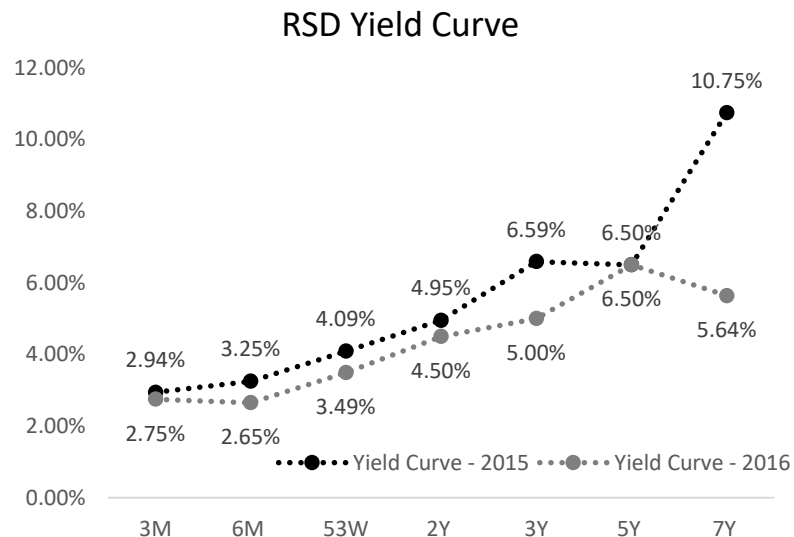
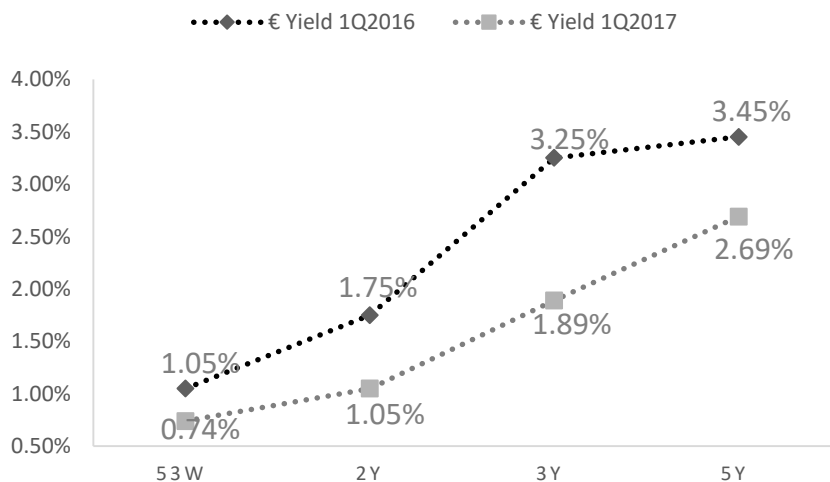
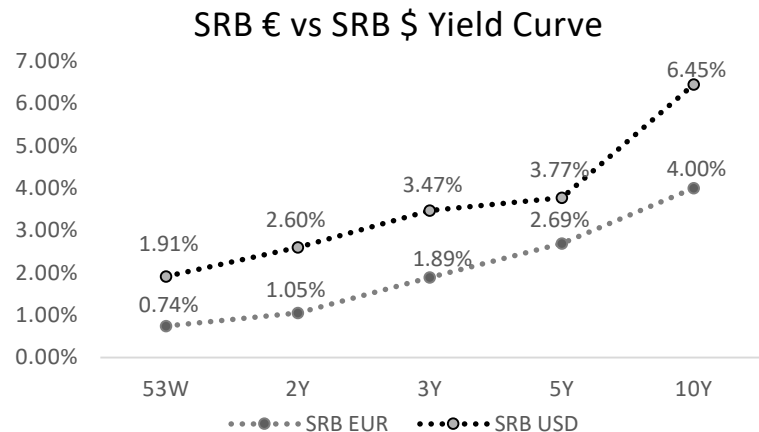
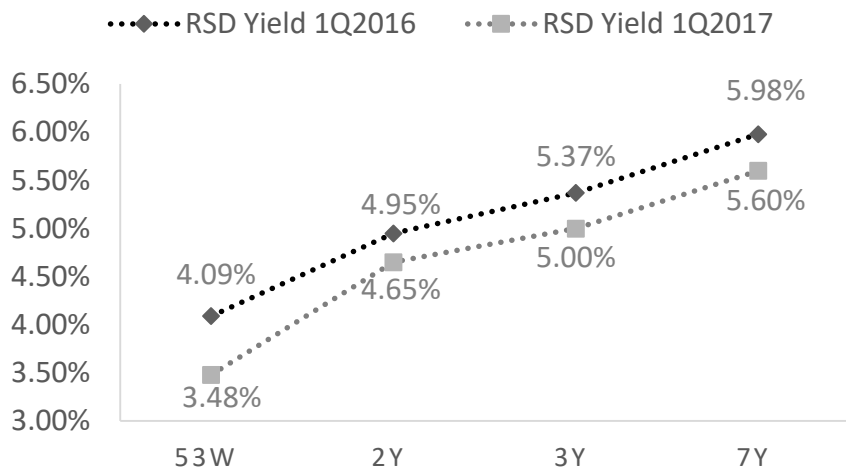
Sometimes substantially.

Local Currency Yield Curves

	1Yr.	2Yr.	3Yr.
CROATIA	0.37%	1.57%	1.93%
SERBIA	3.48%	4.74%	6.50%
HUNGARY	0.23%	1.66%	2.58%
BULGARIA	0.15%	0.31%	0.62%
ROMANIA	1.06%	1.81%	3.07%
SLOVENIA	-0.25%	-0.03%	0.00%



Local issues proved almost immune to external shocks.





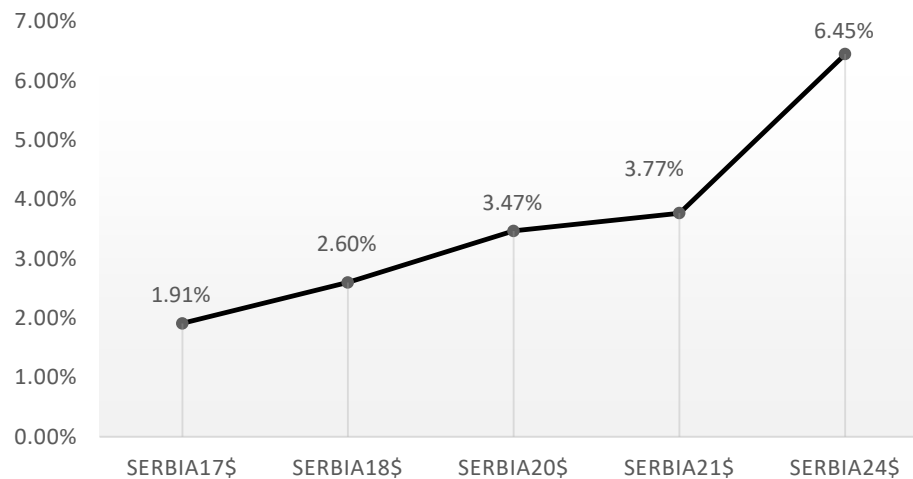
Serbian EUROBOND Option

Currently the most compelling opportunities are in the U\$D and RSD issues. However, Eurobonds offer several advantages:

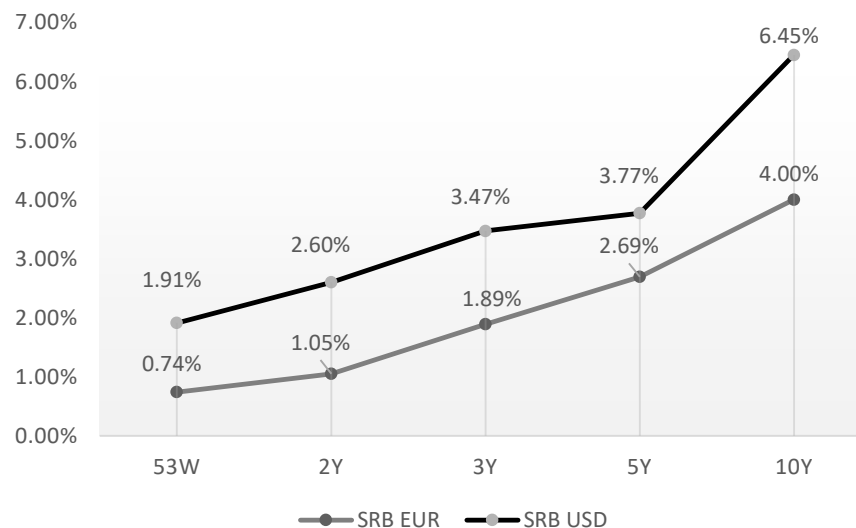
- 1. Higher liquidity*
- 2. Lower transaction costs*
- 3. Better bid/ask transparency*
- 4. Clearing issues (Euroclear vs local system)*
- 5. Coupon size and frequency (S/A vs Annual)*

Description	Maturity date	Coupon
SERBIA17\$	21/11/2017	5.250
SERBIA18\$	03/12/2018	5.875
SERBIA20\$	25/02/2020	4.875
SERBIA21\$	28/09/2021	7.250
SERBIA24\$	01/11/2024	6.750

USD Yield Curve



SRB € vs SRB \$ Bonds Yield Curve



Bond Information

Maturity Date	28-Sep-2021 @ 100%
Principal / Coupon Currency	USD / USD
Coupon Type	Fixed: Plain Vanilla Fixed Coupon
Coupon Frequency	Semiannually
Current Coupon / Next Pay Date	7.25000 / 28-Mar-2017
Dated / First / Final Coupon	28-Sep-2011 / 28-Mar-2012 / 28-Mar-2021
Amount Outstanding	2,000,000,000 USD
Par Value / Min. Denomination / Increment	1,000.00 / 200,000.00 / 1,000.00 USD



SRB \$2021 7.25 Yield Movement Y-O-Y

PASSIVE INVESTING APPROACH





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ACTIVE INVESTMENT APPROACH

LineGrd, RS068023190=, Mid Price(Last), 4/3/2017, 114.250



Trade Date	4/18/2016
Quantity	883
Price	112.775
Accrued Interest	\$ 3,912.18
Total	\$ 999,715.43

Trade Date	6/3/2016
Quantity	883
Price	114.750
Accrued Interest	\$ 12,270.02
Total	\$1,025,512.52

Trade Date	6/27/2016
Quantity	887
Price	113.850
Accrued Interest	\$ 16,255.01
Total	\$1,026,105.01

Trade Date	9/12/2016
Quantity	887
Price	116.50
Accrued Interest	\$ 29,474.27
Total	\$1,062,829.27

Trade Date	12/14/2016
Quantity	937
Price	111.850
Accrued Interest	\$ 14,718.71
Total	\$1,062,753.21

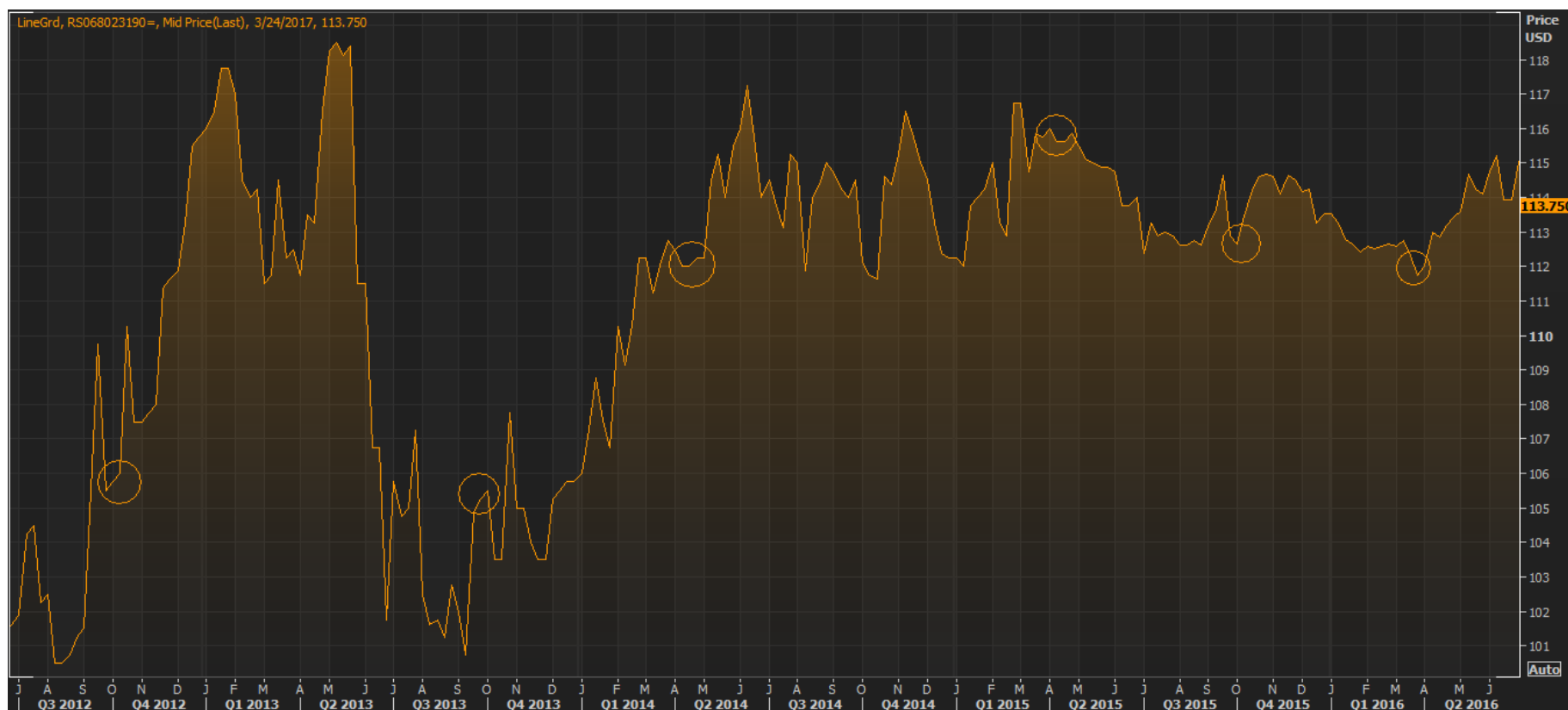
Trade Date	4/6/2017
Quantity	937
Price	114.000
Accrued Interest	\$ 1,509.61
Total	\$1,069,689.61

Cash Flow	
4/18/2016	\$ (999,715.43)
6/3/2016	\$ 1,025,512.52
6/27/2016	\$(1,026,105.01)
9/12/2016	\$ 1,062,829.27
12/14/2016	\$(1,062,753.21)
3/28/2017	\$ 33,966.25
4/6/2017	\$ 1,069,689.61
Total	\$ 103,424.00

Initial Investment	\$ 1,000,000.00
Return	\$ 103,708.57
ROI p.a.	10.37%

Continuous Investment Opportunities

Historically prices rise after coupon payments



Circled areas are coupon payment dates

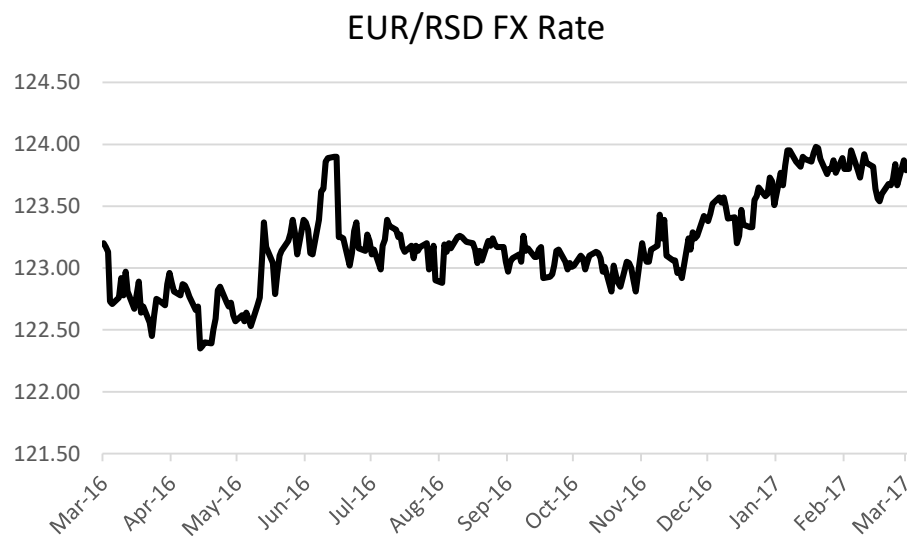
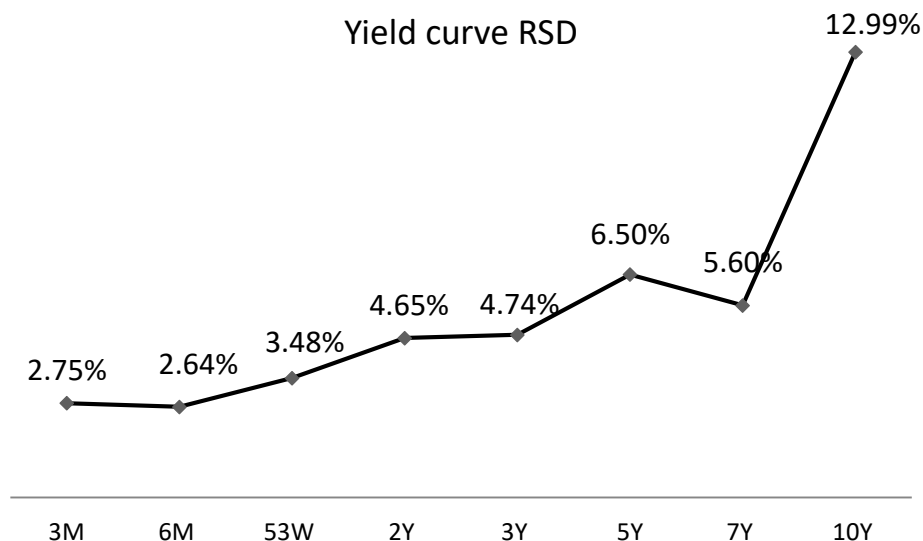


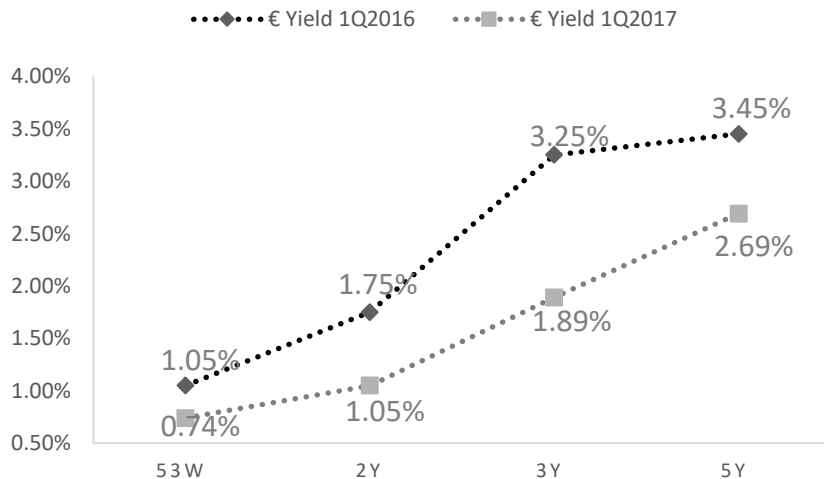
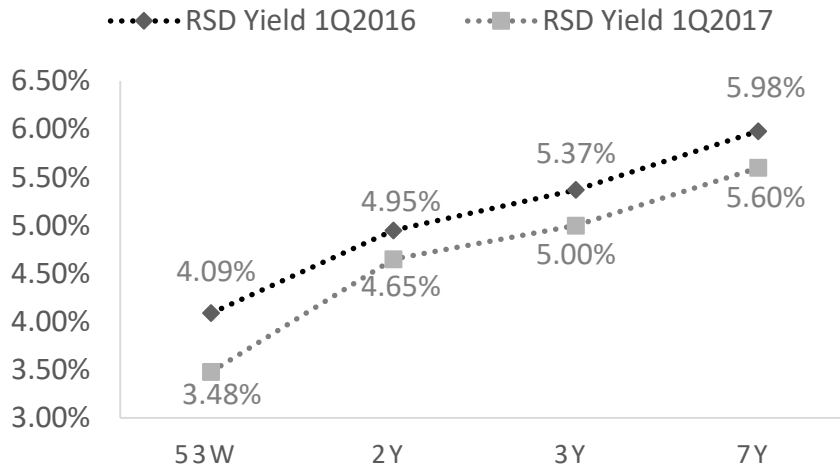
Serbian RSD BOND Option

The other opportunity is in the mid range of the RSD curve with most attractive FX adjusted yields.

The dinar continues to be stable trading within a 122.50-124 band.

NBS has been active in the management of the Key policy rate with interventions on the FX market and is determined to keep the RSD within its trading band and volatility in check.





Local Serbian debt issues proved almost immune to external shocks

+

A relatively stable EURO/RSD trading range

=

Attractive FX adjusted y-o-y returns

(Tax Free)

Issue	Yield	FX Adj. Yield	€ Yield
53wk	4.09%	3.21%	1.05%
2Yr.	4.95%	4.07%	1.75%
3Yr.	5.37%	4.49%	3.25%
5Yr.	5.60%	4.72%	3.45%



Takeaways:

Despite a year of disruptions from external global events Serbia has improved its results and forward outlook on all fronts.

Serbia has been in a strong bull market over the last few years and its sovereign bonds have shown strong resiliency to external shocks.

Ongoing convergence play to neighboring markets.

Despite recent yield contractions the perceived risk of Serbian sovereign debt is still out of alignment with the actual risk and thus the opportunity is still very attractive.

The most compelling opportunities are in the U\$D and RSD yield curves.



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Thank you

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